

Disability Considerations

October 2018



CANDOR ASSET ADVISORS

Investment advisory and financial planning services offered through Candor Asset Advisors, LLC, a registered investment advisor.

Disability insurance is about protecting a portion of your earnings power:

How much income would you lose out on if you became disabled?					
Not assuming inflation or pay raises, your current income through age 65 would be:					
	Pay today				
Age	\$ 50,000	\$ 100,000	\$ 150,000	\$ 250,000	\$ 500,000
25	\$2,000,000	\$4,000,000	\$6,000,000	\$10,000,000	\$20,000,000
35	\$1,500,000	\$3,000,000	\$4,500,000	\$ 7,500,000	\$15,000,000
45	\$1,000,000	\$2,000,000	\$3,000,000	\$ 5,000,000	\$10,000,000
55	\$ 500,000	\$1,000,000	\$1,500,000	\$ 2,500,000	\$ 5,000,000

A number of disability insurance policies cover 50-60% of your income. Employer long term disability coverage may have income cap limitations. See individual policies for more details.

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Disability is serious business

- **It happens more often than you'd imagine:**
 - Just over 1 in 4 of today's 20 year-olds will become disabled before they retire.
 - Over 37 million Americans are classified as disabled; about 12% of the total population. More than 50% of those disabled Americans are in their working years, from 18-64
- **Disability causes severe financial hardship:**
 - Medical problems contributed to 62% of all personal bankruptcies filed in the U.S. in 2007- an estimate of over 500,000. This is a 50% increase over results from a similar 2001 study.
 - Medical problems contributed to half of all home foreclosure filings in 2006.
- **Few American workers are financially prepared:**
 - Do you save any of your annual income? 48% of U.S. families don't.
 - Retirement savings? One-third of us have none.
 - 68% of adult Americans have NO savings earmarked for emergencies.
 - 65% of working Americans say they could not cover normal living expenses even for a year if their employment income was lost; 38% could not pay their bills for more than 3 months.
 - Nearly nine in ten workers (86%) surveyed believe that people should plan in their 20's or 30's in case an income limiting disability should occur;
 - Only half (50%) of all workers have actually planned for this possibility.
 - Fewer than half (46%) have even discussed disability planning.

Sourced directly from: http://www.disabilitycanhappen.org/chances_disability/disability_stats.asp

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You are much more likely to become disabled vs die prematurely.

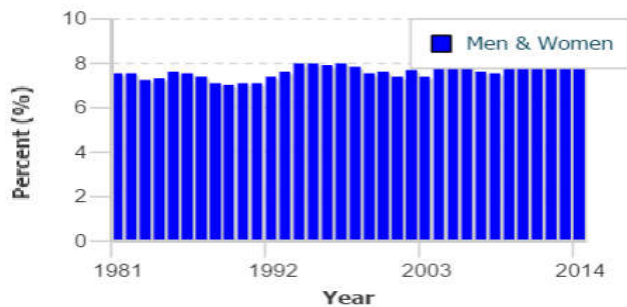
Social Security Administration Chief Actuary 2015 Forecast

Men					Women				
Age	Cumulative Probability of			Odds of Disability vs Death	Age	Cumulative Probability of			Odds of Disability vs Death
	Disability	Death	Either Death or Disability			Disability	Death	Either Death or Disability	
25	1.3%	0.6%	1.9%	2.2	25	0.9%	0.2%	1.1%	4.5
30	2.3%	1.2%	3.5%	1.9	30	1.7%	0.4%	2.1%	4.3
35	3.4%	1.8%	5.2%	1.9	35	2.9%	0.7%	3.6%	4.1
40	4.9%	2.3%	7.2%	2.1	40	4.5%	0.9%	5.4%	5.0
45	7.0%	2.8%	9.8%	2.5	45	6.7%	1.3%	8.0%	5.2
50	9.6%	3.6%	13.2%	2.7	50	9.6%	1.8%	11.4%	5.3
55	13.6%	4.8%	18.4%	2.8	55	13.8%	2.5%	16.3%	5.5
60	19.6%	6.2%	25.8%	3.2	60	19.4%	3.1%	22.5%	6.3
65	26.5%	7.8%	34.3%	3.4	65	25.1%	3.6%	28.7%	7.0
Projections based on estimates of men and women born in 1995 when they reach the ages shown above.									
Example: For a man born in 1995, the Office of Chief Actuary believes that there is a 7% probability the man will be disabled by the time he reaches 45 and a 2.8% probability he will die by the time he reaches age 45. Combined there is a 9.8% probability the man will have a disability or be dead by the time he reaches 45.									
Source: Office of Chief Actuary, Social Security Administration, December 2015									

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About 1 in 12 workers have reported disabilities each year since 1981 while only ~10% of long term disability claims are related to injury or poisoning

PREVALENCE RATE:
The percentage of a man and a woman, aged 18-64 who report a work limitation in the United States from 1981 to 2014



Sources: disabilitystatistics.org, The 2014 Council for Disability Awareness: Long Term Disability Claims Review

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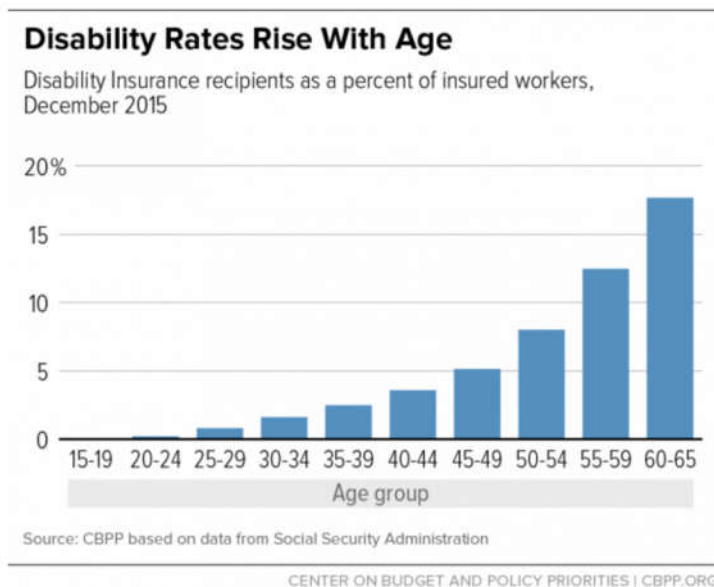
2014 CDA Long Term Disability Claims Survey Disability Claims by Diagnosis

See appendix for a description and examples of each diagnosis.

Claim Diagnosis Category	% of New and Existing LTD Claims			
	2012		2013	
	New*	Existing*	New*	Existing*
Musculoskeletal/Connective Tissue	28.7	30.8	28.6	28.7
Nervous System-Related	7.5	14.4	7.7	15.2
Cardiovascular/Circulatory	8.5	12.2	8.7	12.4
Cancer and Neoplasms	14.6	8.8	15.1	9.1
Mental Disorders	8.9	7.6	8.3	7.7
Injuries and Poisoning	10.2	7.6	10.3	7.7
Respiratory System	2.1	2.9	2.3	3.0
Infections and Parasitic Diseases	2.2	2.7	1.9	2.9
Symptoms, Signs and Ill-Defined	2.9	2.8	2.8	2.7
Digestive System	2.7	2.3	2.6	2.4
Genitourinary System	2.1	2.1	2.1	2.2
Endocrine, Nutritional and Metabolic Diseases and Immunity Disorders	1.3	2.1	1.3	2.2
Complications of Pregnancy and Childbirth	6.0	1.4	5.9	1.7
Skin and Subcutaneous Tissue	0.7	0.8	0.8	0.8
Congenital Anomalies	0.5	0.7	0.5	0.7
Blood and Blood-Forming Organs	0.2	0.3	0.2	0.3
Other	0.9	0.5	0.9	0.3
Total:	100%	100%	100%	100%

* "New" claims are those approved in the survey year; "existing" claims are ongoing but were approved in prior years.

The odds that you become disabled rise as you age



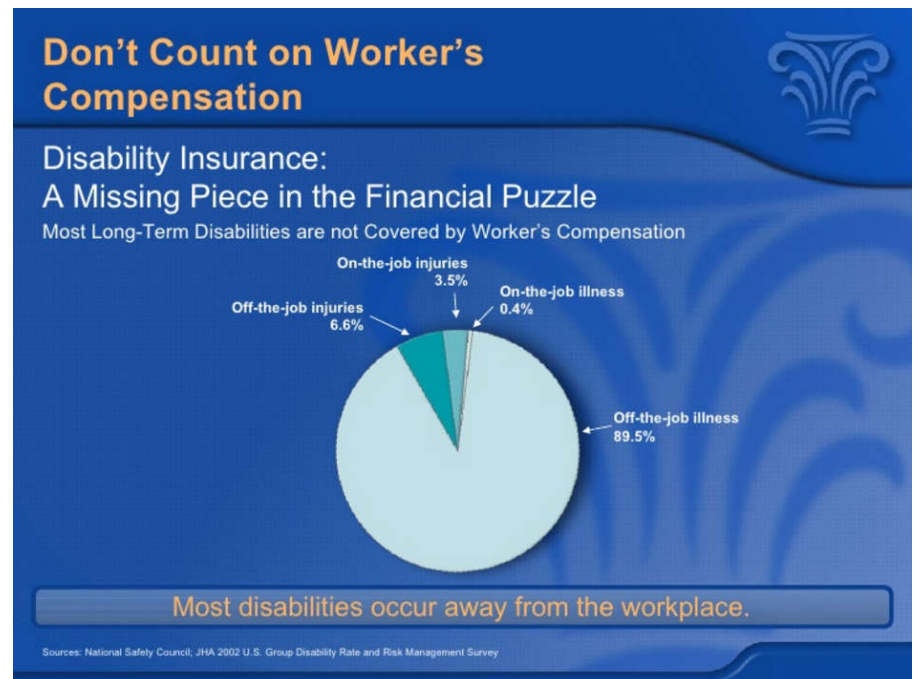
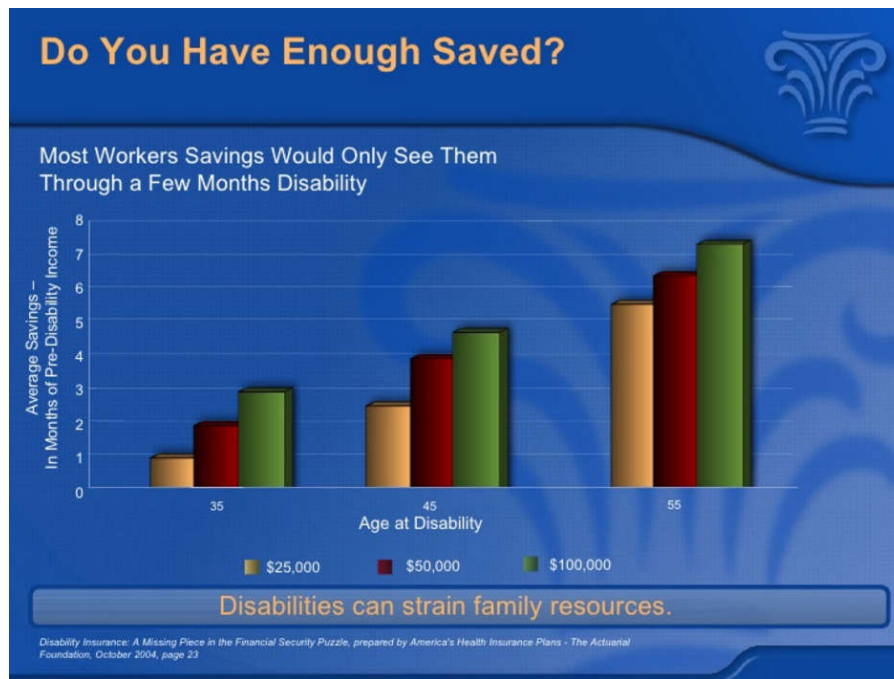
- Average long term disability claim estimates* vary between ~2-7 years. For a person earning 100,000 a year before the incident, the disability could result in \$300,000 to \$800,000 in lost wages.

Source: Center on Budget and Policy Priorities Chart Book: Social Security Disability Insurance Updated August 23, 2016

Council for Disability Awareness, Gen RE US Group and Individual Disability Management Survey 2011, PolicyGenius Review: Long Term Insurance Quotes Article By Jonathan Ping

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Studies suggest individuals haven't saved enough for disability. Worker's compensation often doesn't fill the void



Source: Northwestern Mutual Life Insurance Justin Partlow Presentation on LinkedIn

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Social Security Disability Insurance (SSDI) is often not sufficient due to limited claims approvals and coverage



Only About 4 of 10 Disability Insurance Applications Are Ultimately Allowed

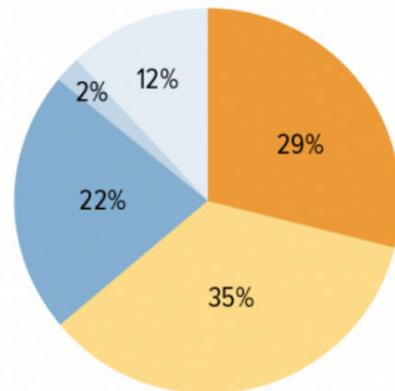
Percent of applications

Allowed (36%)

- Allowed at initial application
- Allowed at reconsideration
- Allowed on appeal to administrative law judge

Denied (64%)

- Denied for medical reasons
- Denied for technical reasons



Source: CBPP based on data from the Social Security Administration. Data are for applications in 2010 through 2012, the most recent years for which nearly complete data are available.

CENTER ON BUDGET AND POLICY PRIORITIES | CBPP.ORG

The average SSDI claim in 2015 only amounted to ~\$13,980 on an annual basis.

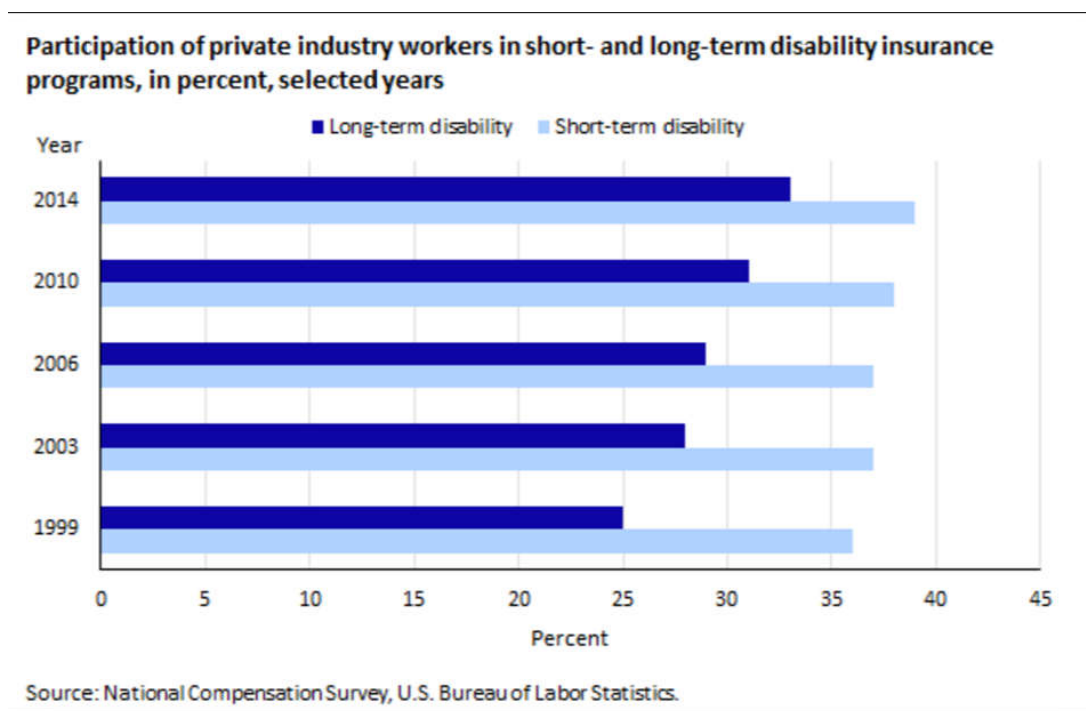
Social Security Disability Insurance (SSDI) only covers a small fraction of wages for individuals making over \$100,000 a year							
Annual Wages	\$9,912	\$59,760	\$118,500	\$200,000	\$300,000	\$500,000	\$1,000,000
Wage Replacement Ratio	90.0%	41.6%	28.4%	16.8%	11.2%	6.7%	3.4%

Source: Chart on left: Center of Budget & Policy Priorities Chart Book: Social Security Disability Insurance Updated August 23, 2016

Chart on right: Heritage Foundation Improving Social Security Disability Insurance with a Flat Benefit & Social Security Administration

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25-40% of non government workers have short or long term insurance through their employers; participation rates are modestly rising



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What to look for in a private disability insurance policy

- Financial strength of insurance carrier & claims paying history
- Definition of disability
 - Inability to perform the material and substantial duties of your regular occupation (may also say you can't work elsewhere)
 - Inability to perform duties of any occupation for which you are reasonably fitted by education, training and experience
 - Inability to perform the duties of any gainful occupation
 - Loss-of-income test due to sickness or accident
- Policy payment provisions- you can get paid only if you don't have another job to recouping a % of your lost income
 - Full, Partial or Residual (gainfully employed but not totally disabled)
- Elimination/Waiting period – period before benefits are paid
- Benefit period- length of time disability payments are payable after the elimination period is met.
 - Short term disability policies cover disabilities that lasts less than 1 year. Employers only offer these policies.
 - Long term disability policies usually cover disability for greater than one year. Policies may be available through your employer and are also available from private insurance carriers
- Pre tax contributions usually mean taxable benefits. After tax contributions usually mean tax free benefits.^

^ Consult your tax professional for advice on how your disability policy impacts your taxes.

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