



# Steve and Sue Patterson

**DISABILITY ANALYSIS**  
November 18, 2009

**PREPARED BY:**  
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# Disability Analysis

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## ***Disability Insurance Terminology***

As with other types of insurance products, there is no 'standard' Disability Income Insurance policy. Insurance providers often times will offer multiple policy options in an effort to help clients find the coverage and premium levels most appropriate for them. When reviewing a Disability Income Insurance policy you may be faced with many terms that are important in defining the policy, but which may appear confusing. Here is a list of the most common terms you may encounter:

### ***Any Occupation***

This policy provision indicates that the insured will be considered disabled if and only if unable to perform the duties of any occupation for which he or she is qualified by education, training, or experience.

### ***Own Occupation***

A policy containing this provision will consider the insured disabled if the insured is unable to perform the duties of the insured's current occupation and the insured is not working at any other occupation.

### ***Elimination Period***

This is the amount of time at the beginning of a disability claim for which no disability benefits are paid. The longer your elimination period the less expensive your policy premiums should be. Typical choices available are 30, 60, 90, 180, 365, 720 day elimination periods. The most popular elimination period is 90 days.

### ***Benefit Period***

A benefit period is the period of time you are eligible to collect benefits while disabled. Typical choices available are 2 years, 5 years, to age 65, Social Security Retirement Age, or lifetime. The most popular benefit period is to age 65.

### ***Cost of Living Adjustment***

Often referred to as a COLA rider on a policy, this optional rider (may have additional cost) adjusts your benefit to help keep pace with inflation for claims lasting longer than 1 year.

### ***Guaranteed Renewable***

This refers to a provision that guarantees an insurance policy will continue in force as long as insurance premiums are paid on time. An insurance company can typically only cancel a guaranteed renewable policy for non-payment of premium. However, premiums can be increased for all policyholders within a particular group.

### ***Non-cancelable***

A policy which cannot be cancelled or altered by the insurance company and whose premiums will not increase as long as the insured continues to pay premiums on time.

### ***Riders***

A rider amends a policy by adding additional provisions to it. Riders may be available at an additional cost.

*Most insurance policies contain exclusions, limitations, reductions of benefits and terms for keeping them in force. Your representative can provide you with costs and complete details.*

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# ***Disability Insurance FAQs***

## ***What are the odds of actually becoming Disabled?***

The odds are that one in 3 working Americans will become disabled for 90 days or more before age 65.<sup>1</sup>

## ***What is Disability Income Insurance?***

Disability income insurance helps protect a portion of income when you are unable to work due to a disability. This coverage provides benefits that can be used to help pay living expenses when you are unable to work.

## ***How much income will my policy protect?***

Disability coverage provides a monthly benefit that is typically a percentage of the insured's pre-disability gross earnings. Often times, you can also purchase a cost of living adjustment rider that will increase the benefit each year based upon a specific amount set forth in the policy.

## ***How long does Disability Income Insurance Coverage last?***

The benefit period for a disability income policy can last as little as 1 year or as long as the insured's lifetime.

## ***When would I receive my first monthly benefit?***

There is a waiting period between the time you become disabled and the time you begin to receive benefit payments. Waiting periods can range anywhere from one week to two years. Typically, the longer the waiting period the lower the premium will be. In determining the waiting period, you should consider the amount of personal savings that would be exhausted between the onset of the disability and end of the waiting period.

## ***What is the definition of Disability?***

Disability income insurance policies can be purchased with one of two different definitions for disability, or the policy may contain both definitions. You will qualify for benefits on a policy with an "Own Occupation" definition if you are not able to perform the main duties of your own specific occupation and you are not working at any other occupation. On a policy with an "Any Occupation" definition of disability, you will qualify for benefits if you are unable to perform the duties of any job for which your education, training and experience qualify you.

## ***Won't Social Security provide income replacement if I become disabled?***

The definition of disability by the Social Security Administration is different. To be eligible for benefits under the Social Security Administration's definition of disability, a person must be unable to do any kind of substantial gainful employment because of a physical or mental impairment, which is expected to either last at least 12 months or result in your death. Effective January 2008, the Social Security Income payment for an eligible individual who is disabled is \$637 per month and \$956 per month for an eligible couple<sup>2</sup>. In most circumstances this does not allow you to cover your living expenses.

<sup>1</sup> National Association of Insurance Commissioners Individual Disability Table A, 1985

<sup>2</sup> [www.ssa.gov/legislation/2008factsheet.pdf](http://www.ssa.gov/legislation/2008factsheet.pdf)

## Client's Disability

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## Loss of Your Income

A disability due to injury or sickness may render you unable to work for an extended period of time, leaving you and your loved ones without the one thing many consider as one of their greatest assets - the ability to earn an income. Without this income your ability to meet normal living expenses, make mortgage payments, cover education costs and meet other expenses may be greatly diminished.

Let's look at the impact a disability to **Steve** would have on your income.

Steve currently earns **\$125,000** per year (pre-tax) and income from Sue and other sources provide an additional **\$30,000** (pre-tax), giving you a total current annual income of **\$155,000** per year. In the event that Steve suffers a disability, **80.6%** of your family's income will be lost.

Current Total Income	<b>\$155,000</b>
Income after Disability	<b>\$30,000</b>
Total Loss of Income	<b>\$125,000</b>
Percent of Income Lost	<b>80.6%</b>

## How much income will you have?

The chart below compares the income you enjoy today (\$155,000), with the income that will remain after a disability to Steve occurs (\$30,000). With only **19.4%** of your current income remaining in such an event, it may be a good idea to explore ways in which you can protect the income lost.



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## Your Income Replacement Objective

Disability Income Insurance can help protect you against the loss of income by providing a benefit that helps replace a portion of your income in the event of sickness or a disability. The key component of any Disability Income Insurance Analysis is to define your *Income Replacement Objective*. The *Income Replacement Objective* is the percentage of your current earned income that you could expect to have replaced through disability income insurance benefits. Typically, between 60% and 80% of the lost income is covered.

Now let's take a look at how well you are currently protected against a disability occurring to **Steve**.

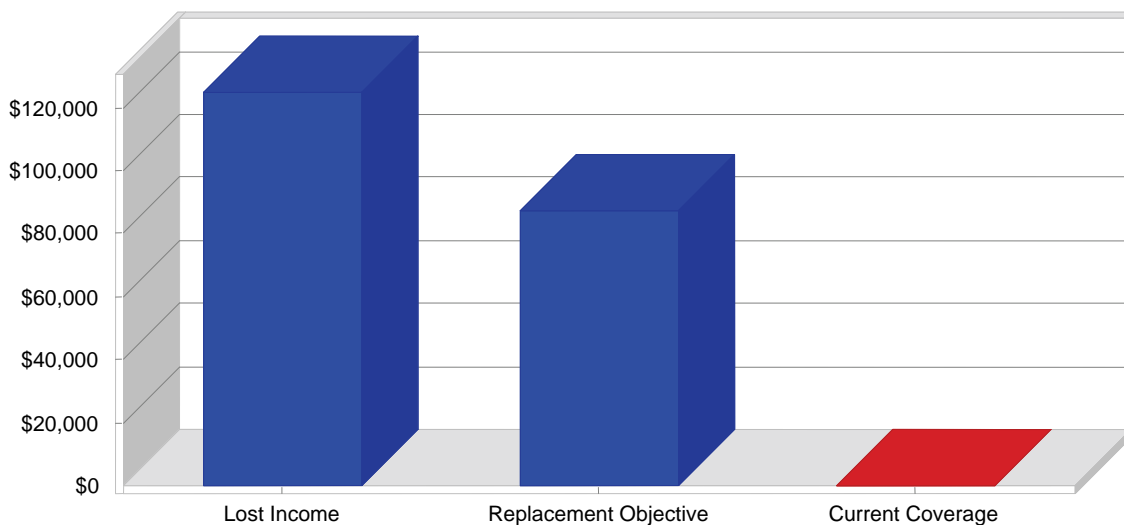
For this analysis we'll target an Income Replacement Objective of **70%** of your current gross earned income, or **\$87,500** per year. Your existing disability insurance will provide a gross annual benefit of **\$0**.

Steve's Lost Income	<b>\$125,000</b>
Income Replacement Objective	<b>\$87,500</b>
Existing Net Coverage	<b>\$0</b>
Annual Shortfall	<b>\$87,500</b>

## How Much of Your Income Will be Replaced?

The chart below compares the income you will lose, your income replacement objective and your current disability coverage. It shows that your current disability coverage does not meet your desired level of replacement income.

Your Coverage vs. Your Objective



*Note: The definition of disability under Social Security is different than other programs. Social Security pays only for total disability. No benefits are payable for partial disability or for short-term disability. Because of this different definition, we do not assume any social security benefits in this analysis. Source: [www.socialsecurity.gov](http://www.socialsecurity.gov). Also, the definition of disability is based on the policy purchased.*

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## Income vs. Expenses

Examining how your expected income will stack up against your likely expenses is critical in determining the true impact a disability could have on your family. If your remaining income is not enough to pay off your expenses, your savings could be quickly depleted.

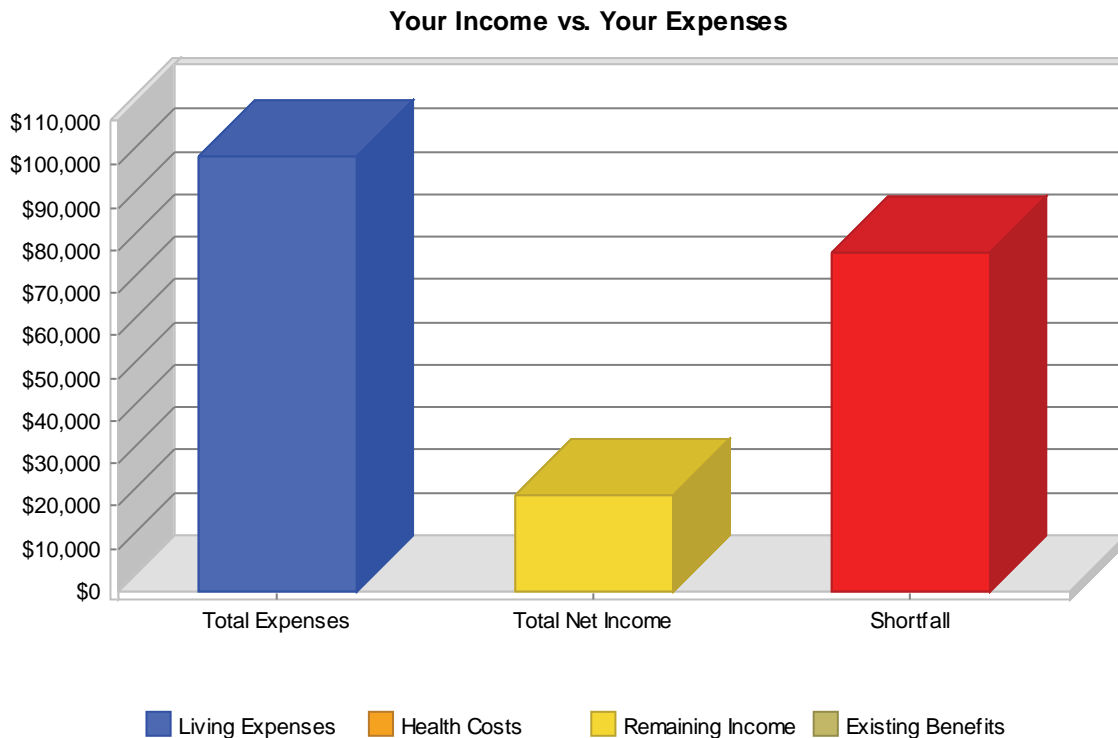
In the event of a disability occurring to Steve, your living expenses will be **\$8,500** per month (or **\$102,000** per year) and you can expect additional health care costs of **\$5000** per month (**\$0** per year). This results in a total annual expense of **\$102,000**.

You will have **\$30,000** from Sue's income and other income sources to offset these expenses, but have **no existing disability coverage**. After income is taxed at **25.0%**, you will have **\$22,500** of available net income.

Total Annual Expenses	<b>\$102,000</b>
Net Income Sources	<b>\$22,500</b>
Existing Net Benefits	<b>\$0</b>
Annual Shortfall	<b>\$79,500</b>

## Can you meet your expenses?

The chart below compares the income that will be available after Steve's disability with the expenses you will incur. The red Shortfall bar shows that your remaining income sources and disability benefits will not be enough to offset your expenses.



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## Replacing Your Income

Disability income insurance is an important protection product. Without it, you may have to self insure against the loss of earning power that comes with being physically unable to work. Disability income insurance protects a portion of wages lost by individuals due to a qualifying disability.

In the event of a disability occurring to Steve, **\$125,000** of income will be lost. Your Income Replacement Objective is **70%** of that value, or **\$87,500**. You currently have **No** existing disability income insurance coverage, which is not enough to satisfy your Replacement Objective.

In order to meet your Income Replacement Objective, you will need an additional **\$87,500** of disability income insurance. This additional coverage will bring your total net income (in the event of a disability) to **\$110,000** per year.

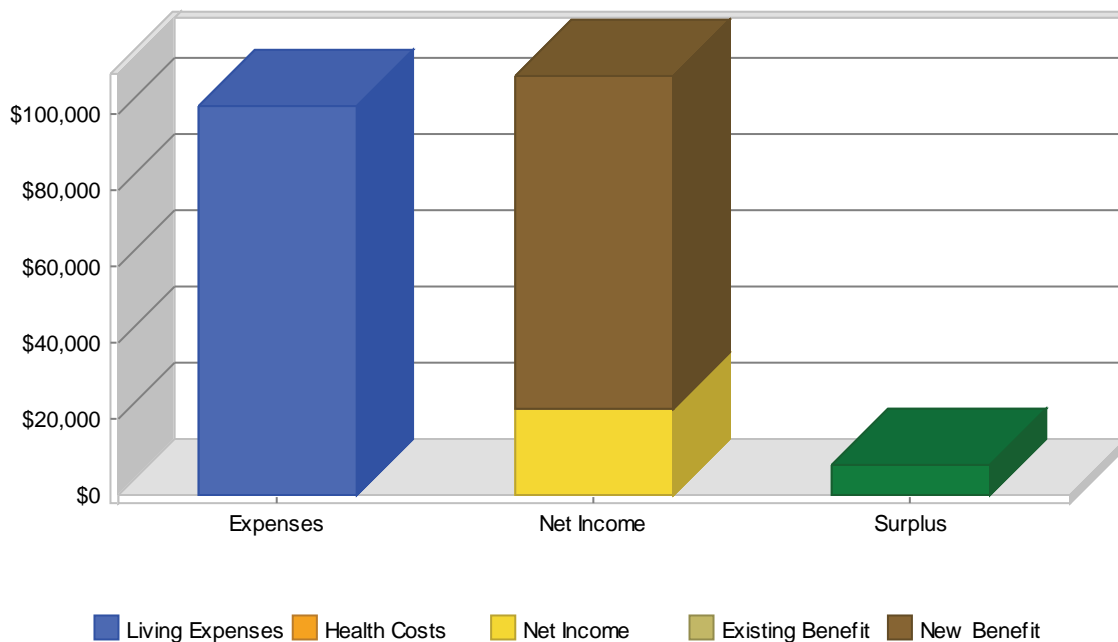
When stacked against your annual expenses of **\$102,000** your total net income will result in a surplus of **\$8,000** per year.

Total Annual Expenses	<b>\$102,000</b>
Net Income Sources	<b>\$22,500</b>
Existing Net Benefits	<b>\$0</b>
Additional Benefits	<b>\$87,500</b>
Annual Shortfall	<b>\$0</b>

## Can you meet your expenses?

The chart below compares the income that will be available after Steve's disability with the expenses you will incur, and includes proposed disability insurance benefits. The green Surplus bar shows that your remaining income sources and disability benefits will be sufficient to cover your expenses.

Your Income vs. Your Expenses



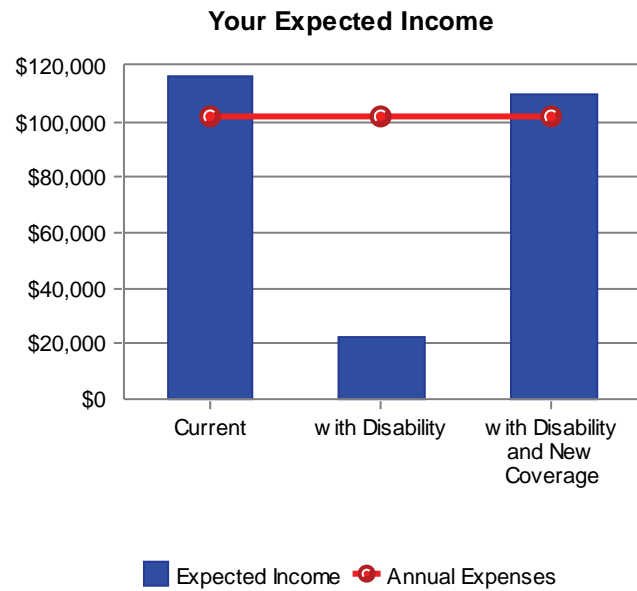
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## The Benefit of Disability Insurance

In the event that **Steve** suffers a disability which eliminates the ability to earn an income, your expected remaining income sources will fall **\$79,500** short of your anticipated expenses of **\$102,000** per year.

Additional long term disability insurance coverage in the amount of **\$87,500** will meet your income replacement objective and increase your net income to **\$110,000**, reducing your annual shortfall to **\$0**.



## By the Numbers

The table below breaks out the income and expenses you have today, and those you expect in the event of a disability to **Steve**. You can see in the bottom line that the annual shortfall or surplus is improved by the income benefits provided by disability insurance.

	No Disability	Disability Occurs with Current Coverage	Disability Occurs with New Coverage
<b>Annual Expenses</b>	\$102,000	\$102,000	\$102,000
<b>Steve's Net Income</b>	\$93,750	\$0	\$0
<b>Other Net Income</b>	\$22,500	\$22,500	\$22,500
<b>Net Disability Insurance Benefits</b>	\$0	\$0	\$87,500
<b>Annual Shortfall or Surplus</b>	<b>\$0</b> shortfall	<b>\$79,500</b> shortfall	<b>\$0</b> shortfall

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## Results Summary

This report summarizes the results of the analyses for Steve and Sue Patterson. It provides the information that is the basis for the "takeaway" message. All of the details concerning the process of how these results were arrived at are contained in the specific chapters for each selected analysis.

### Family Information

Client: Steve and Sue Patterson  
Address: 123 Main St.  
Bryn Mawr, PA 19010  
H: (610) 345-5567

Client: Steve Patterson  
Date of Birth: 1/1/1950  
Current Age: 59  
Spouse: Sue Patterson  
Date of Birth: 1/2/1951  
Current Age: 58

Children	Gender	Age	Date of Birth
Bill Patterson	Male	19	1/1/1990

### Advisor Information

Prepared By: Susan Black

### Analysis Performed

- Disability Analysis  
for: *Client's Disability*

### Result Summary

Steve's Lost Income
<b>\$125,000</b>
Income Replacement Objective
<b>\$87,500</b>
Existing Net Coverage
<b>\$0</b>
Annual Shortfall
<b>\$87,500</b>

The disability analysis looks at the impact of an unexpected disability to **Steve** and the resulting loss of income. The Income Replacement Objective is the percentage of your current earned income that you could expect to have replaced through disability income insurance benefits. Typically this value runs from 60% to 80% of the lost income. If a shortfall exists, the additional amount of disability income insurance needed to cover the shortfall is calculated.

Based upon the assumptions utilized in this analysis, in the event of an unexpected disability to **Steve** in **2009**, there is a **shortfall** in meeting your Income Replacement Objective. In order to fully fund your income replacement objective, an additional disability income insurance benefit of **\$87,500** would be required.

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## Information Summary

The following financial information and assumptions were used in the preparation of this analysis.

### Family Information

Client: Steve and Sue Patterson  
Address: 123 Main St. H: (610) 345-5567  
Bryn Mawr, PA 19010

Client: Steve Patterson Spouse: Sue Patterson  
Date of Birth: 1/1/1950 Date of Birth: 1/2/1951  
Current Age: 59 Current Age: 58

Children	Gender	Age	Date of Birth
Bill Patterson	Male	19	1/1/1990

### Information Summary

#### Basic Assumptions

Analysis for: Steve Patterson  
Date of Birth: 1/1/1950  
Current Age: 59

#### Financial Assumptions

Living Expenses: \$8,500/month (\$102,000/year)  
Disability Expenses: \$0/month (\$0/yr)  
Income Tax Rate: 25.0%

#### Existing Disability Insurance

Policy Name	Insured	Annual Benefit	Taxable	Net Benefit
None				

#### Income Sources

	Gross Amount	Net Amount
Steve's Salary	\$125,000	\$93,750
Other Income	\$30,000	\$22,500
Total	\$155,000	\$116,250

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