**Disability Insurance Needs Report**

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This risk management section of your financial plan is to help prepare you for the real-life risks of becoming temporarily, or permanently, disabled.

The definition of being disabled in this context, is not being able to earn income, and/or take care of your own personal needs.

The percentage of people that need to stop working before they planned because of poor health, pain, and/or loss of cognitive functions is much too high to ignore. It is much higher than the risks of passing away suddenly and/or unexpectedly from all other causes combined. Also, the percentage of people on Social Security disability grows annually.

So diligent preparation is needed not only financially, but also emotionally, mentally, and physically. Then if others are dependent on you, then their care must also be considered.

The two main causes of a disability are disease or illness, and then accident or injury.

The main risk of a short- or long-term disability is not being able to earn income.

Fortunately, you can buy insurance that will replace lost incomes during a disability when these benefits are not available from your business or employer. This type of insurance is called Long-term Care Insurance (or LTC). It is AKA “nursing home insurance.”

Without your incomes being physically supplemented or replaced with insurance benefits, your investment assets and retirement nest eggs may need to be liquidated to pay for both normal living expenses, and the increased medical expenses stemming from the disability.

Usually living expenses substantially increase when there is a disability; due to increase medical bills, the needs for prescription medications and physical therapies, transportation to these facilities, and compensating others that take their time to care for these needs.

As savings and investments are drained to pay for these increased needs, this usually ends most all careful planning for long-term goals, like children's college and retirement.

So these often overlooked risks need to be managed, just like everyone does with mundane property and casualty insurance (vehicle, homeowners, and other liability insurance).

There are four time frames when managing the risks of disability:

1) Very short term – less than a few weeks. This is sometimes automatically covered by your employer benefits via using "sick days" or "sick leave."

2) Short-term – more than a few weeks but less than three months. This is sometimes covered using "sick days" and then "vacation days," or other employer-based STD plans.

3) Time off of work more than three months is usually considered a long-term disability.

4) Permanent disability, requiring long-term care. This is also known as going into any level of a nursing home (AKA skilled-care facility).

Usually after using up all of your sick days / vacation / STD benefits, income from your employer stops, and then long-term disability insurance (LTD) starts to pay benefits. Normally, these policies don't start to pay benefits until after a certain amount of time goes by, called the elimination period. If there is no longer-term disability insurance to pay benefits after the short-term benefits expire, then all earned incomes and insurance policy benefits usually stop. Note that health insurance does not pay long-term care benefits.

Although progress in this area has been made, Social Security and Medicare still do not pay for the bulk of long-term stays in nursing homes at any age. So it's wise to assume everyone will continue to be "left defending for themselves" for many decades to come.

Commercial nursing home facilities cost from $2,000 to over $5,000 per month. These costs are usually paid for by liquidating investment assets, like retirement plans, until all resources have been exhausted. Then if other family members cannot pay, the patient is either moved to living with relatives that will care for their daily needs, or put into a "state-run" nursing home, where quality of life is usually at bare minimum survival standards. Also, when the state takes over long-term care of someone, it usually seizes and liquidates ALL of their assets – including homes, vehicles, furnishings, EVERYTHING.

These two situations are what need to be avoided at all costs, and planned for today.

**Current Recommendations to Manage the Risks of All Disabilities**

John needs to purchase a guaranteed renewable long-term disability income insurance policy from an "A-rated carrier," that will replace $3,000 in monthly income, with an elimination period of no more than 90 days.

Mary needs to purchase a guaranteed renewable long-term disability income insurance policy from an "A-rated carrier," that will replace $4,000 in monthly income, with an elimination period of no more than 90 days.

Since both John and Mary are currently young and in good health, and can afford the premiums, they both need to purchase a long-term care insurance policy with an inflation-adjusted daily benefit of at least $250 each ASAP.

These policies will pay benefits in the form of monetary payments to skilled nursing home facilities, for extended periods of time (until passing).

Waiting or procrastinating, for whatever reason, usually makes these insurance premiums increase, and benefit payouts decrease, for several reasons.

First, every year you wait raises the risks of disability, just because of aging.

Next, your medical records will be scrutinized by the insurance provider when calculating your LTC policy premiums and benefits. So the more time passes, the more ailments are reported and logged onto your medical history, and the more there is, the higher the risks of disability. This will drastically increase your premiums and/or lower your benefits. So there are no benefits in waiting or procrastinating to obtain coverage.

It is also advised to obtain a policy that is “guaranteed renewable.” This makes it so the insurance provider cannot cancel your policy if you were to become a higher risk for them (e.g., if you were to have an unfavorable event occur, like getting cancer, AIDS, stroke, heart attack, etc.).

Government regulation in this industry is still very much lacking, so you’ll need to take the usual precautions if you want to ensure that you’ll actually receive benefits under your policy for an extended period of time (and not be cancelled or dropped).

Some of the usual things to do is ensure the insurer large, well-known, is and is “A” rated (or whatever the system uses, ensure it’s at the top of the scale).