

# Forbes

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## Safety Net

Insurance that works  
when you can't.

# Insurance

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Insurance that works when you can't.

BY CARRIE COOLIDGE



Danny Riley's disability insurer helped him find a new occupation as a metal artist after a brain disease forced him to quit office work.

**A**FTER EARNING A PH.D. IN SOCIOLOGY, DANNY BAZIL Riley started to work as the general manager at a commercial real estate firm at an annual base salary of \$70,000. Soon after, a financial planner stopped by his desk to drop off brochures about insurance benefits available through his employer. But, at 32, “buying insurance was the furthest thing from my mind,” says Riley.

Yet one thing caught Riley's eye: a pamphlet describing a kind of insurance that provided income replacement in the event of a disability. The annual premium for Riley's income and occupation was \$1,800. “I knew what my debt ratio was and how devastating it would be if I lost my source of income,” says Riley. “While never in a million years did I think I would ever really need it, buying the insurance seemed the smart thing to do.”

Three years later Riley was diagnosed with an organic brain disease. Easily confused and unable to concentrate for long stretches, he was forced to quit his job. “Life, as I knew it, had come unraveled,” says Riley.

After a predetermined waiting period, the policy he had bought—underwritten by Principal Life—began paying Riley a monthly benefit of \$3,725. Since he had paid the premiums with aftertax dollars, the benefit was entirely tax free. “Without this, I would have been in Chapter 13, dead or living in a shack,” says Riley. “It literally saved my life.”

Unlike Riley, few people plan for the possibility that they might one day become disabled and unable to work. “People naturally think they should insure their home and car, yet they are more likely to suffer a disability than lose their home in a fire or die prematurely,” says Deanna Strable, vice president of Specialty Benefits at Principal.

# Insurance

## Disability and Retirement

**Group long-term disability policies usually continue until you qualify for social security retirement benefits or are able to return to work.**

- **If you are fully vested in a defined-benefit pension plan, you are eligible for a lifetime pension income at a reduced benefit in the event of disability. Likewise, you may roll your vested 401(k) or any other qualified plan assets into an IRA and take a distribution without an early withdrawal penalty if you are permanently disabled before you reach retirement age.**
- **If you have more than one qualified plan, consider taking an early distribution from one and using it to buy an immediate annuity with lifetime income. Keep the other plan invested for growth to cope with future increased costs of living due to inflation. Seek the advice of a fee-only financial adviser who has expertise in disability insurance.**
- **If you are over 50 and have accumulated enough to consider early retirement, you probably have no need for a supplemental disability insurance policy.**

—C.C.

One in three American adults will become disabled before age 65 for 90 days or more. One in seven will be disabled for five years or more. A Rand Health study published in January found that the number of people aged 30 to 49 who are disabled increased by more than 50% between 1984 and 2000 (largely because of the increased prevalence of obesity). During the course of a person's career he or she is 3.5 times more likely to be injured and need disability insurance than to die and need life insurance.

If you are self-employed, have a family, are the primary breadwinner and are under 45 years of age with 20 to 25 years of income-producing years ahead of you, you should review your disability insurance coverage. More than half of the employers in the U.S. offer some group coverage, but few employees are aware of what they have. "Often what they have is not enough," says Maria Morris, senior vice president of individual disability at MetLife. "People don't realize how important this insurance is until they need it."

Start your research by reading a description (available from your personnel department) of the group disability coverage, if any, paid for by your employer. That policy may kick in only after six months of disability. No problem—if you have half a year's pay in the bank.

Can you get too much coverage? It's hard to do that, says Bedda Emous, a fee-only financial planner in North Andover, Mass. Policies tend to have tight-fitting caps. (For good reason. Too rich a benefit might make malingers of people.) Most group plans have a monthly benefit that caps out at \$10,000. Individual policies can go to \$15,000 per month, depending on your income and occupation. Either way, benefits from all disability insurance policies combined are generally limited to 70% to 80% of salary (including regularly paid bonuses), says Susan M. Baker, manager of disability income sales and marketing at Berkshire Life, a subsidiary

of Guardian Life. Paying premiums with aftertax dollars stretches your benefit because then the insurance payout is aftertax.

Not all policies have the same exclusions; one might cover partial or recurring disabilities, while another doesn't. "And some contracts only pay benefits if you are unable to work in any occupation," says Emous. "This is fine, except if you sustain a disability that merely prevents you from working in your own occupation. If this is the case, then you will not be covered."

When shopping around for a policy, it is important to consider a company's financial stability. You'll want to feel sure it will be around until you hit retirement age. Some of the biggest disability insurers include MetLife, Principal, Mass Mutual, Northwestern Mutual, Aflac and Guardian Life.

Disability insurance isn't that expensive, with the average cost normally 1% to 3% of your gross pay. A typical policy from MetLife for a 40-year-old male executive (nonsmoker) in need of an annual benefit of \$42,000 would have an annual premium of about \$1,150. This policy has a 90-day waiting period, is guaranteed renewable regardless of the person's health status and pays benefits until the policyholder returns to work or until age 65 if he doesn't.

For an additional cost riders can be added to cover such things as adjustments to payouts for inflation or partial disability, or for being forced for health reasons to switch to a lower-paying occupation (the policy would pay a monthly benefit that makes up the difference). A medical examination showing evidence of good health is typically required when applying for an individual policy.

Many insurance companies don't stop at paying benefits. Principal, for example, helped Riley research and pay for cognitive therapy. In the process Riley found a new occupation that accommodates his medical condition. Now 40 and a metal artist in Mullins, S.C., he continues to receive monthly benefits from Principal, though on a sliding scale. During months when he sells artwork, the benefit is reduced by the same amount. During the months when he logs no sales, the full benefit is paid.

Riley now wonders at his initial hesitation at buying yet another insurance policy. "I had insurance for my health, home and car," he says. "But I had nothing to cover my income, which is what holds everything else in place. It would have been foolish of me to safeguard everything else but that." **F**

### By the Numbers

#### What Are the Odds?

**1 out of 5** Chance that your auto will be damaged in an accident.

**1 out of 21** Chance that you will have a disabling accident.

**1 out of 96** Chance that your home will be damaged by a fire.

**1 out of 114** Chance that you will die prematurely.

Sources: Field Guide 2001; National Safety Council; World Almanac.

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