

How can I insure against loss of income?

If you were disabled and unable to work as a result of an accident or illness, what would you and your family do for income?

Disability income insurance, which complements health insurance, can replace lost income. Forty-three percent of all people age 40 will have a long-term (lasting 90 days or more) disability event by age 65.

There are three basic ways to replace income:

1. **Employer-paid disability insurance**

This is required in most states. Most employers provide some short-term sick leave. Many larger employers provide long-term disability coverage as well, typically with benefits of up to 60 percent of salary lasting from five years to age 65, and in some cases extended for life.

2. **Social Security disability benefits**

This can be paid to workers whose disability is expected to last at least 12 months and is so severe that no gainful employment can be performed.

3. **Individual disability income insurance policies**

Other limited replacement income is available for workers under some circumstances from workers compensation (if the injury or illness is job-related), auto insurance (if disability results from an auto accident) and the Department of Veterans Affairs.

For most workers, even those with some employer-paid coverage, an individual disability income policy is the best way to ensure adequate income in the event of disability. When you buy a private disability income policy, you can expect to replace from 50% to 70% of income. Insurers won't replace all your income because they want you to have an incentive to return to work. However, when you pay the premiums yourself, disability benefits are not taxed. (Benefits from employer-paid policies are subject to income tax.)