

Avoid disability disaster

Don't let a disability doom you, your family or your business.

Get disability insurance.

I have a client that we will call Joe. Joe's father called me one day last year and said he needed to ask me some questions: "Joe had a stroke last week and we wanted to call and discuss his insurance." I asked how serious it was and was told, "he is paralyzed from the neck down at the moment."

This is the phone call that, as a financial planner, you hope you never receive. Joe is 41 years old, has 2 young children, a spouse who takes care of the household, and he runs his own business. However, these phone calls are why I always discuss disability income protection with potential clients and clients. Everyone wants to talk about the stock market and investing. If it's not the market, then it's how I can help them pay less taxes each year. Occasionally, people even want to talk about life insurance, but I can count on one hand from thousands of meetings how many times someone has said they wanted to talk about disability insurance. Investments, taxes and life insurance are all very important and we talk about them, but they aren't going to matter much if you lose your ability to earn an income. Many working people are not able to live off of assets and thus need their income.

I've heard every excuse. "I have it through work." Maybe, but in my opinion it's almost always just 50-60% of your income. "I'm in great shape." It doesn't matter what kind of shape you are in when someone is texting and driving. Or you get a diagnosis of a neurological disorder. "I don't do dangerous activities." The majority of claims are paid for illnesses, not accidents. "My spouse works." Great, do you all live and save for retirement solely on his/her income? "We could live off of less." Why don't you live off less now? Is that really what you want for your family? How about the additional medical expenses? "My family would help." Have you discussed this with your parents, brother, sister, whoever, to see if they have it in their retirement plan to help your family whether your disabled or not?

All of those sound good, but should they be considered as good excuses? Everyone thinks about if they die, but rarely do we think about if we are sick or hurt and can't work. When you die and have adequate life insurance, your family or business

can pay off debts, set money aside for education, and produce income off of the remaining principal. But when you are disabled, there are no windfalls to provide those items. Your mortgage(s), car payments, business loan, etc. still exist. Back to Joe above. When I got that phone call from his father, I vividly remembered the conversations years before with him about disability coverage. "Do I really need it?" "I'm not going to need it." "How much does it cost?" "Ok, ok. Let's put some in place." Thankfully, I'm persistent and care about my clients, so I hung in there until he made the right decision and put some coverage in place. As I looked in his file however, I realized he had not covered his full income. Some is better than none, for sure. But it's never enough when it happens. A later conversation with Joe's family revealed that he was going to a rehabilitation facility and they weren't hopeful that health insurance was going to cover much, if any, of the expense. So, it's true. Expenses often go up during a disability, not down.

It's important to understand what's included in your coverage. If you receive compensation through commissions or a bonus, the fine print of your group benefits may reveal that it's only your salary that is covered. Additionally, once we start looking at higher incomes, many plans cap out at a specific amount, so make sure you've got a good handle on the specifics of your plan. The good news is that it probably doesn't cost much to properly protect your income. Once you know what you have through your employer, the gap in coverage between group insurance and income can likely be covered by a small percentage of that income.

Do you own your own business or work for a small business? Do you have adequate group coverage? If you are the owner, a group plan might be something to consider. This could be a better cost per unit and provide a valuable benefit to employees not only as goodwill, but also as part of an attractive benefits package to compete with larger firms."

Have a partner in your business? I bet you have a buy sell agreement, and I bet you have triggering events of death or disability. You might even have the death trigger funded with life insurance. But I also bet you don't have the disability trigger



funded. So where would that money come from to buy you out after you are disabled? Sure, it could come from cash flow, but how likely is it cash flow remains at the same level if you aren't working and driving revenue? Or what if the economy hits a rough patch? Your partner could borrow the money, but who

wants to do that? And would you and your family like to be bought out over time or all at once? Once again, this can be solved by considering a disability buyout insurance contract. It's worth considering if a disability buyout insurance contract can solve your needs.



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