

DISABILITY INSURANCE: ARE YOU COVERED?

According to the Mortgage Bankers Association the national foreclosure rate is the highest in more than 50 years. Falling house prices and a tightening credit market have made it difficult for financially stressed homeowners to sell or refinance their homes. Faced with no other alternative, many are defaulting on their loans.

The conventional thinking is that foreclosures occur when homeowners lose their jobs, become too extended with consumer debt, or die abruptly leaving survivors unable to service the mortgage. While these are leading causes of foreclosure, the federal government reports that 48% of mortgage foreclosures are caused by disability.

When a wage earner becomes disabled, his ability to generate an income is either compromised or lost. Most don't realize the magnitude of the risk of becoming disabled. The probability that a 40 year old will suffer a disability lasting at least 90 days is 21%. The average duration of disability (which lasts at least 90 days) for the 40 year old is 5.5 years.

Assuming our 40 year old earns \$100,000 a year, this means that he will experience an average loss of earnings of \$550,000 (assuming he produces no income during the period of disability).

You may be thinking that Social Security will step in and rescue this 40 year old. Unfortunately, the government approves only about 30-40% of the claims it receives. Most cannot satisfy the definition of disability which is highly restrictive. Even if our 40 year old could meet the definition, the maximum benefit would be about \$3,700 a month (assuming he is married and has at least one child) – considerably less than the roughly \$8,000 he earned before the disability.

If he works for an employer with a robust employee benefits package, he may receive some basic group disability insurance. These benefits typically cover 60% of gross salary up to \$3,000-\$5,000. If the employer pays the cost of this insurance, the benefit is fully taxable. In addition, most group disability insurance programs are coordinated with Social Security, so that the benefit received from the employer's plan is offset by any government disability benefits.

The bottom line: If you are a professional, corporate executive or business owner, you should carefully evaluate your disability coverage. You may be surprised to learn that the benefits you would receive if you were to become sick or hurt do not meet your needs.

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