

# Business Owners:

## *Disability Income Protection*

The majority of business owners have **life insurance** that protects their beneficiaries against the financial impact of premature death. They also insure their homes, cars, and other personal possessions against financial loss resulting from fire, theft, or damage. However, many business owners do not insure their single most valuable asset—their ability to earn an income and manage their business.

If you are like most business owners, your family relies on your income to assure them of a comfortable lifestyle. Therefore, **disability income** coverage should not be considered a luxury, but an integral part of your insurance coverage plan. Whether you need an *individual* policy depends on the extent of your liquid assets, your spouse's earning potential and other sources of disability income (group coverage, workers compensation, Social Security, and veterans benefits).

Depending on your income, the maximum coverage you can buy may replace 45% to 75% of your pre-disability earnings. The policy's cost generally depends on such factors as the risk level of your occupation, your age, health, and the comprehensiveness of coverage.

To help ensure the money you spend on disability income insurance is buying state-of-the-art protection, your contract should include the following:

- 1) A favorable definition of “total disability.”** You may want this to include “the inability to perform the duties of your own occupation,” which means you could engage in another line of work and still collect full disability income benefits. For instance, you automatically may be considered disabled for specific disabilities, such as loss of hearing, but benefits may be payable even if you are able to work.
- 2) A non-cancelable clause.** This clause would provide that the insurance company cannot cancel the policy or increase the premium until a certain age specified in the policy.
- 3) Proportionate disability payments.** This provides protection when the insured is unable to perform all the duties of his or her job, or is able to perform all the duties for less than full-time and suffers a loss of earnings as a result. In some policies it is called a “partial disability,” but the meaning is not always synonymous. A transition benefit may be available to ease your return to full-time employment.

**4) Benefits payable until age 65 or for life.** Since many people continue to work beyond age 65, this provision would allow you to renew your disability income coverage if you are still working full-time.

**5) Waiting Period.** The cost of disability income insurance declines the longer you wait before receiving benefits. Since disabilities do not often occur over consecutive days, you may purchase coverage that provides benefits on the thirty-first day of disability or up to one year later. In terms of your financial strategy, you should consider your liquidity level and sick pay, as well as receivables, and weigh that against the cost of disability income insurance premiums.

The following considerations may be more or less significant, depending on your personal financial situation:

**6) A Social Security substitute benefit rider.** This provision would supplement benefits if you are totally or partially ineligible for Social Security or workers compensation benefits. The amount of benefit payable under this rider depends on how much is payable by social insurance programs or workers compensation benefits.

**7) A future increase benefit rider.** This provision is designed to increase the monthly benefit annually before and after a disability.

Now may be the time to pay close attention to how much you should spend on disability income insurance, as well as the particular details and provisions of the disability income policy you are considering. In addition to *individual* disability income coverage, business owners should analyze the need for **disability buy-out** and **disability overhead expense** policies as well. Consult your insurance professional for a complete analysis of your disability insurance needs.

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