

Top 10 Myths about Disability Insurance

People tend to underestimate the value and necessity of disability insurance. Below some common myths about disability and disability insurance are dispelled.

Myth #1: Most disabilities occur because of injuries resulting from accidents.

I always ask my clients what they know about disabilities and/or disability insurance. About 50% of the answers from people under 40 are something similar to, "That would cover me if I got in a car accident or got hit by a bus, right?" Yes, it would. The primary cause of disability is chronic disease—cardiovascular, musculoskeletal problems, and cancer are leading diagnoses—rather than work-related mishaps or non-workplace accidents.

Myth #2: I am in good health, so nothing will happen to me.

Sometimes I am not sure if people even believe this when they say it. Obviously cancer, strokes, neurological disorders, and other illnesses and accidents don't dodge people who take good care of themselves.

Myth #3: I am too young to worry about disability income insurance.

Almost 3 in 10 of today's 20-year-olds will become disabled before reaching age 67. Accidents and illnesses affect people of all ages. Disability income insurance underwriting is extremely tough, and many people are not able to get it when they want it. Premiums are always less expensive when you are young and healthy, and many contracts come with premiums which are guaranteed to never go up.

Myth #4: Most long-term disabilities are permanent.

While many people think of paralysis or other catastrophic ailments when thinking about disabilities, most disabilities are temporary. You may be completely out of work for a period of time, but modern medicine has enabled more and more people to return to work on a part- or full-time basis. If you are not earning the income you were earning prior to the disability, many disability income insurance contracts will pay you a portion of your benefit for an extended period (possibly as long as the full benefit period).

Myth #5: I could do my job from my hospital bed.

Did you ever have the flu? Any chance you were going to work? Did you feel like doing a lot of work from home? Now imagine having a serious illness. Wouldn't you want to put all of your energy into getting better, and not have to worry about feeding your family or paying the mortgage?

Myth #6: I am covered through my group disability income insurance policy offered through my company.

While most large companies do offer disability income insurance coverage, in 2002, only 40% of companies nationwide offered their employees this coverage. Even if you do have coverage, it may not adequately protect your income. Most group disability income insurance contracts cover a portion of your salary— typically around 60%. Many group policies only cover base salary, and the benefits are taxable (if the employers pay for the coverage). Furthermore, group contracts don't come with inflation protection and are rarely portable. For those who do have group coverage, it often makes sense to max this out and then buy individual coverage to supplement the gaps.

Myth #7: My spouse works or could go back to work if I couldn't.

If you were disabled, do you think you would want your spouse to go back to work, or might he or she want to help care for you? Our experience shows that during times of serious disability, both spouses often end up living off the disabled one's insurance benefit (even if the other spouse was working before the disability).

Myth #8: I should protect enough to cover my expenses.

Protecting enough to cover only expenses does not adequately cover you. Most other assets people insure for 100% of their value, such as cars and homes. Why should your income be any less protected? Covering only current costs doesn't account for potentially higher expenses while disabled (paying your own health insurance and paying medical bills not covered by health insurance). It also doesn't account for inflation or a natural increase in expenses that typically occurs as children get older. Lastly, without contributions to a retirement plan you may not have enough money built up when the benefit period ends (typically 65 years old).

Myth #9: I have savings to cover me if I couldn't work.

How long would the savings last if you couldn't earn an income? Most of my clients wouldn't starve if they were disabled for a few years, but the impact of digging into savings and investments would have a huge impact on the number of years they were planning to work or the amount they had accumulated at retirement. For example, if a 40 year old spends \$300,000 of his savings while disabled, and that money would have otherwise earned an 8% return, that's over \$2M of lost wealth at 65 years old. At age 85, that sum would have been almost \$10M.

Myth #10: The insurance companies won't pay me anyway.

Most disabilities are more clear cut than people think. Being with a strong carrier on a good contract is important. And you'll want to check into the claims-paying history and ability of the companies offering these policies when making a decision.

In conclusion, you need only ask yourself one question—can I live without my income for the next 5/10/20 years? If not, you should speak with Physician Wealth Advisory Group about your options.