

# How Much Disability Income Insurance Should You Have?

The amount of individual disability income insurance you should buy depends on three things: how much income you'll need if you become disabled, how much money you can afford to spend on premiums, and how much insurance you'll be able to purchase under the insurance company's guidelines.

## Determine how much income you'll need if you become disabled

It's hard to know exactly how much income you'll need after you suffer a disability, but you'll probably need more than you think. Most of your fixed expenses won't change, and you may save money on work-related expenses such as clothing, automobile costs, and lunches out. However, you'll also spend more on other items, including the following:

**Medical expenses:** You can expect your medical expenses to rise when you suffer a disability. Assuming that you have health insurance, you'll probably have to satisfy a deductible as well as an out-of-pocket maximum, which may increase your expenses immediately after your disability occurs. In addition, if you suffer a long-term disability and are forced to quit your job, your group medical insurance coverage may be terminated. If you work for a large enough employer, you may be able to continue coverage on your employer's plan through the government regulation known as COBRA, but you'll have to pay the premium yourself, and the coverage cannot last beyond 18 months in most cases. This can add hundreds of dollars to your budget. You may also need to buy medical equipment or supplies, or even renovate your house to accommodate your disability.

**Living expenses:** What if you can't drive, clean your apartment or house, mow the lawn, or cook for yourself after you become disabled? Will you need to hire household help to take care of day-to-day activities that you can no longer do? Hiring help can be a substantial, unexpected expense when you become disabled.

**Child-care expenses:** If you have young children and both you and your spouse work, you know how expensive child care is. Can you afford it if you or your spouse becomes disabled and unemployed? The disabled partner may be able to care for the children at home, but not if his or her disability is too limiting. On the other hand,

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if you currently stay at home with your children, you may be forced to return to work if your spouse is disabled, and you may have to contend with an unforeseen additional expense.

## **Find out what disability benefits you're already entitled to**

You may already be covered by some disability income insurance through your employer. This may be short-term coverage, long-term coverage, or both. Short-term coverage pays a weekly benefit, usually after the first day of an accident or the eighth day of an illness, for a period of 13 or 26 weeks. Long-term coverage pays a monthly benefit that begins after the short-term period expires. The benefits are usually paid until age 65. If you have one type only, you should look into buying a private policy for the type of coverage that your employer does not provide. If you have both short-term and long-term coverage, you are probably ineligible to buy any additional coverage, unless your employer's plan limits the maximum benefit to an amount that is less than 60 percent of your annual income.

You could depend on getting disability benefits from Social Security, if you pay into the system. However, relying on this type of insurance can be dangerous. Social Security pays benefits only under strict definitions of disability, making it very difficult to qualify. Also, benefits are limited and may not be adequate for your needs. Review the coverage available to you, take a look at the specifics of any group disability policies you already are covered by, then decide whether you need more disability coverage.

## **If you need more disability income insurance, how much should you buy?**

Once you've decided that you need to buy more disability income insurance, you should aim to cover a significant portion of the income that you will lose if you become disabled. However, you may not be able to buy as much coverage as you want. The insurance company determines the maximum amount of disability income insurance you can purchase, based on your income, health, age, and the amount of other disability benefits you're entitled to. Most companies will sell you insurance that replaces 50 to 70 percent of your monthly pretax earnings (of course, you can opt to buy less than this amount).

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