

Disability Insurance: How Much Do I Need?

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For more information about non-cancelable Disability Income Insurance offered by the American Association of Orthopaedic Surgeons Member Insurance Program through Pearl Insurance, please call 866.679.0888.

The American Association of Orthopaedic Surgeons (AAOS) Member Insurance Program's Disability Income Insurance policy helps ensure that a portion of your income would continue if you were to become sick or disabled and unable to work.

According to the American Council of Life Insurers, one-third of all Americans between the ages of 35 and 65 will become disabled for more than 90 days, and one in seven workers will be disabled for more than five years.¹ The typical employer-sponsored disability package pays a modest percentage of your salary—not many people can live off of this amount comfortably; many wouldn't even be able to cover their typical monthly bills. A number of employer-sponsored plans also have a benefit cap per month or per year, and bonuses are usually not included. In addition, many group policies—like those automatically given to you by your employer in your benefit package—limit the amount of time it will pay benefits, usually to two years.

What Can Disability Insurance Do for Me?

Should you suffer a covered disability, with disability insurance, you would receive benefits to spend on mortgage payments, rent, groceries or other living expenses—including medical expenses related to the disability. These policies help you sustain your income by providing you with monthly benefits until you can get back to work.

Advantages to Purchasing Disability Insurance²

- Benefits will be tax-free, as long as you paid the insurance premiums with after-tax money
- Individual policies are portable and can go with you if you switch jobs or stop working full time
- If you are a specialist in your field and are paid extra for your skill, disability insurance can protect your exceptional income
- By belonging to a professional association like AAOS, often you may be eligible for a disability insurance policy that uses the buying power of your group to offer discounts you cannot find on your own

How Much Disability Insurance Do I Need?

To get an accurate understanding of how much Disability Insurance you may need, it is a good idea to create a financial worksheet for the possibility of you becoming disabled. Jot down all the below expenses and income determinations for your disability benefit, keeping in mind your income may be smaller and your medical bills may be higher if you become disabled. Divide your monthly spending and monthly income into two columns. Total each column, and subtract your total monthly income from your total monthly expenses. The result is the amount of disability benefit you may need from a disability insurance policy.

What to Consider When Determining Your Disability Benefit

- Job income if you become disabled
- Estimated spending (utility, medical bills, child care, tuition, mortgage/rent, home repairs, student loans, auto loans, credit card debt, groceries, gas/transportation/maintenance, clothing, insurance premiums, additional spending money)
- Investment Income, Social Security benefits, partner's income, workers' compensation (if an accident happens while on the job), automobile insurance payments (if you're disabled due to a car accident), emergency savings

One thing to be certain of is that all of the entries on your disability benefit worksheet are estimates for during a disability—not current income (you'll be earning less than your full salary) and current spending habits (you may be spending less when you're not working—i.e., not as much for job-related driving expenses and buying work clothes). Keep in mind also that your income taxes (on your reduced wages), and possibly investment income, may change. But most experts will tell you that it's better to err on the side of caution and have too much of a benefit amount than too little. If you're still unsure about how much insurance you would need in case of a disability, visit a tax professional or accountant for advice.

What Is My Next Step?

Don't wait until after a disability strikes to find out more about disability insurance—by then you may find out that you are no longer eligible to secure a plan. It happens more often than we care to think about. If you put it off until it's too late, you may realize you don't have enough money to live comfortably.

Please visit the AAOS Member Insurance Program website at www.aaosinsurance.com, where you are eligible to apply for the Individual Disability Income Insurance plan at a 10% discount. There you can find more information to help you make this important financial decision. You can also call an AAOS Member Insurance Program representative directly at 866.679.0888 if you have any questions or would like to receive more information on the AAOS Member Insurance Program's Disability Income Insurance plan.

¹Stacey L. Bradford, "Do You Need Disability Insurance?", SmartMoney.com, originally published April 19, 2005/updated September 10, 2008.

²The Motley Fool, "What Factors Should I Consider Before Buying Private Disability Insurance?", Fool.com, ©2005–2008.

Disability insurance has limitations and exclusions. For costs and complete details of coverage, contact your AAOS Member Insurance Program Administrator. Program subject to state approval. Disability insurance is issued by Principal Life Insurance Company, a member of Principal Financial Group®.