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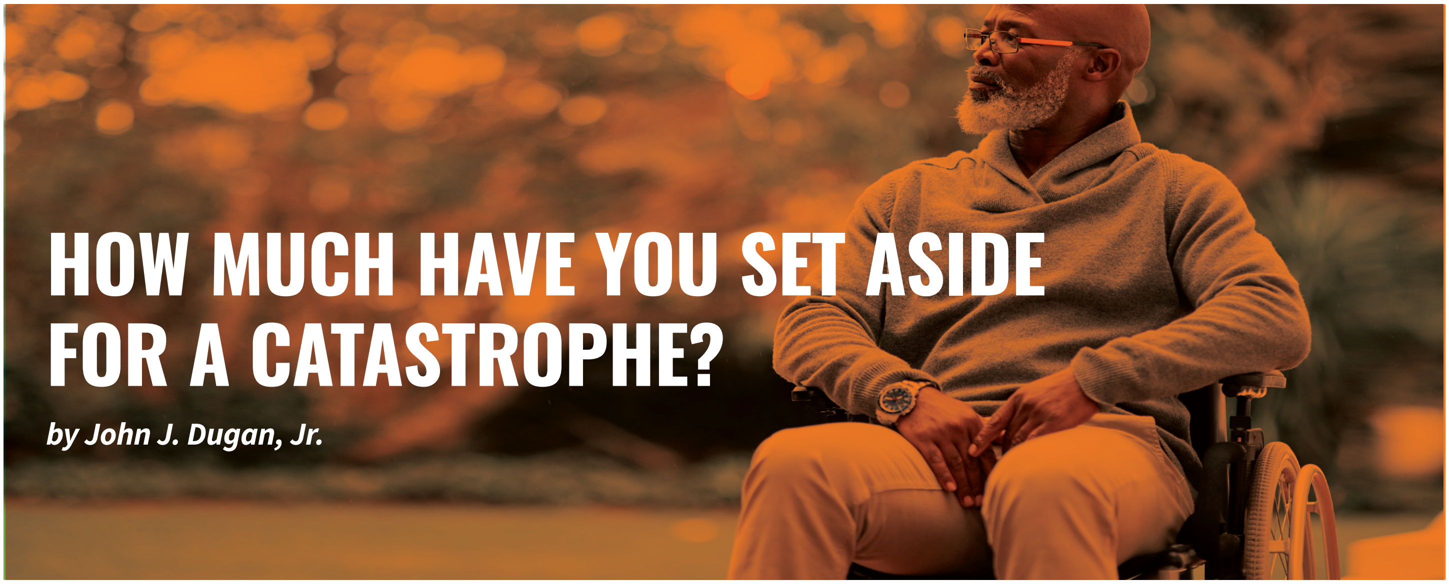

HOW MUCH HAVE YOU SET ASIDE FOR A CATASTROPHE?

by John J. Dugan, Jr.

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In most insurance conversations, the focus leans towards life insurance. Unfortunately, disability insurance is too often met with the opinion that, "it can't happen to me!"

With May marking Disability Awareness Month, now may be an ideal time to consider the protection of your income in the event of disability. Often, the response we get to the question about income protection usually comes in the form of, "I have it at work." But, do people really know what they "have at work?" Group disability protection usually comes in the form of insuring approximately 2/3 of your income, which is taxable and is offset by other income sources such as social security, disability, and worker's compensation payments. It is important to understand whether that amount of income will be sufficient to maintain the same standard of living prior to the disability. For those who rely on social security disability payments as an income stream, be careful. The definition of disability under social security is so strict that most individuals do not qualify for payments.

There are also special concerns for those who are self-employed or business-owners. Perhaps in the absence of any disability coverage, employees may try to work through a disabling illness or injury, which could result in a decrease in productivity and potentially higher healthcare costs. These are concerns that no business owner wants to contend with.

In 1990, I insured a client, "Dr. Smith," a sole medical practitioner. Because of the underwriting for his disability insurance, his medical tests revealed that he was a smoker, which contradicted his response on the initial application. Not wanting to pay the higher smoker premium, Dr. Smith finally acquiesced and bound the coverage. The difference between the smoker and non-smoker premiums ultimately proved to be inconsequential. Policy benefits were $5,000 per month payable until age 65 and included a cost of living rider (COLA) benefit that was designed to keep pace with inflation. Dr. Smith also had business overhead expense coverage for a 24-month period which was designed to pay his bills so that he could keep his office operating until a replacement could be found.

DID YOU KNOW?

The Social Security Administration estimates that 1 in 4 of today's 20-year-olds will become disabled before they retire. According to the most recent statistics, more than 2.5 million disabled workers were in their 20s, 30s, and 40s.

Several years after the policy was placed in force, Dr. Smith was diagnosed with Parkinson's disease and filed for disability payments under the policy. His decision to purchase disability insurance saved him from financial ruin. Further, his business overhead expense coverage helped provide a smooth transformation to another physician who retained the majority of Dr. Smith's patients and continued the practice uninterrupted. As of today, Dr. Smith is still receiving disability income checks, some 24 years later.

For every policy written for those like Dr. Smith, there are a number of policies written where no claims were ever paid. Each of those insured, however, was secure in the fact that they had a plan in place for that catastrophe. So, I ask you again, how much do you have set aside for a catastrophe? Make sure you are aware of what your plan is and what will happen for you and your family in the event of a sudden accident or sickness.

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