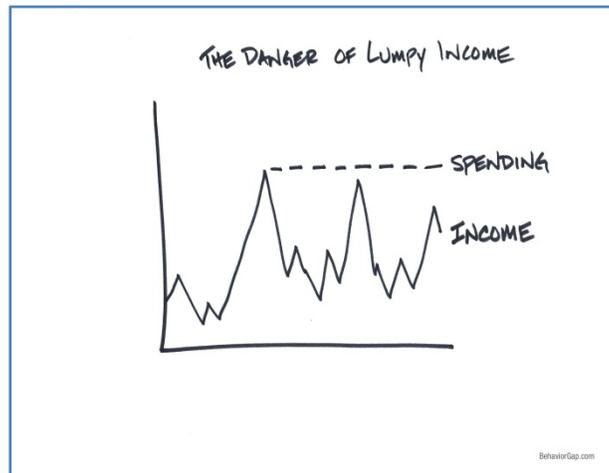




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Disability Insurance: Protecting Your Greatest Financial Asset
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It may not always feel like it when you drag yourself out of bed each morning, but the fact remains: You and your ongoing ability to pursue your chosen career are the greatest things you've got going for your financial well-being.

Your education, acumen, winning looks, physical strength and poise under pressure – or whatever unique qualities have helped you accomplish your career goals – are, in a word, irreplaceable. So why do so many families fail to take the simple and affordable precaution of protecting their income stream with a decent disability insurance policy?

“It Won't Happen To Me”

Many families resist the idea when an advisor recommends that they consider including disability insurance policies in their long-term financial plan. This is especially true for those in competitive professions where stalwart optimism typically serves as the backbone of their success. Unfortunately, as accomplishments accumulate, that admirable optimism can mutate into a damaging sense of invincibility: “Financial misfortune is for others,” you think to yourself. “It won't happen to me.”

You may even have taken all of the other right steps to plan for your financial security: establishing a well-funded investment portfolio, purchasing solid life insurance and preparing an air-tight estate plan.

All of those planning areas are well and good (and also recommended). But consider this reality, as reported by the [Council for Disability Awareness](#):

A typical, 35-year-old male non-smoker, 5'10" at 170 pounds, with a white-collar office job and a healthy lifestyle has a one in five chance of being disabled for three months or longer sometime during his career.

If this same individual smokes and gains a little weight, at 210 pounds his chances increase to 45 percent. Those are nearly 50/50 odds. Should he actually become disabled, the average expected length of down time is considerably longer at nearly seven years. And, ladies, your statistics are similar.

Would your current financial plan remain on track if you were required to take a multi-year break from your career? Do you still believe it can't happen to you?

Murphy's Law and You

Consider this analogy. Imagine you decide to upgrade your family vehicle's well-worn tires with premium replacements. The enhanced tires don't come cheaply, but you'll put a lot of miles on them and your family's safety and comfort is worth it. Your daughter has just turned 16. Need we say more?

The fellow writing up the order asks if you'd like to replace your spare tire while you're at it. You look at the bottom line and realize that it's a little higher than you'd planned. "Nah," you say. "Why bother? I've never even used it."

Because we live in a world where anything can happen, think about how frustrated you'll feel when you're stranded by the side of the road with nobody to blame but yourself.

Of course, in this life, "what ifs" can abound:

- What if you suffer a disability and cannot work at all?
- What if you can work, but not in the manner you're used to?
- What if you need to invest time and money to re-career yourself?
- What if you need to hire and train support staff to continue your business?
- What if the role of the family breadwinner must shift to your spouse?

Given the consequences of not having disability insurance when you need it, coupled with its relative affordability for healthy professionals, it makes good sense for otherwise financially secure families to consider taking advantage of the coverage available to them. You wouldn't leave your spare tire in the garage because you've never needed it before. You haven't overlooked the importance of automobile insurance or life insurance. And yet all too often, individuals in high-profile or higher-risk professions fail to protect against the possibility that their careers could well experience a proverbial "flat."

Disability Insurance: A Pound-Wise Decision

Let's talk about the costs of disability insurance, which are typically in the range of 1 percent to 3 percent of your annual salary. Admittedly, it's not a fun expense. Especially for those eternal optimists, it's unpleasant to even think about being disabled, let alone spending money to prepare for it. In raw dollars, it can feel "not worth it." But homeowner's insurance is a significant expense as well, and yet you don't feel you've wasted the money if your house doesn't burn down every so often.

It's a good, "pound-wise" decision to think of disability insurance in the same way. If you forgo 1 percent to 3 percent of your annual income for those credible "what ifs," and worse does come to worst, you'll be free to focus on the things that really matter – regaining your health, keeping your

family secure, establishing professional continuity – instead of being so heavily weighed down by financial fears and burdens.

Choosing a Policy

Disability insurance policies vary widely in quality, and no one policy is right for everyone. Also, don't assume you can rely solely on your employer's disability insurance coverage; it may or may not meet your true needs. For starters, consider these questions:

- What wages or salary will the policy replace? Many policies are designed to replace 60 percent of your income. Is this adequate for your circumstances?
- Does the policy offer an "own occupation" or "any occupation" definition of disability? "Own occupation" coverage protects you if you cannot work in your current occupation. To collect on "any occupation" coverage, you must be disabled from working in ANY available occupation. Think cautiously about this distinction.
- What are the tax ramifications? If you buy the policy yourself, the income will be tax-free. If your employer buys it for you, or you buy it through your own firm, it will be taxed as income. Choose carefully.
- What is the waiting period before benefits begin?
- Are the benefits indexed to inflation or the cost of living?
- How long will you receive the payments?

Your Next Steps

Hopefully you're now resolved to secure disability insurance if it's right for your family, or revisit any existing policies you may already have. Of course resolve is one thing; action is another. Consider asking your advisor how this type of risk management fits into your larger financial picture.

Now, about that spare tire.

About Andrew Berkin, PhD, director of research, Bridgeway Capital Management, Inc.

Michael J. Evans is founder of The Cogent Advisor, an independent member of the BAM ALLIANCE.

Prior to founding The Cogent Advisor, Michael was a veteran commodities trader on the Chicago Mercantile Exchange for more than 20 years. He remains a proud member of the exchange.

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