

With limited financial resources and almost too many risks to insure against – how can a person prioritize?

1. **Home** – mortgage company requirement – we would any way
2. **Car** – if financed, required – liability insurance required by law, if valuable – we would any way
3. **Medical** – must have, almost always employer pays a substantial amount towards the premium.
4. **Life** – must have, too often only coverage is through the employer.
5. **Dental** – highly valued, no transfer of risk, mostly a transfer of dollars.
6. **Vision** – highly valued, no transfer of risk, mostly transfer of dollars.
7. **Income replacement (Long Term Disability – LTD)** – not understood, not highly valued – most people are grossly underinsured should they become disabled. The increase in the incidence of serious disability for working women is twice the growth rate for men.
8. **Retirement** – Three legs, Teacher's Retirement, personal savings, Social Security – how much is enough?
9. **Long Term Care** – Few people own policies, not well understood, awareness of need generally a result of personal experience of family or friend; belief that Medicare covers this expense – false.
10. **Will Preparation** – 70% of Americans do not have a will. Issues – guardianship for minor children; desired asset distribution; Healthcare Power of Attorney.



Long Term Disability (LTD)

Teacher's expected sources of income – Non-work related disability:

	<u>Fact</u>	<u>Fiction</u>
Disability Insurance	X	X
Unemployment		X
Social Security	X	
Medical Insurance		X
Workers Compensation*		X
Employer		X

*will pay only if injured while at work or work-related, 66% of disability injuries occur off the job.

Social Security – Social Security Disability Income (SSDI) will be the primary source of income for any K-12 employee who, due to a non-work related injury, accident, sickness or illness, is unable to work.

SSDI benefits are based on a worker's salary – replacement ratios are:

<u>Monthly Earnings</u>	<u>SSDI - Primary Insurance Benefit</u>	<u>Replacement Ratio</u>
\$1,000	\$700	70%
\$2,000	\$1,020	51%
\$3,000	\$1,340	45%
\$5,000	\$1,803	36%



To provide the Income Replacement needed, an LTD policy should:

1. Be a contributory policy – benefits should be *tax-free*
2. The Deductible Income should be Primary Only versus Family – deductible income are offsets to the monthly LTD benefit. The LTD benefit should not be reduced even further by including the SSDI benefit payments to a spouse and/or children

The goal of any Income Replacement Insurance (LTD) should be to provide an income replacement of pre-disability income of at least 60%.

Review **YOUR SOCIAL SECURITY STATEMENT** to see what your SSDI monthly benefit will be if you should need it.

Review your Long Term Disability (LTD) coverage to see how it will pay after it is reduced by other *deductible income*.

LTD policies reduce a disabled employee's monthly benefit by:

1. SSDI benefits – Primary Integration means the disabled employee's SSDI benefit. Family Integration is the SSDI benefit paid on behalf of a spouse and/or children and some policies also consider family SSDI benefits as deductible income. You want your policy to have Primary Only Integration.
2. Retirement benefits - it is preferable that retirement benefits not be considered deductible income.

Some policies end up paying a disabled employee only the policy *Minimum Benefit*.

- Generally \$50 per month, or
- The lesser of \$100 or 10% of the gross benefit

* If the policy is non-contributory, the benefit will be taxed – FICA, state and federal



LTD Benefit – 60% of salary up to \$6,000/month

	Option One	Option Two
	Non-Contributory Family Integration (deductible income)	Contributory Primary Only Integration (deductible income)
<u>Policy Features</u>		
Monthly Salary	\$4,000	\$4,000
Tax on Salary	\$1,200	\$1,200
Take Home Pay	\$2,800	\$2,800
Gross LTD Benefit @ 60%	\$2,400	\$2,400
Primary SSDI offset	\$1,600	\$1,600
Family SSDI offset	\$800	\$0
LTD Benefit	\$50 (policy minimum)	\$800
Tax on LTD Benefit	\$15	\$0
Net LTD Benefit	\$35	\$800
Total SSDI Payments	\$2,400	\$2,400 (including Family)
Total LTD Payment	<u>\$35</u>	<u>\$800</u>
 TOTAL all Payouts	 \$2,435	 \$3,200

The total monthly benefit available from Option Two is 31% greater than from Option One.

You must refer to your LTD policy to determine what the deductible income offsets are, what the definition of disability is, and what the exclusions are.



2007 Social Security Facts

- 51 – the average age of a disabled worker receiving SSDI benefits
- 2.3 million – the number of disabled workers in their 20's, 30's and 40's receiving SSDI benefits
- \$1,004 – the average monthly SSDI benefit for all disabled workers; disabled male workers average is \$1,126; disabled women - \$866/month
- More than 90% - the amount of disabled workers receiving SSDI who do not qualify for workers compensation
- 3 in 10 – these are the chances of a young worker today becoming seriously disabled before reaching retirement

