

What is really your most valuable asset?

When most people think about their most valuable asset, think about their home or their car. Many think about their health and there's no doubt that all three of those are definitely valuable but, for all intents and purposes, the #1 most valuable asset that you have is your *income*.

Think about it for just a moment; what would happen if your income suddenly stopped?

It's only because of your income that you can pay your mortgage, pay for your car, pay your insurance premiums, utilities, entertainment, clothing and practically everything else that you can think of. Interestingly enough, while the average consumer has insurance to protect their home, their automobile and of course their health, most forget to protect the most important asset that they have, their income.

If that income suddenly stopped due to an accident or sickness and you have no income, what would you use to pay all of your bills?

Here's something else to think about; the average consumer spends hundreds of dollars a month on entertainment, technology and dining out, but when it comes to protecting their income, they think that it's "too expensive" or that "something like that won't happen to me".

In fact, the average cost of an individual disability policy is a mere 2% to 4% of what you actually make, a very small amount to protect the 55 to 62% of your income on a tax free basis. (Your costs will vary based on your age, occupation, policy features and your health, of course.)

And let's be honest, for those people who believe that "It won't happen to me", millions of people every year are injured, get sick, have heart attacks and strokes, hurt themselves and otherwise do something that keeps them from being able to work.

One other excuse many consumers use to *not* purchase disability insurance is that they already have coverage at work. Now, while this may be true, and you might have Long Term Disability (LTD) or Short Term Disability (STD) coverage that's paid by your employer, most employees are absolutely unaware of the limitations their group coverage has. Your group coverage benefits are taxable if your employer pays your premiums and, in most cases, this insurance is *not* 'portable'. That means, if you lose your job, your insurance stops.

Let's take a look at how most group Insurance plans cover the average salaried employee.

Most employer-paid group LTD plans cover 50 to 60% of your base salary and have a monthly cap between \$5000 and \$10,000 dollars per month, depending on the your employer and your occupation.

Looking at the numbers, if your base salary is \$100,000, and your employer-paid disability benefits cover 60%, that equals \$5000 per month. BUT, since your *employer* is paying the premiums, *you'll be taxed on those benefits*. So, *instead* of taking home \$5000 dollars every month, you'll actually receive between \$3500 dollars and \$4000 depending on your specific tax rate.

Question: would you be able to financially survive a 40% cut in pay?

What about employees who earn significant bonuses or who work on commission?

Anyone who earns a significant portion of their income through either bonuses or commissions can be severely affected with a group LTD plan if they suddenly are unable to work. The reason is simple; *bonuses, commissions and anything similar are usually not covered in a typical group LTD plan.*

Here's the good news though; an individual LTD policy *does* cover bonuses and commissions.

And what about high income earners?

High income earners should definitely consider supplementing their Group LTD plan with an individual LTD insurance policy. The reason is just as simple; an individual LTD disability policy will cover you much better, and provide significantly more money if you are unable to work, than an employer-paid group plan.

The tables below will shed a little bit more light on the subject:

Sample company with Group LTD Coverage only

TITLE	ANNUAL BASE SALARY	ANNUAL BONUS	TOTAL ANNUAL SALARY	GROUP DISABILITY, MONTHLY BENEFIT	INDIVIDUAL DISABILITY MONTHLY BENEFIT	PERCENTAGE OF SALARY REPLACED
CEO	\$200,000	\$150,000	\$350,000	\$10,000	\$0	34%
Sr. VP	\$175,000	\$100,000	\$275,000	\$8,750	\$0	38%
VP	\$100,000	\$75,000	\$175,000	\$5,000	\$0	34%
Manager	\$75,000	\$50,000	\$125,000	\$3,750	\$0	36%
Manager	\$50,000	\$25,000	\$75,000	\$2,500	\$0	40%

Group Disability coverage AND Individual Disability coverage

TITLE	ANNUAL BASE SALARY	ANNUAL BONUS	TOTAL ANNUAL SALARY	GROUP DISABILITY, MONTHLY BENEFIT	INDIVIDUAL DISABILITY MONTHLY BENEFIT	PERCENTAGE OF SALARY REPLACED
CEO	\$200,000	\$150,000	\$350,000	\$10,000	\$11,250	73%
Sr. VP	\$175,000	\$100,000	\$275,000	\$8,750	\$8,200	74%
VP	\$100,000	\$75,000	\$175,000	\$5,000	\$6,000	75%
Manager	\$75,000	\$50,000	\$125,000	\$3,750	\$4,250	77%
Manager	\$50,000	\$25,000	\$75,000	\$2,500	\$2,250	80%

160% of base salary (no cap), 90-day Elimination Period, To Age 65 Benefit Period, taxable, integrated with Social Security.

One very important thing to remember is that benefits received from an individual disability policy are *not* taxable if those premiums are paid with after-tax dollars.

Of course, as with every type of insurance policy, definitions and coverages vary from company to company. What that means is that, just like with your home, auto and health insurance policies, it's a good idea to get quotes and compare policies and prices from at least 3 companies. Every insurance company will offer different features and riders that you can add or delete based on your age, income, occupation, the state you live and so forth.

A few of the more important riders to consider include;

- Own occupation
- Residual disability
- Inflation (cost-of-living)
- Catastrophic

In closing, the question you have to ask yourself is simply this; how long would your finances be able to support you at your current lifestyle if you were suddenly unable to work?

Another question you might want to ask yourself is; how much money do you spend every month on entertainment, expensive coffees at Starbucks and dining out?

Isn't spending 2% to 4% of your income to protect yourself, and your family, from financial ruin, a little bit more important than those things?