

How can I insure against loss of income?

In the event you're unable to work, disability insurance can offer financial protection

Financial Planning

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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?

Forty-three percent of all people age 40 will have a long-term (lasting 90 days or more) disability event by age 65. Disability income insurance, which complements health insurance, can replace lost income and help protect you and your family from an otherwise financially catastrophic illness or injury.

Disability benefit sources

Depending on where you have been employed, whether you've served in the military and the reason you're unable to work, there are a number of potential sources of disability income:

- **Employer-paid disability insurance** – This is required in most states, and so is the most common. Most employers provide some short-term sick leave. Many larger employers

provide [short-term \(STD\)](#) and [long-term disability \(LTD\)](#) coverage as well, typically with benefits of up to 60 percent of salary lasting from five years to age 65. In some cases, LTD insurance is extended for life. Disability benefits from employer paid policies are subject to income tax.

- **Social Security disability benefits** may 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.
- **The Department of Veterans Affairs** will provide some replacement income for veterans, depending on the nature and circumstances of the disability.
- **Auto insurance** may cover some income loss under the personal injury protection (PIP) portion of the policy if the disability results from an auto accident. As always, this depends on the policy, the insurer and the circumstances.
- **Individual disability income insurance policies** are the best way to ensure adequate income in the event of disability for most workers, even those with some employer-paid coverage. When you buy a private disability income policy, you can expect to replace from 50 percent to 70 percent 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.

Next steps: Need an individual disability policy? [Learn about the types of disability insurance.](#)

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