

A resource for professionals



# The means to advance further

**Short course in Individual  
Disability Income insurance**

*A few minutes  
about the rest  
of your life...*





# Life isn't just about making it, but also about keeping it

Since you're reading this guide, chances are you're wondering how to protect yourself against the financial impact of becoming too sick or injured to work and protecting what you've worked so hard to build: your lifestyle, your future, and your income.

Purchasing Disability Insurance (DI) to help protect your income is one of the most responsible decisions you'll ever make. This brochure can help provide answers to some of your questions and shed some light on how DI can help protect your standard of living against the financial impact of a disability.

## Providing guidance

- This guide will provide answers to some of your questions:
- Am I really vulnerable?
- How can it affect me?
- How can I protect my personal income?
- How can I protect my retirement contributions?
- How can I protect my business?



# Your income is the foundation to the life you've created

You insure your home and its contents against theft, fire, and even flood. You insure your car(s) to protect yourself from the financial impact of auto-related damages or injuries. Perhaps you insure other valuables, such as jewelry, antiques, and collectibles. Why not insure what makes all those things possible?

Your income is the foundation of the life you've created. Your income allows you to establish your standards for living and provides for your goals. However, what happens in the event you become too sick or injured to work and earn a living? Unfortunately, disability is much more common than you might think.

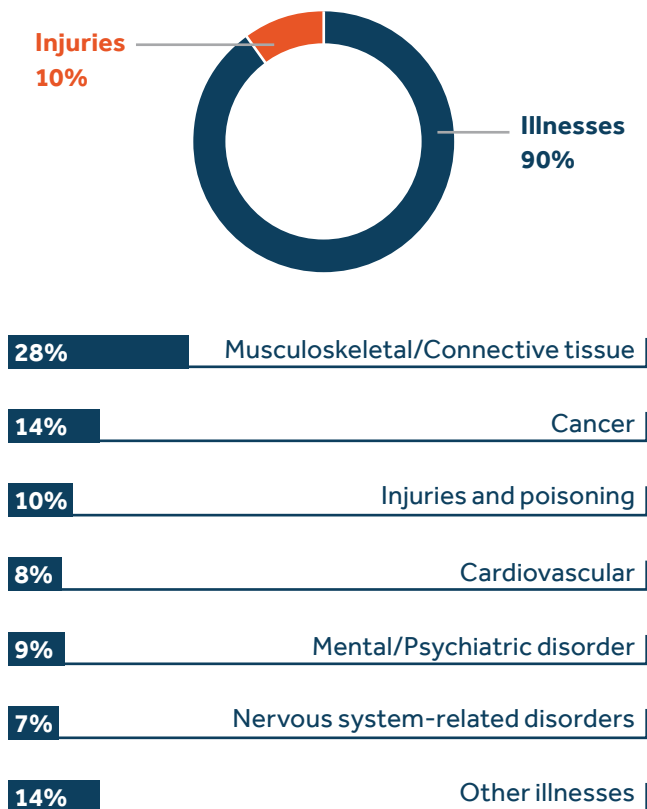


# The reality is — we're vulnerable

Two of the biggest myths about disability are that it doesn't happen to younger people and it's largely the result of work-related accidents. Here's the reality:

- Just over 1 in 4 of today's 20-year-olds will become disabled before they retire.<sup>1</sup>
- Almost 90% of all disabilities are caused by illness, while only 10% are the result of accidents.<sup>2</sup>
- Close to 95% of disabling accidents and illnesses are not work-related.<sup>2</sup>

## Causes of most disabilities<sup>2</sup>



# Disabilities can — and do — happen

The following chart shows many of those who receive benefits suffered a disability within a few years of purchasing their policies.

## Actual paid claims<sup>3</sup>

Occupation	Gender	Age policy issued	Age at disability claim onset	Diagnosis
Surgeon	M	31	33	Bacterial meningitis
Attorney	M	32	34	Skull fracture
Dentist	F	35	36	Malignant breast tumor
Accountant	F	35	37	Carotid artery dissection
Dentist	F	39	42	Multiple sclerosis
Manager	M	38	42	Myeloid leukemia
Executive	M	40	44	Lung disease
Radiologist	F	42	47	Malignant breast tumor
Obstetrician	F	45	48	Colon cancer
Business owner	M	44	49	Parkinson's disease
Orthodontist	M	43	49	Stroke
Optometrist	M	53	56	Stroke
Physician	F	55	60	Malignant thyroid tumor



# Alternate sources of income

Disabilities can cost millions in lost income and added expenses. There are alternatives for supplementing income, however most alternatives are short-term, unreliable, and inflexible.

Consider these points:

**Personal savings** — Disability can be devastating to your family's finances. If you saved five percent of your income each year, a six-month disability could wipe out 10 years of savings. Considering that the average long-term disability claim duration is 31.2 months,<sup>4</sup> it's critical to explore realistic options for replacing income during an extended period of disability.

**Social Security** — Many claim applications are denied due to the stringent requirements. After all appeals, only about half of claims are ultimately approved.

Even then, the average monthly benefit paid, which may be subject to federal income tax, is barely above the poverty line at \$1,012.<sup>5</sup>

## **Group Long-Term Disability (LTD) insurance —**

Group LTD is a good foundation, however the need to supplement Group LTD is an important consideration. Here's why:

- Group LTD does not cover bonus income or retirement contributions.
- Benefits are generally taxed because coverage is employer-paid, significantly minimizing actual benefits received.

- Group coverage is not individually owned (can't be customized, can't take it with you if you leave, and can be cancelled at any time by employer).
- Benefit limitations placed on group can leave higher-paid individuals under protected.
- DI helps keep income strong so your savings, your lifestyle and your future plans can remain on track.
- Individual DI coverage is based on your income, not that of a collective group or Social Security level.
- Individual DI policies can cover base salary, bonuses, and retirement contributions.
- Also, if you pay the premiums yourself, benefits are not subject to taxes.
- Most individual DI policies come with fixed premiums and non-cancellable coverage.
- Individually-owned DI is portable; if you change jobs or careers, you can take your coverage with you.



**Individual disability income protection is one of the most reliable and flexible sources of income replacement**

# Questions to ask when considering disability income coverage

## **When will the insurance company regard me as totally disabled?**

The core of any disability income policy — the definition of Total Disability — outlines what constitutes being totally disabled.

Different companies use different definitions. Some policies pay benefits if you're unable to perform the duties of your own occupation, even if you are at work in another occupation. Others pay only if you're unable to perform the duties of your own occupation and you're not working in any other occupation. Still others pay only if you cannot work in any occupation for which you are reasonably qualified.

## **How much of my salary is covered?**

Generally up to about 60% of net salary or business income. Factors include your current salary and any other coverage you have (either applied-for or in-force).



## **When do benefits start?**

A policy's Elimination Period is the length of time that must elapse following the onset of disability before benefits become payable. A common elimination period is 90 days, however choices are available. You elect your policy's Elimination Period when you purchase your policy.

## **How long will benefits last?**

Typically, disability benefits are payable monthly for a maximum of two years, five years, 10 years or to age 65, 67 or 70. Few companies offer benefits payable beyond these periods. Your policy's Benefit Period is determined when you purchase your policy. If you are younger and just beginning to save for retirement, then you may want to consider an extended benefit option; if you are older and have substantial retirement savings, you may not need a benefit that extends beyond age 65, 67 or 70.

## **Can my policy be changed or cancelled, or my premiums raised?**

If you pay for something, then you should own it. A good policy cannot be changed or cancelled, even if your health or financial situation changes. It should also guarantee that your premiums will remain fixed until age 65, 67 or 70, as long as you continue to pay them on time.

### **What if I want to change my coverage?**

Look for policies that allow you to increase coverage to keep pace with the cost of living or increases in your income. Some offer optional riders that allow automatic or optional increases every year. Insurers sometimes add restrictions to benefit increases if applicants have reached a certain age — say 55 or 60. So it's best to ask early.

### **What if I change jobs or careers?**

One advantage of owning your own DI coverage is that it's portable. You pay for it, so you own it, and you can take it with you if you leave your employer — or if you go into a completely new field or line of work.

### **What if I'm only partially disabled?**

A good policy will pay benefits if you do not qualify for total disability benefits but because of sickness or injury your income has been reduced, or you can only work part-time. Look for a policy that does this even if you don't become totally disabled first. This benefit provision may be referred to as a partial or residual disability benefit, and it may be included in the base contract or attached as an optional rider.

To trigger such a benefit provision, the disability need not be "total," but may require a loss of time, duties, income specified as percentage of your pre-disability earnings, or any combination thereof. The richest policies have the fewest requirements to receive such partial disability benefits, pay the highest percentage of your total disability benefit, and do so for the longest period of time.

## Is there protection for my business in the event I become disabled?

If you own or share ownership of a business or professional practice, you might also consider protecting that investment for the long term.

- **Overhead Expense** insurance provides reimbursement for the ongoing expenses of operating your business or practice if you are too sick or injured to work.
- **Disability Buy-Out** insurance reimburses the owners or partners of a business or professional practice in the event they need to buy out a disabled owner's financial interest in the company.
- **Key Person Coverage** through PayGuard Plus provides a benefit to cover the financial loss of a key employee's disability or to hire a replacement.







# Because you depend on your income — you need income protection you can depend on

We hope the few minutes you've just spent with this guide have helped you appreciate the impact a disability could have on your lifestyle, your business or practice — even your retirement. You may want to take a few minutes more to speak with your financial professional about how you can cushion your income against that impact. After all, it's only a few minutes — a small investment in time today that could protect all of your tomorrows.

<sup>1</sup> U.S. Social Security Administration Fact Sheet, December 2019.

<sup>2</sup> Integrated Benefits Institute, 2018 Health and Productivity Benchmarking, Long-Term Disability.

<sup>3</sup> Claims paid for by Berkshire Life Insurance Company of America, a Guardian company. Every claim is unique and must be evaluated on its own merits. Elimination Periods vary. The diagnosis of these medical conditions alone does not entitle an individual to disability benefits. A person's eligibility for benefits is determined on a case-by-case basis according to the terms and conditions of his or her policy.

<sup>4</sup> Council for Disability Awareness, The Average Duration of Long-Term Disability is 31.2 Months (Jan. 2016)  
<https://blog.disabilitycanhappen.org/the-average-duration-of-long-term-disability-is-31-2-months/>

<sup>5</sup> Social Security Administration, Disabled Worker Beneficiary Statistics, December 2018.

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