



The Case for Disability Insurance

A major disability is something that happens to someone else... until it doesn't! The sad fact is most Americans are better prepared to die than they are to deal with disabilities. If you are in your twenties, the chances are you rarely think about this. But you should. Just over one in 4 of today's 20-year-olds will become disabled before they retire.¹ In fact, over 37 million Americans or about 12% of the total population are classified as disabled. More than 50% of those disabled Americans are between the ages of 18-64. At the end of 2012, 8.8 million wage earners representing more than 5% of the entire workforce were receiving Social Security disability insurance, (SSDI) 2.5 million of these were in their twenties, thirties or forties. But I'm careful, I eat healthy and work out you say. As it turns out, accidents are NOT usually the culprit. Statistically, about 90% of disabilities are caused by illness. Cancer, heart disease and other illnesses cause the majority of long-term absences. Consider the following statistic for a 35-year-old male.

A non-smoking male, 5'10", 170 pounds, who works an office job with some outdoor physical responsibilities and who leads a healthy lifestyle has the following risks:

- A 21% chance of becoming disabled for 3 months or longer during his working career
 - Of these, 38% run the chance that the disability will last 5 years or longer
 - the average disability length for this person is 82 months

Similarly, a 35-year-old female weighing 125 pounds has a 24% chance of becoming disabled for 3 months or more during her working career. As you can see, the chances are simply too great to ignore for the average working person. Furthermore, most people think that Workers Comp or Social Security Disability insurance will cover their needs if they become disabled. According to the Council

for Disability Awareness, less than 5% of disabling accidents and illnesses are work-related. The other 95% are not, meaning Workers Compensation does not cover them. In addition, according to the Social Security Administration, 65% of initial SSDI claim applications were denied in 2012. The average SSDI monthly benefit payment for males was \$1256 and for females was \$993, with 93% of all recipients receiving less than \$2000 per month.

Given these numbers, how well prepared are American workers for disability? Not very. Forty-eight percent of US families do not save any of their annual income, and one third of working families have no retirement savings. Consider the following chilling statistics.

- 68% of adult Americans have no savings earmarked for emergencies
- 65% of working Americans say they could not cover normal living expenses even for one year if their employment income was lost.
- 38% could not pay their bills for more than 3 months.

So what does the average family do when confronted with a disability? They begin running up expenses on their credit cards, get a 2nd mortgage, cash in their 401(k) or take out a home equity line of credit and ask family and friends for assistance through sites like go fund me. As you might guess from the above numbers however, these solutions are inadequate. According to a Harvard study, 62% of all personal bankruptcies and over 50% of mortgage foreclosures are a consequence of disability, and many end up on Medicaid for insurance. Keep in mind that while Medicaid rules vary from state to state, the general requirements for income are less than \$931 per month and countable assets of \$2000 per person, not including your primary residence (with limitations based on your home equity), personal property and household belongings and up to one motor vehicle. (\$3000 per couple living in the same household)

What is the answer then? Disability insurance! How common is it? Consider:

- 65-70 % of workers in the private sector have no long-term disability insurance
- That equates to about 75-80 million private-sector workers who are without long-term disability income insurance

- Worse yet, only 46% of workers have even discussed disability planning

Sources

disability can happen.org

American Journal of Medicine

US Social Security Administration

Counsel for Disability Awareness

US Federal Reserve Board

American Payroll Association

Get Sick, Get out: The Medical Causes of Home Mortgage Foreclosures