

Government-Sponsored Disability Insurance Programs

What is government-sponsored disability insurance?

Government-sponsored disability insurance programs are programs designed or mandated by federal, state, and local governments to provide basic income protection, and sometimes medical benefits, to disabled individuals. While they may not offer the comprehensive protection you need, they can help protect you and your family from financial devastation when you can't work.

What government-sponsored disability programs are available?

Numerous government-sponsored disability insurance programs may pay benefits to you if you meet certain eligibility requirements. The following is a synopsis of the major forms of government-sponsored disability benefit programs available.

Social Security disability benefits

Two programs administered by the Social Security Administration pay disability benefits. The Social Security disability insurance program pays benefits to qualified individuals who are under age 65, regardless of income. The other program, Supplemental Security Income (SSI), pays benefits to qualified individuals who are either over age 65, or who are blind or disabled, and who have limited income. Neither program covers partial disability, and both programs define disability strictly. The impairment must prevent you from earning a substantial income, must be medically determined, and has to last, or be expected to last, 12 months or more or result in your death. Like other Social Security benefits (though not SSI benefits), disability benefits are based on your Social Security earnings record.

Tip: If you are entitled to receive Social Security disability benefits, you may eventually be entitled to receive Medicare benefits if your disability is long-lasting. If you are eligible to receive benefits under SSI, you may be entitled to receive Medicaid benefits.

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Example(s): Carol became disabled and began collecting Social Security disability benefits. After two years had passed and she was still unable to work, she became eligible to enroll in Medicare due to the long-lasting nature of her disability.

Workers' compensation

All states (and the District of Columbia) have workers' compensation laws designed to protect employed individuals who get sick, injured, or killed on the job. Most workers are covered by these laws, although a few occupations are excluded and some states exempt small-business employers from the law. The key point about workers' compensation is that disability benefits are paid only to covered workers whose illnesses or injuries are work-related. How benefits are paid, and in what amount, is determined by state law and is based on how severe and permanent your injury or illness is. However, in most states, you will receive 66 2/3 percent of your wages (subject to a weekly maximum), although this percentage may be higher for permanent total disabilities.

Department of Veterans Administration (VA) benefits

Military servicemembers and veterans are entitled to disability compensation for service-connected health problems. Several programs are available, with some sponsored by the Department of Defense (DOD) and others by the Department of Veterans Administration (VA). Military-sponsored programs include disability retirement, temporary disability retirement, and disability severance pay. VA benefits include disability compensation, vocational rehabilitation, and pensions. Since the rules surrounding these benefits can be complex and change often, it's best to check with your military personnel office or local VA office if you have questions about any of these benefits.

Federal Employees Retirement System (FERS)

Federal employees covered under FERS are eligible for disability benefits if they have at least 18 months of creditable service. To receive benefits, you must be unable to perform your job because of injury or disease. During the first year of disability, you receive 60 percent of your average salary (your average salary is based on your three highest earnings years). After the first year of disability, you receive 40 percent of your average salary. However, in the first year, any Social Security benefit you receive will offset your FERS disability benefit dollar for dollar. In the second year of disability, your FERS benefit will be reduced by 60 percent of your Social Security disability benefit. At age 62, your benefit is further adjusted.

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Example(s): Ken worked for the government for five years, earning \$3,000 a month during his first three years of employment and \$4,500 a month during the following two years. He became disabled and was unable to work for nine months. His disability payment under FERS was \$2,400, calculated by figuring his average earnings based on his three highest earnings years, then taking 60 percent of that figure. His highest three years of earnings were averaged, and the resulting figure (\$4,000) was used to calculate his disability payment (60 percent of \$4,000 is \$2,400).

State-sponsored programs

Five states--California, Hawaii, New Jersey, New York, Rhode Island--and Puerto Rico pay disability benefits to residents who are disabled due to nonwork-related injuries or illnesses. Benefits generally may be payable up to 26 weeks (52 weeks in California).

Other programs

If you work for the federal government or for a state or local government, you are probably covered by a disability program designed to benefit government workers. Check with your employer for more information.

Who is eligible for coverage?

To be eligible for disability benefits from government insurance programs, you must meet the requirements established by each program. For instance, your disability may need to be totally disabling (Social Security), work-related (workers' compensation), or nonwork-related (state assistance). You may have to work a certain length of time before becoming eligible for benefits (Social Security and FERS) or work in eligible positions (FERS and workers' compensation).

Strengths

Premium-free disability coverage

Unlike other types of disability coverage, you don't have to pay a premium for government-sponsored disability coverage. Not that it's a free benefit; you finance some types of government disability insurance by paying taxes. However, you don't have to pay the relatively high premiums you pay for private disability insurance, and you get basic protection against disability.

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Family members may receive benefits too

Government disability programs often have provisions for disabled and nondisabled family members of a disabled worker. For instance, if you suffer a job-related illness or injury and later die, your family may receive survivors benefits under workers' compensation. A private disability insurance policy, conversely, doesn't pay any benefits to your family members.

Tradeoffs

Sometimes hard to qualify for benefits

Qualifying for government disability benefits can be tricky, primarily because you usually have to meet a strict definition of disability. For instance, to be considered disabled under workers' compensation, your disability must be job-related. However, to qualify for state assistance (if you live in one of the five states that have disability programs), your disability must be nonwork-related. To qualify for benefits under Social Security, you must be unable to work at any job (not just your own job) and earn income, and your disability must be expected to last at least a year or end in your death. In fact, the Social Security Administration rejects over half of the disability benefit applications it receives.

Limited coverage

If you buy private disability insurance, it's likely that your benefit check will be larger than a disability benefit check you receive from the government if your earnings are high. Like private disability insurance, government disability programs often aim to replace a portion of your earnings lost to disability. However, government benefits are often capped at legal maximums that may not reflect your true earnings level.

Example(s): Ken earned \$4,500 a month selling big-screen televisions. One day he was struck and injured when one of the sets toppled over. He filed a workers' compensation claim in his state. Even though his state pays workers' compensation benefits equal to 70 percent of the disabled worker's wages, the maximum weekly payment someone can receive is \$475 (\$2,058 per month). Unfortunately for Ken, this limits his workers' compensation benefit to only 46 percent of his actual earnings.

No flexibility

When you buy a private disability insurance policy, you can determine, within certain limits, what base coverage you want and need, and you can purchase riders to help personalize your disability income insurance coverage. Government disability, however, is an impersonal product designed to protect the average worker.

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If you rely on government disability insurance to meet your individual needs, you may be disappointed when it doesn't.

Example(s): Pat thought about buying an individual disability income insurance policy with an elimination period (waiting period) of 60 days because she decided that she could afford to live off of her savings for no longer than two months if she became disabled. However, she decided not to buy disability insurance when she learned about Social Security disability benefits. When Pat became disabled, she found out that the waiting period for Social Security disability benefits was five months. She was forced to support herself for this period, even though she could hardly afford to.

Tax considerations

Some government disability benefits are taxable, while others are not. You may also qualify for a special tax credit if you are totally and permanently disabled.

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