

Disability Planning

Importance of protecting your income

The sudden inability to earn an income due to disability can have a devastating financial impact on you and your family if you are not prepared. Many people underestimate the possibility of becoming disabled during their working years. Here are a few facts to put things in perspective.

- Almost 1 in 4 (24.5%) of today's 20-year-olds will become disabled before reaching age 67.¹
- Overall, there are about 42.5 million Americans with disabilities², but only about 9 million or so people are receiving disability benefits from Social Security³.

Definition of “Disability”

When evaluating a disability policy, it is important to understand how the insurer defines “disability.” Some policies consider the individual disabled if he or she is not able to perform the duties of the occupation for which he or she is suited by education, training, or experience. Other policies define “disability” as the inability to perform the duties of any occupation. In addition, there could be exclusions for certain types of disabilities or limitations on the benefit period.

Alternate sources of income during disability

- Social Security disability
- Borrow funds
- Liquidate savings/investment assets
- Disability insurance (employer or individual)

Each of these alternate income sources has an inherent downside. Generally speaking, the government’s strict definition of “disability” may make it difficult to qualify for Social Security disability benefits. Social Security defines disability as having a medical condition that has prevented you from working or is expected to prevent you from working for at least 12 months or end in death. If you are eligible for a government benefit, the benefit amount is limited and may not meet your needs by itself.

Also, without a defined source of income, borrowing funds may not be available as an option. Liquidating savings and investment assets to provide current income may require you to utilize assets in the present that you will need in the future for your retirement. Private and/or employer-paid insurance may be the most appropriate source in this situation.

¹ Disability and Death probability tables for insured workers who attain age 20 in 2023, Social Security Administration Actuarial Note July 2023.

² U.S. Census Bureau data from 2021.

³ U.S. Social Security Administration, Beneficiaries in Current-Payment Status, December 2022.

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Acquiring private disability insurance

If you rely on earned income as your primary income source, it is crucial to have a plan to replace that income in the event of a disabling injury. Therefore, consider evaluating disability insurance in order to provide this protection for you and your family. You may already have group long-term disability (GLTD) insurance provided by an employer-sponsored benefits plan. Generally this coverage will pay a percentage, typically 50% or 60%, of your earned income should you become disabled. Identifying the actual portion of income covered by GLTD benefits, and which benefits are taxable is essential. Once you have identified the portion of income covered by GLTD benefits ask yourself is this enough? If not you may be able to supplement your GLTD benefits with individual disability insurance coverage.

Assuming, for example, that a married couple currently earns \$200,000 and \$65,000 respectively and each are covered by employer-sponsored GLTD providing after-tax monthly benefits. The table below shows the hypothetical monthly GLTD benefits payable assuming either 50% or 60% coverage.

	Client 1	Client 2
Current Annual Salary	\$200,000	\$65,000
60% Monthly Income Replacement	\$10,000	\$3,250
50% Monthly Income Replacement	\$8,333	\$2,708

Note: Most group long-term disability (GLTD) insurance policies limit the monthly benefit to roughly 50 – 60% of the insured's earned income. This information is hypothetical and for illustrative purposes only.

Request a personal consultation

If you would like to learn more and to request a personal consultation, talk with your financial advisor about planning for protecting your income.

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