

GETTING PERSONAL: Disability Insurance A Must For Business Owners

By Victoria E. Knight

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NEW YORK (Dow Jones)--While entrepreneurs are likely to have health and life insurance, they may lack financial protection if they become disabled.

"Many people overlook disability insurance, in particular, sole proprietors, who are often the most vulnerable to its financial repercussions," says Kim Holland, insurance commissioner for the Oklahoma Insurance Department.

The ability to earn a living is arguably your most important financial asset. A disability can adversely affect your ability to save for retirement (contributions to your 401k stop), pay for your health insurance (crucial if you're sick) and mortgage. And if you work for yourself, there's the added issue of how to keep your business afloat.

Disability insurance can be expensive, navigating the options alone difficult, and the prospect of having your health history and finances scrutinized daunting, but purchasing an individual plan is one of the few ways for self-employed professionals and small business owners to protect their income if they can't work due to an accident or illness.

Don't assume that coverage for which you might be eligible under Social Security will be enough. The average monthly disability payment is around \$1,000.

Cost Considerations

Individual policies that replace most of your income and pay for business overheads can be pricey, but there are ways of obtaining affordable coverage.

"There's a lot of flexibility in terms of the features and core elements that can be included," says Bob Taylor, head of the Council for Disability Awareness, a non-profit initiative by disability insurers to educate consumers (see www.disabilitycanhappen.com).

If you're a professional, it's worth finding out whether your industry's association offers a group plan, especially if you have health problems.

"Ask your trade organization for a quote but check it out," says J. Robert Hunter,

director of insurance for the Consumer Federation of America.

If you think becoming disabled is a remote possibility, you aren't alone. One in four Americans believe winning the lottery is more likely than suffering from an injury or illness that lasts for three to six months. In reality, three in 10 Americans entering today's workforce will become disabled before reaching retirement age, according to the U.S. Social Security Administration.

Typically, Americans who work for large corporations get some income protection through group disability policies offered by their employers which they can top up with an individual policy. Around three million Americans have individual disability policies.

Shopping For Coverage

Disability insurance is complicated, so it's important to find an expert guide. You can search for independent insurance agents at www.trustedchoice.com. Also, ask your physician or attorney for recommendations. And don't forget to verify your agent's and the insurance company's credentials (including claims' history) with your state insurance department (www.naic.org).

Determine how much disability insurance you need and can afford. If you're self-employed and work from home, add up your monthly expenses - mortgage, car and credit payment utilities, etc. Next, review the income sources upon which you could draw - savings, investments, etc. The gap between your expenses and your income is the minimum you should insure (www.lifehappens.org has insurance calculators).

"You also need to figure out how long you could - or want - to cover your expenses from your other income sources before the policy's benefits kick in," says Holland.

So-called elimination periods range from 30 days to 365. The longer you can wait, the cheaper the policy. Typically, benefits are paid after 90 days.

The most expensive policies provide lifetime benefits, but more typical is until age 65. Electing a shorter period of two to five years might save you money on premiums, but could leave you without coverage when you need it most, according to the Insurance Information Institute.

Insurers won't cover your full income. In general, individual plans will pay between 40% and 65% of your pre-disability gross earnings (you'll need to supply your tax returns as proof), according to the Life Insurance Foundation for Education. You pay for premiums with after-tax dollars (which you can't deduct from your income taxes), but benefits are paid income-tax free.

Don't forget to ask about offsets. Benefits paid out under group policies are reduced by the amount of benefits you receive from other sources, such as Social Security disability payments. This isn't typically the case with individual policies, but it's always good to check.

What To Look For In Coverage

If you can afford it, pick a non-cancelable policy as it fixes your premiums and benefits. In 2007, the average annual premium of a non-cancelable policy was \$1,635 for \$3,639 of monthly coverage, according to a poll of insurers by JHA, a unit of General Re Life Corp., a Berkshire Hathaway Inc. (BRKA, BRKB) company. So-called guaranteed renewable policies are cheaper, but your insurer has the right to increase your premiums.

Make sure you understand the definition of disability. In some policies, you are considered disabled if you can't do your specific job; in others, only if you can't do any job.

"If you're a high-earning professional, it's important to purchase a policy that covers your occupation," including any specialty, says Paul G. Saunders of the Gandelman Agency, an independent insurance agency in Lawrenceville, N.J.

Under a "pure own-occ policy," a surgeon who is unable to operate due to an injured hand could still earn full disability benefits even if he or she later pursued another career, say teaching medicine. Such policies come with higher price tags attached.

Find out what injuries will trigger coverage and if there are any exclusions. And ask about the availability of "residual benefits." The inclusion of residual, or partial disability, rider will make up the difference in income if you are able to go back to work only on a part-time basis due to disability.

Brian Travers, a financial representative for Guardian Life Insurance Company of America, recommends protecting your benefits from inflation. "The buying power of a dollar tomorrow isn't what it is today," he says, so including a cost of living adjustment, or COLA, rider is a good idea.

If your earnings are relatively modest, but you expect them to rise subsequently, a future insurability guarantee (or future income option as it's sometimes called) will allow you to purchase additional coverage at fixed and agreed-upon rates without going through more medical underwriting. Typically, such options can be exercised at intervals until age 55.

A business overhead expense policy can help you keep your business afloat

while you recover.

(Victoria E. Knight is a Getting Personal columnist, who writes about the financial implications of health care issues.)