



Five Myths About Group Disability Insurance

You may think that the chances of becoming disabled during your working years are slight, and even if you did get hurt or had to miss time at work, you could get by because you have group disability insurance. Unfortunately, you may be in for a big surprise. Here are some myths and misunderstandings about group disability insurance.

Myth 1: It won't happen to me.

You're not really worried about your group disability insurance coverage because you're sure you won't suffer a disability. In fact, your chances of being disabled for longer than three months are much greater than you may realize. Even the healthiest and ablest can become disabled. According to the Social Security Administration, one in five Americans lives with a disability, and more than one in four 20-year-olds becomes disabled before reaching retirement age.¹ So maybe you could miss work for an extended period of time due to a disability. But you have group disability insurance to cover all your income, right?

Myth 2: I work for a good employer, so I'm sure it provides disability insurance.

Well, you better get something in writing confirming that you're covered under your employer-sponsored group disability insurance. According to the Bureau of Labor Statistics, 39% of private industry workers took part in employer-sponsored short-term disability insurance, and 33% were covered by group long-term disability insurance. Workers in service occupations, such as waiters/waitresses, hair stylists, and dental hygienists have the lowest access rates, about 20% for short-term disability insurance and only about 10% for long-term group coverage. On the other hand, 54% of workers in management, professional, and related occupations have

access to short-term disability coverage, and 59% are covered by long-term group disability insurance.²

Myth 3: Group disability insurance will replace my income.

Actually, group disability insurance replaces some of your income — typically about 60% of income if you become disabled and can't work. And most coverage has a monthly income cap of roughly \$5,000 to \$8,000, which may be less than 60% of your income. Also, the income used to calculate your disability insurance benefit usually applies only to your base salary and doesn't include bonuses and commissions.

Myth 4: I won't be taxed on my disability insurance benefits.

You won't be taxed on your disability insurance benefits if premiums are paid from your income with after-tax dollars. However, most employers pay the premium for group policies, which means any benefits you receive are likely taxable to you as ordinary income.

Myth 5: As long as I'm with the company, I'll have coverage.

Generally, group disability insurance is a voluntary benefit offered by the employer, which is under no compulsion to maintain coverage or pay for its cost. The employer can switch plans to a policy that doesn't offer the same coverage options, or the employer can stop offering coverage altogether. Sometimes, if the company has an unusually high number of expensive disability claims, the insurer may exercise its right to significantly increase the premium or terminate the coverage.

Okay, so what are my options?

First, verify with your employer that you do, in fact, have group disability insurance coverage. Then review your plan to see how much income it actually would pay. Also, understand the group policy's definition of disability. Not every injury or illness that causes you to miss work may be covered.

Once you know how much you'd receive from the disability insurance, estimate whether it would be enough to cover your monthly expenses. If there's a shortfall, do you have other sources of income (e.g., investment income, spouse's income) to cover the difference, or would you have to access your savings? If you'll be using savings to supplement your disability income, you'll want to gauge how long your savings will last. The average duration of long-term disability is 31.2 months.³

You could consider purchasing supplemental disability coverage to help pay for some of your lost income not covered by your group disability policy. For instance, if your group plan pays 60% of your salary, a supplemental disability plan may increase your total benefit to 80% of your income. In any case, disability income policies contain certain exclusions, waiting periods, reductions, limitations, and terms for keeping them in force. Individual disability income insurance policies provide disability income insurance only. They do NOT provide basic hospital, basic medical, or major medical insurance.

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