Disability Insurance: The “Forgotten” Safety Net

When most people talk about having “enough” insurance, they’re usually referring to life insurance. But if your family relies on your paycheck to make ends meet, your loved ones could find themselves in a worse financial situation if you become disabled than if you were to die.

Why?

Because a disability that keeps you from working can generally bring even greater financial pressures in the form of extra bills to pay for your care. Yet if you cannot work, where will your family find the money to pay those additional bills on top of regular household expenses?

That’s why many financial experts refer to disability coverage as a “forgotten” safety net. While many Americans help protect their family’s financial future with life insurance, only a small fraction of today’s workers have set up a similar level of protection for their income—their most valuable asset.

Who needs disability coverage?

If you need your income to pay the bills at the end of the month, chances are you may also need disability insurance. Here are just a few common situations:

- **You’re single.** Your need for disability insurance may be significant because you don’t have a spouse’s paycheck to fall back on if a disability keeps you from working.

- **You’re married and are the sole breadwinner.** Disability insurance should be considered a “must-have” in this situation especially if your spouse has been out of the workforce for a few years. It may be extremely difficult (particularly in today’s job market) for a spouse to quickly find employment at a salary level that adequately replaces your income.

- **You’re married and both of you work.** Many dual-income families can’t imagine making ends meet on one salary when it seems like they can barely get by on two paychecks. Disability coverage for both spouses is often recommended.

- **You own your own business.** How would your business keep going … and your income continue … if you weren’t able to work at your business? For many business owners, disability insurance is a key component of their financial plan.

Scenarios like the ones above are just a few of the reasons Graham Fuller, AMBA, Principal, Senior Relationship Manager of the IEEE Member Group Insurance Program, urges all technology professionals to give strong consideration to adding disability coverage to their financial portfolio.

"We all insure our homes and our cars. But when it comes to our biggest asset … our ability to earn an income … too many of us have simply overlooked a significant risk," says Fuller. "It's important to consider having a strong disability plan in place to help your family make ends meet if an accident or illness keeps you from working and earning a paycheck."

Why many employer disability programs may not be enough

Perhaps you haven't thought much about disability coverage because you have disability insurance through work. Now may be the time to reconsider that decision.

Fuller points to three important reasons to consider adding an additional disability plan to your financial portfolio … even if you already have coverage through work:

1. **Benefits may not be high enough.** Many group plans offered through employers only cover up to 60% of your income. (Disability plans generally don't replace 100% of your salary because many people would have very little incentive to return to work in that situation.)

   But the benefits you may receive may be even lower than the 60% benefit limit. That's because group plans often cap benefits as low as $5,000 a month and do not include overtime or bonuses in your income equation.

2. **Benefits may not be paid for long enough.** Group plans may also limit the amount of time they'll pay benefits for your disability claim. Six months is a common benefit limitation. If your disability keeps you from earning an income for longer than that, you may find yourself without an income and without disability benefits.

3. **Benefits may not be tied to your own occupation.** Many disability programs only pay benefits if you're unable to work in any occupation. But as a technology professional, your education and training have prepared you for more demanding and more financially rewarding career options. As a result, it's important to make sure your disability insurance matches your training with provisions that pay benefits if you're unable to work in your own occupation[†].

How does the IRS fit into the disability benefit picture?

Another potential pitfall for employer-provided disability benefits is taxes. In a nutshell: Current tax laws say that if your employer pays the premiums for your disability insurance, then you owe taxes on any benefits received. If, on the other hand, you pay the premiums for your disability insurance then any disability benefits are tax-free.

[†] The IEEE Sponsored Group Disability Income Insurance Plan is designed to cover disabilities that prevent you from performing your occupation, provided you are not otherwise working for pay or profit.

Here's an example to show you how this works:

> Let's say Jason Curtis makes $100,000 a year. His disability coverage pays up to 60% of his salary or $60,000 a year. So his monthly benefit would be $5,000.
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> If Jason paid his own premiums for his disability as an individual policy, Jason would receive the full $5,000 benefit amount if an accident or injury left him disabled and unable to earn an income.
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> But what if Jason's employer paid the premiums instead? Jason would owe taxes on his benefits. That means instead of a $5,000 monthly benefit, Jason would only receive $3,600 because 28% of his disability benefit would go to the IRS in the form of taxes.

"It's critical to plan for the impact taxes may have on your disability benefits," adds Fuller. "If paying your own premiums is not an option in your company's disability plan, you should give strong consideration to association group insurance instead."

"A disability that keeps you from working is bad enough. But being forced to pay taxes on your disability benefits simply adds insult to injury," says Fuller.

An exclusive option for IEEE members

IEEE sponsors a Group Disability Income Insurance Plan to members interested in adding disability coverage to their financial portfolio. This portable benefit option gives you the advantage of solid coverage protection that can follow you throughout your career.

In addition, monthly benefit amounts up to $10,010 with a wide range of benefit waiting periods give you the flexibility to tailor your level of protection to your family's unique financial needs.

For more information* on IEEE Member Group Disability Income Insurance,
visit the product page on IEEEinsurance.com or you can call toll-free **1-800-493-IEEE (4333)**.

*Features, costs, eligibility, renewability, limitations and exclusions

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