

Disability income insurance



Wealth
Management

If you're like most people, protecting your assets is an important part of your financial strategy—that's why you own car insurance, homeowner's insurance and life insurance. But what about your ability to earn an income?

Chances are, you rely on your income to support your current standard of living. If you were to become disabled, however, how would you pay your mortgage, auto loan and other monthly bills? What about retirement savings and your children's education fund? Do you know how much money you would receive monthly and from where? Without disability income insurance, a disability could potentially mean financial disaster for you and your family.

If you think about it, your most valuable asset is your ability to earn an income.

What are the odds?

For an insured worker born in 2000, the probability of becoming disabled between age 20 and normal retirement age is 25 percent, and the probability of dying between age 20 and normal retirement age is 13 percent. These probabilities are based on the intermediate assumptions of the 2020 Trustees Report. The probability of becoming disabled is about the same for males and females, with both at 25 percent.

Musculoskeletal/connective tissue and cancer are the two most common causes of disability. Consider the likelihood that you'll have a long-term disability that lasts three months

or longer before age 65. Medical problems contribute to 62% of all personal bankruptcies filed in U.S. (David U. Himmelstein, et al. "Medical Bankruptcy in the United States, 2007: Results of a National Study," Page 741. Elsevier Inc, 2009.)

Chances of suffering a long-term disability

Age	Probability
25	58%
30	54%
35	50%
40	45%
45	40%
50	33%
55	23%

(Source: US Disability Statistics 2020)

Where will the money come from?

- **Employer-sponsored group disability plans** — Many employers offer short-term protection to their employees; unfortunately, people wrongly assume they are protected in the event of a disabling injury or illness.

Most employer-sponsored group long-term disability plans cover only 60 to 70% of your annual salary, and don't consider bonuses or commissions when determining

your monthly benefit. For example, your \$50,000 annual salary could be reduced to \$1,800 per month after tax (assuming a 28% tax basis), making it difficult to maintain your current lifestyle

- **Social Security** — Almost 60% of all disability claims are denied. In 1998, the maximum payment for an eligible 30-year-old earning \$68,400 or more was only \$1,568 a month. (Annual Statistical Report on the Social Security Disability Insurance Program, SSA)
- **Savings** — Even by saving 5% of your income yearly, a six-month disability could wipe out 10 years of savings.

Disability income insurance—important to your financial security

Disability income insurance will not only replace lost earnings, but some policies may also provide a source for retirement and education savings. For business owners, business overhead expense insurance can pay benefits to the business when the owner becomes disabled and cannot work. The business can use the money to meet day-to-day expenses such as salaries, utility bills, rent and taxes. With access to a wide range of nonproprietary disability

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insurance policies, your RBC Wealth Management financial advisor can help you determine the most appropriate policy and coverage you would need to pay bills and expenses if you were unable to work.

What to look for in a disability policy

When considering a disability income insurance policy, carefully review the policy's definition of disability provision as it relates to your occupation. Make sure the plan you choose will pay in the event you cannot perform the main duties of your own occupation, versus one that will pay if you cannot do any occupation based on your education.

- Total disability means you are completely unable to perform your occupation or one appropriate for your education and experience.
- Partial or residual disability means your ability to perform your job is impaired.
- Non-cancelable coverage means the company cannot terminate coverage or increase your rates as long as you pay your premiums on time.
- Guaranteed renewable coverage means the company cannot drop you from coverage as long as you pay your premium, but can increase those premiums.

Other disability definitions

- **Benefit period** — How long you will receive benefits from your policy. The most common benefit period is to age 65.
- **Elimination/waiting period** — How long you have to wait before receiving benefits. The longer the waiting period, the less expensive the policy premium. The most common elimination period is 90 days.
- **Waiver of premium** — With most policies, you won't have to pay premiums after being disabled for 90 days.

Make disability income insurance a part of your financial strategy

As you and your financial advisor work together to assemble a sound investment and financial strategy, disability insurance should be part of your discussions. The first step is to understand what disability income coverage you currently have and what you need.

No one plans on a disability—consider a disability income policy while you are insurable and have an income to protect. Talk to your RBC Wealth Management financial advisor for more information on how to get started today.