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Do You Need Disability Income Insurance?



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People ordinarily buy property and casualty insurance to protect their possessions (houses, cars, and furniture) and life insurance to provide income for their survivors. However, many people don't think about protecting their income with disability income insurance. But how well could you live if you weren't able to work? Disability is an unpredictable event, and if you become disabled, your ability to make a living could be restricted. Although you may have enough money in the bank to meet your short-term needs, what would happen if you were unable to work for months or even years? The real value of disability income insurance lies in its ability to protect you over the long haul.

A look at the odds

Your need for disability income insurance may be greater than you think. Here are some important disability statistics to consider:

- The Social Security Administration estimates that a 20-year-old worker has a 3 in 10 chance of becoming disabled before reaching retirement age. (Social Security Disability Benefits, SSA Publication Number 05-10029, June, 2012)
- There is a 25 percent likelihood of incurring a disability by age 50, according to the 1985 Commissioner's Individual Disability Table A (the most recent data available)

As these statistics show, your chances of being disabled are great. Of course, statistics can be misleading--you might never become disabled. But then again, how many of your friends and family members have been in car accidents?

Disability can be caused by illness as well as injury. How many people do you know who have suffered a heart attack or stroke? If you became ill, how would you support yourself or your family?

What would happen if you became disabled?

What would happen if you suffered an injury or illness and couldn't work for days, months, or even years? If you're single, you may have no other means of support. If you're married, you may be able to rely on your spouse for income, but you probably also have many financial obligations, such as supporting your children and paying your mortgage. Could your spouse really support you and your family? In addition, remember that you don't have to be working in a hazardous occupation to need disability income insurance. Accidents happen not only on the job but also at home, and illness can strike anyone. For these reasons, everyone who works and earns a living should consider purchasing disability income insurance.

But isn't disability coverage through an employer or the government enough?

You might think that you are adequately insured against disability because you have coverage through your employer or through government programs such as Social Security and workers' compensation. However, many employers (especially small employers) do not offer disability benefits, and government programs may pay benefits only if you meet a strict definition of disability. Here's an idea of the benefits you may already have, as well as their limitations:

Social Security: Although you shouldn't overlook the disability benefits you may be eligible to receive from Social Security, you shouldn't rely on them, either. Social Security denies many claims, in part due to its strict definition of disability. Even if you are deemed eligible for benefits, you still won't begin receiving them until at least six months after you become disabled because Social Security imposes a waiting period. In addition, your benefit may replace only a fraction of your predisability income.

Workers' compensation: If you're injured at work or get sick from job-related causes, you may receive some disability benefits from workers' compensation insurance. The amount you receive depends on the state you live in. However, when you review your disability income insurance needs, remember that workers' compensation pays benefits only if your disability is work related, so it offers only limited disability protection. Some states also cover only the diseases or disabilities outlined in that state's workers' compensation laws.

Pension plans: Some government and private pension plans pay disability benefits. Often, these plans pay benefits based on total, permanent disability, or reduce your retirement benefit in proportion to what you have already received for a disability. In addition, remember that these benefits are usually integrated with Social Security or workers' compensation, so your benefit may be less than you expect if you also receive disability income from these government sources.

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