Planting the Seed

20 ways to preserve your

YETWORTH®

by Emma & Maxwell Schmitz

evaluating real-life options
when you can't work anymore

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preface

Most Americans rely on earned income to maintain a certain style of living, whatever that may be. However, over 1 in 4 of today's 20-year-olds will suffer from a disabling illness or injury before social security/normal retirement age — interrupting their lifestyle.*

Health insurance comes in handy, but medical expenses are only a portion of the potential mounting debt that an injury or illness can trigger.** **Income, which provides for a lifestyle and livelihood, must be insured as well.**

Income needs are a basic part of any financial plan. While disability is one of the most common causes of a prolonged income interruption,*** many advisors tend to skip this part of the planning process.

The purpose of this extensive survey of potential income sources is two-fold. The first is to help identify the available options for your client before a disability occurs. The second is to provide a further understanding of the pitfalls of an inadequate plan.

There are several avenues to explore within the disability conversation and any method you take can lead to a stronger relationship with your client.

Don't shy away from the conversation. Your client will thank you in their greatest time of need.

*https://disabilitycanhappen.org/disability-statistic/

**https://www.census.gov/library/stories/2021/04/who-had-medical-debt-in-united-states.html

***https://www.bls.gov/cps/absences.htm

DISABILITY INCOME
is important.

1 in 4 of today's 20-year-olds will become disabled before retirement.

health insurance pays for...

health insurance DOES NOT pay for...

part 1: self-funding

Most American families plan to self-insure (or self-fund) their lifestyle following an illness or injury. It is more common for Americans to not have a disability plan at all, which also results in emergency self-funding as the first line of defense — at least until other funding mechanisms kick into gear.

The next few sections explore a variety of self-funding options that may be available to the general public:

- savings
- retirement
- consumer debt
- home equity
- business equity
- legal settlements
- crowdfunding

3 in 10 Americans say they can't pay an unexpected $400 bill out of pocket without help, and the majority of Americans are living paycheck to paycheck.* This is not necessarily the same as living in impoverishment; middle-class workers and high-income earners are susceptible, too.

60% of Millennials earning over $100,000 report that they are still living paycheck to paycheck.** Due to high costs of living, even sizeable salaries can be diminished by housing, childcare, healthcare, and technology expenses. Discretionary spending may amount to 25% or less of a paycheck, with little allocated for retirement savings.

This pattern of earning and spending results in an economic phenomenon where the vast majority of Americans report not having enough savings to cover three months of regular expenses: "Only 40% of US households have enough in liquid savings to cover at least three months of their recurring expenses, and only 28% can cover at least six months."*

Many of your clients are incapable of relying on their savings as a backstop in the event of illness or injury. The evidence is clear that self-funding cannot be considered a prescriptive method for coping with income needs following a disabling illness or injury.

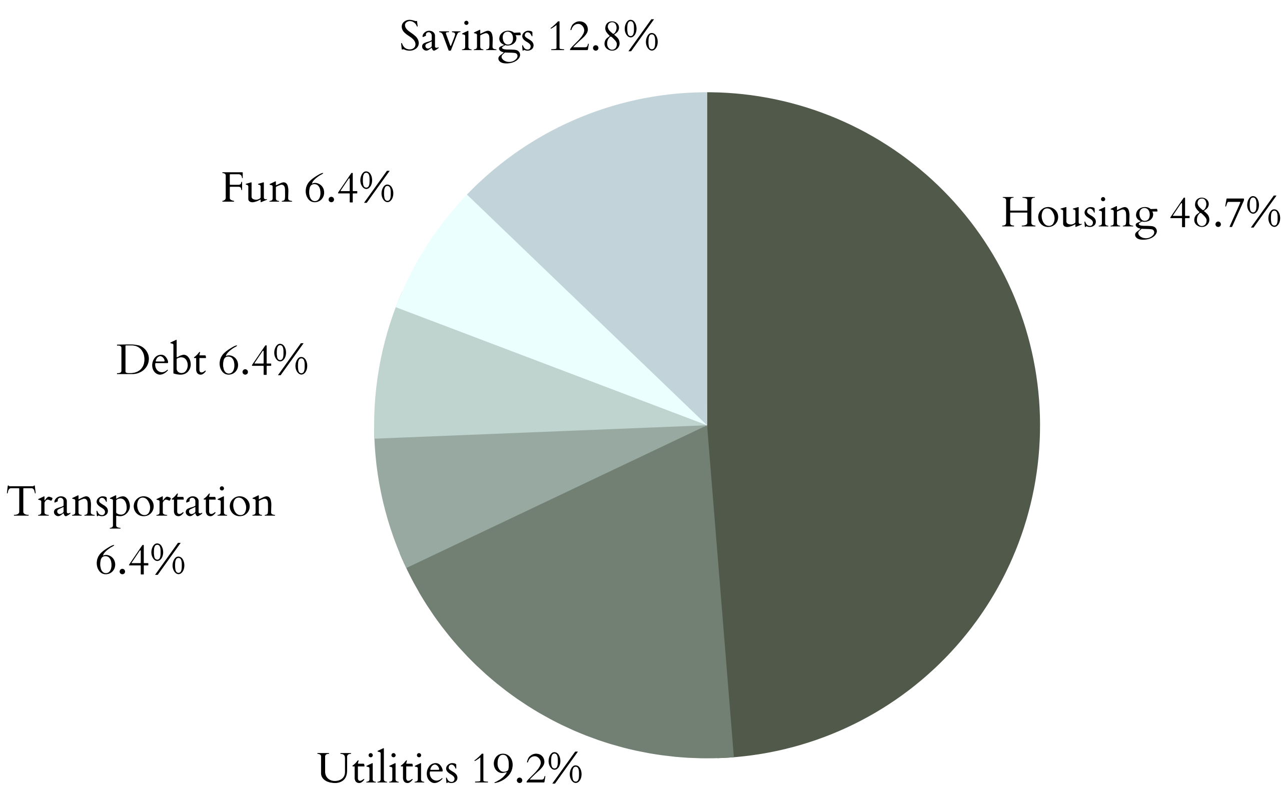
*https://disabilitycanhappen.org/disability-statistic/

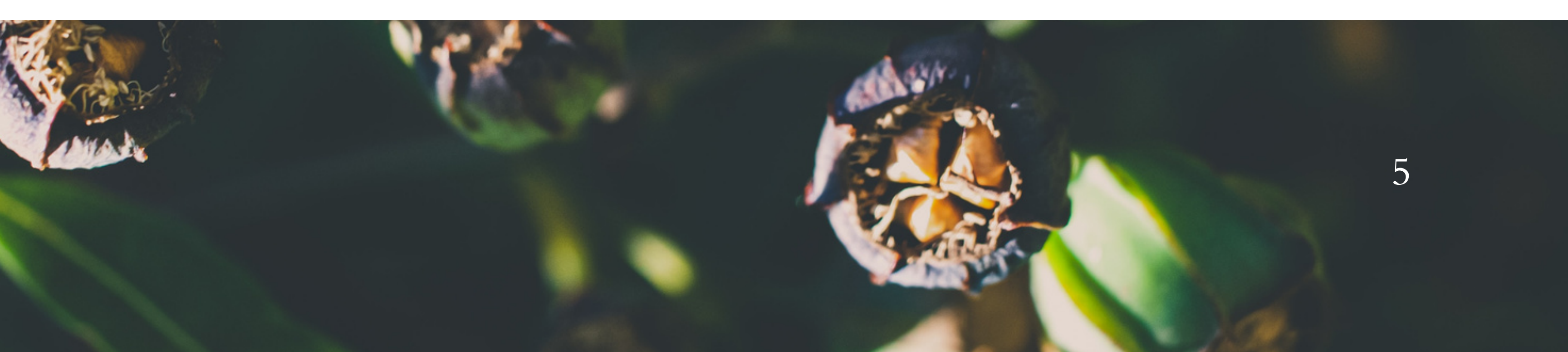
**https://www.businessinsider.com/high-earning-henry-millennials-six-figure-salaries-feel-broke-2021-6

SAVINGS as a source of income.

4 out of 5 Americans live paycheck to paycheck.

A COMMON HOUSEHOLD BUDGET



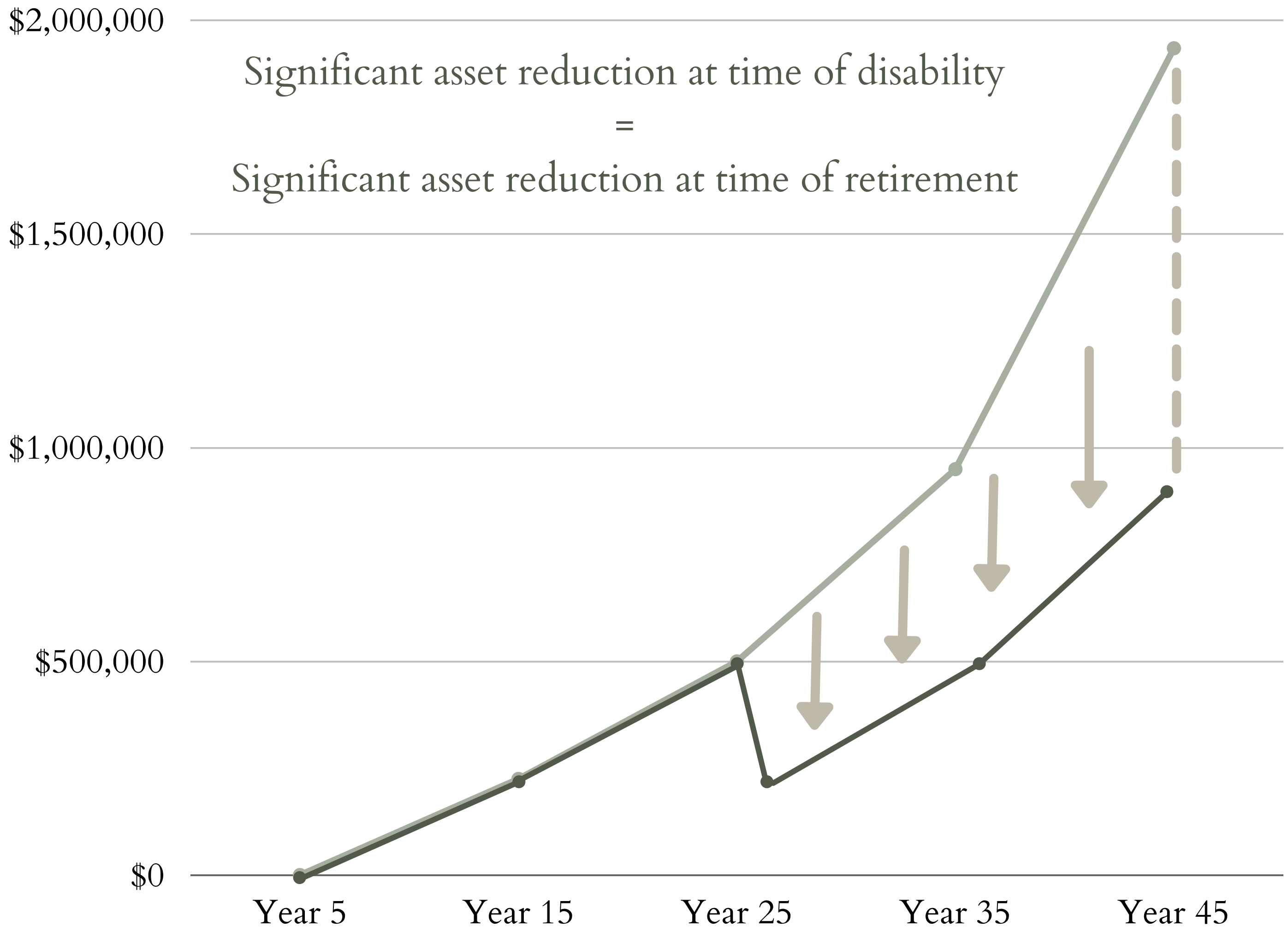


For those who do have the means to use their savings through a short-term work stoppage, many still do not have enough saved to sustain a long-term disability. And for those who do have the savings to cover a substantial portion of a long-term disability, there is a significant amount of opportunity cost by accessing retirement savings prematurely.

Retirement savings are typically earmarked as the primary source of retirement income later in life. Over the course of a career, often 40-50 years, investment dollars have the potential to earn great returns due to the phenomenon of compound interest. $1,000 invested in Year 1 will result in nearly 15x that amount in Year 40, assuming a 7% interest rate. If you are able to save $10,000 in your first year, that nest egg alone has the potential to earn $150,000 in the form of investment returns.

Taking away from this cumulative potential can cause drastic consequences on one's future financial plan.

RETIREMENT ASSETS are for retirement.



In this example we have an income earner of $100,000 who is saving $10,000 per year. On the right track! Suddenly we see a one-time asset reduction of $250,000 in Year 25 which results in a total loss of $1 million!

consumer debt

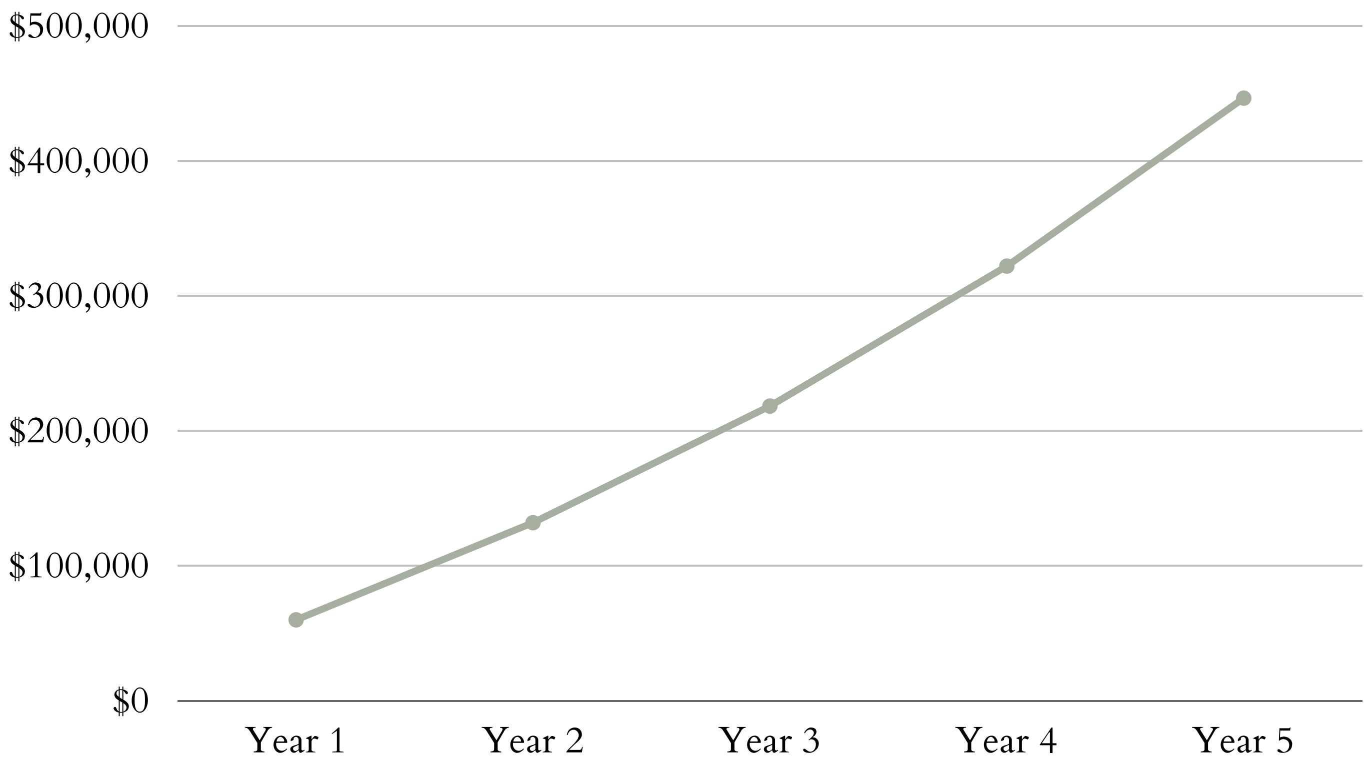
Credit card debt is not designed as a financial tool for long-term debt leveraging. Credit limits typically act as a governor against compounding bills. However, many people find themselves with few options in short-term disability scenarios. In a consumer debt study conducted by Harvard Business Review, 60% of respondents incurred credit card debt in order to pay for medical expenses.*

High interest rates of 20% or more can lead to a mountain of financial pressure that is nearly impossible to pay down in the near-term and extremely difficult to catch over the long-term.

Bank loans may be considered as another option, but it becomes more difficult to access these loans if cashflow is already constrained due to a disability. In other words, a bank will want to see some evidence that repayment is imminent. This might not be available in a long-term disability scenario, and if it is, the interest obligations may be prohibitive.

*https://hbr.org/sponsored/2022/02/does-your-health-plan-leave-your-workers-functionally-uninsured

CONSUMER DEBT as an income resource.



Representation of a $5000 monthly credit charge
plus accruing interest at 20% per year.

but the points!

In this example, we see **$146,496** in interest alone.

Many people consider their home to be an untouchable asset, usually due to sentimental reasons, or perhaps legacy values or inheritance. Some may find that the equity in a home is a useful source of cash in an emergency situation.

Reverse mortgages (or HECM loans) can generate a significant income stream in the right situation, but that requires the homeowner to be at least 62—not an option for a preretirement source of disability income.

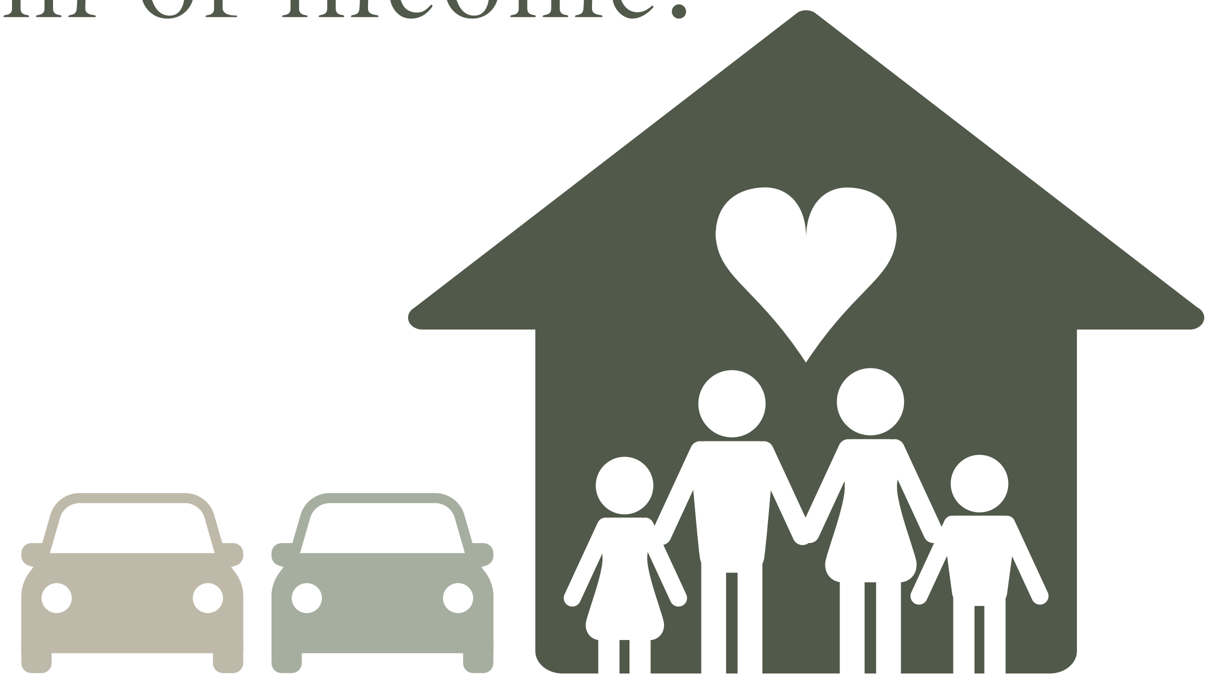
However, some working professionals may see the appeal of accessing their home equity in the form of a "second mortgage." Qualified homeowners may be able to trade the capital value of the equity in their home in exchange for a quick five- or six-figure loan that would need to be repaid with interest.

This strategy, of course, is a non-starter for new homeowners and renters. Renters do not build equity with their monthly payments, and new homeowners pay mostly interest charges for the first ten years of a new loan before the equity payments start to amount to an asset-worthy component.

Lenders reviewing an application for a second mortgage will be looking for a high credit score (620+) plus a debt-to-income ratio of greater than 43%.*

*https://www.rocketmortgage.com/learn/second-mortgage

HOME EQUITY as a stream of income.



A couple purchases a home for $600,000. Two years later, the home is worth $750,000 and the couple has $200,000 worth of equity value. They can borrow from this equity at a cost (interest) as long as they maintain a strong credit score and a satisfactory debt-to-income ratio, which is unlikely if they cannot work due to disability.

business equity

Parting ways with a business can be a difficult decision, often complicated by emotion and relationships.

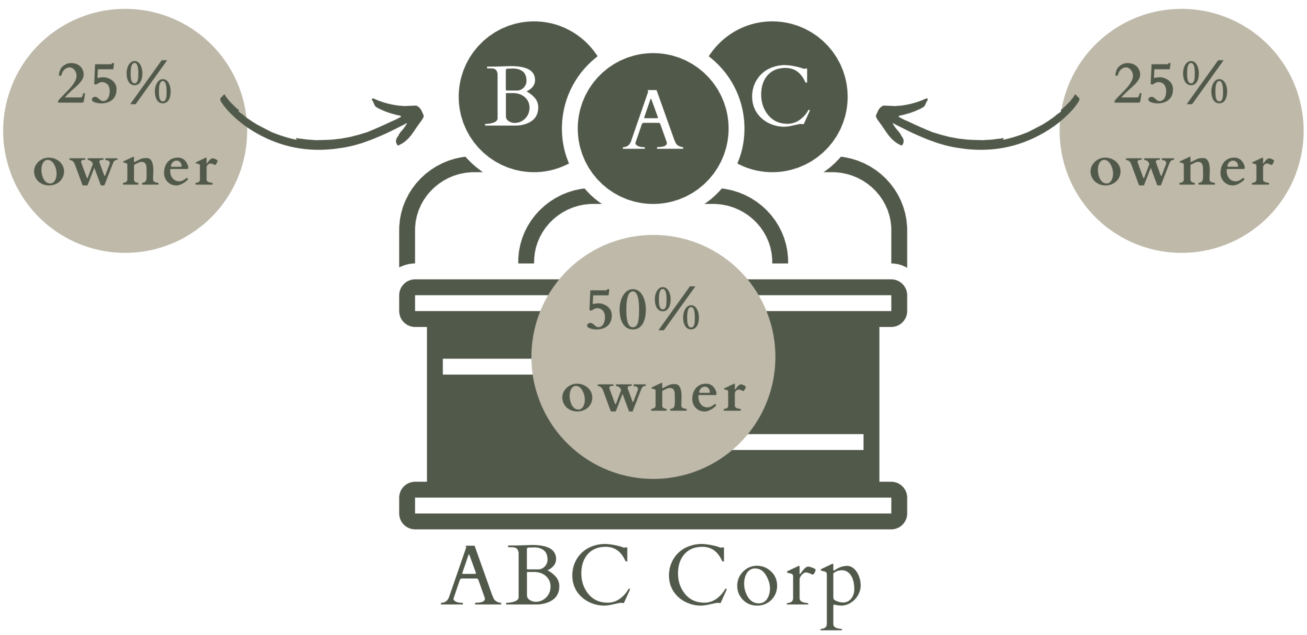
The most significant obstacle to the sale of equity in a corporation or partnership may be the partnership itself. If the funds are available for a sale, there is no guarantee that there will be a willing buyer on the other side. If the partner does not want to purchase the equity shares from a disabled partner, then the sale may go to a third party. This can lead to a severely discounted sale price, resulting in a reduction of value and even a major disruption of the business, let alone any business relationships. This can be especially destructive with family businesses.

A business partner may want to purchase but may lack the capital to initiate the sale. If the business does not have the cash to buy out the disabled partner, then there is no transaction. The best way to mitigate these events is with a buy/sell agreement. Most comprehensive agreements will call for the purchase upon a disabling event after a predetermined period of disability, usually a year or more. If the disabled owner is not back to work then the sale is transacted at a predetermined price.

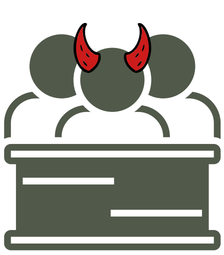
Many business owners retain buy/sell agreements in the event of the death of a partner, with the transaction financed by a life insurance policy. More companies are beginning to see the gap in their agreement if they do not have the proper disability buy/sell policy in place. This can lead to a discounted sale to a third party, not out of spite for the other partner, but out of desperation for cash in a time of need.

BUSINESS EQUITY as a stream of income.

buy/sell or beg/steal?



- ABC Corp has been in business 25 years and is worth $10 million.
- Owner A has a stroke and becomes permanently disabled.
- Owners B & C need to come up with the capital ($2.5 million each) to purchase Owner A's share of ABC Corp.
- They don't have a Disability Buy/Sell policy and cannot come up with the cash.
- Owner A sells to the highest bidder: arch-nemesis conglomerate XYZ Corp.



settlement

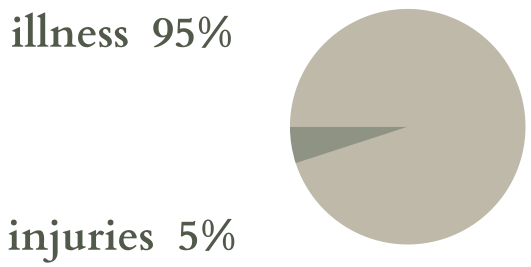
Injury suits and class action movements can result in big paydays for some plaintiffs; however, studies consistently show the rarity of disabilities *due to injury*.* In fact, less than 5% of claims were due to accidental injury. Even fewer are attributed to negligence, which means a minute fraction of disabling events are eligible for litigation.

Aside from some extenuating residential or workplace hazards, chronic illness derived from another party's negligence is not a reliable source of income.

Furthermore, any proceeds from a successful lawsuit would be split with a legal team sometimes at exorbitant rates, resulting in a drastically reduced net settlement.

*https://disabilitycanhappen.org/common-causes/

LEGAL SETTLEMENTS as a form of income.

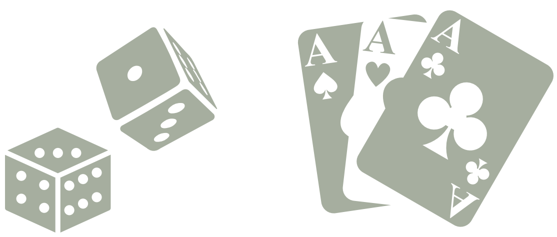


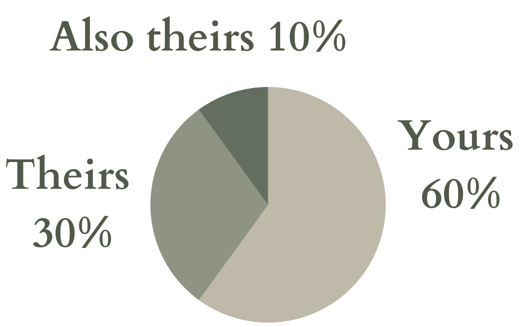
LESS THAN 5%

of disability claims are due to accidental injury

WHICH MEANS

your chances of a payday are highly unlikely





MOREOVER

contingency fees paid to your legal team can range between 33-40%.

crowdfunding

Artistry, innovation, and the odd continue to account for a large portion of crowdfunding initiatives. However, these sites have evolved to include several philanthropic causes and health-related events. Crowdfunding may be the last chance to pay for an experimental surgery or for a family that is struggling to cover its basic living expenses following an unexpected medical diagnosis.

The success from some of these fundraising campaigns has led to beautiful stories of a global community proving its humanity and compassion in a world that doesn't always feel kind or fair. Sadly, 90% of medical campaigns fail to meet their goals*—not because the pain or desperation is any less—but because they may not have captured the hearts and minds of a viral community for one reason or another. It can be very difficult to cultivate a successful crowdfunding campaign after a personal catastrophe has occurred, especially considering the physical or emotional toll already taxed by an illness or injury.

While some crowdfunding sites are engineered specifically for this purpose, most still charge a fee for service. That means if the campaign is successful then there's a strong probability that the party in need will have to pay a portion of its raised capital back to the crowdfunding company.

*https://www.washington.edu/news/2022/02/03/for-the-uninsured-crowdfunding-provides-little-help-in-paying-for-health-care-and-deepens-inequities/

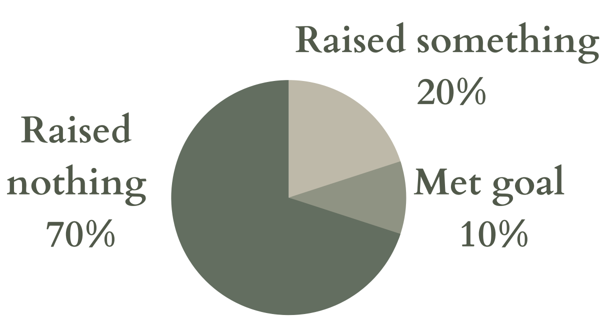
CROWDFUNDING as a source of income

EXPLODING IN POPULARITY

Equity crowdfunding surged during the pandemic

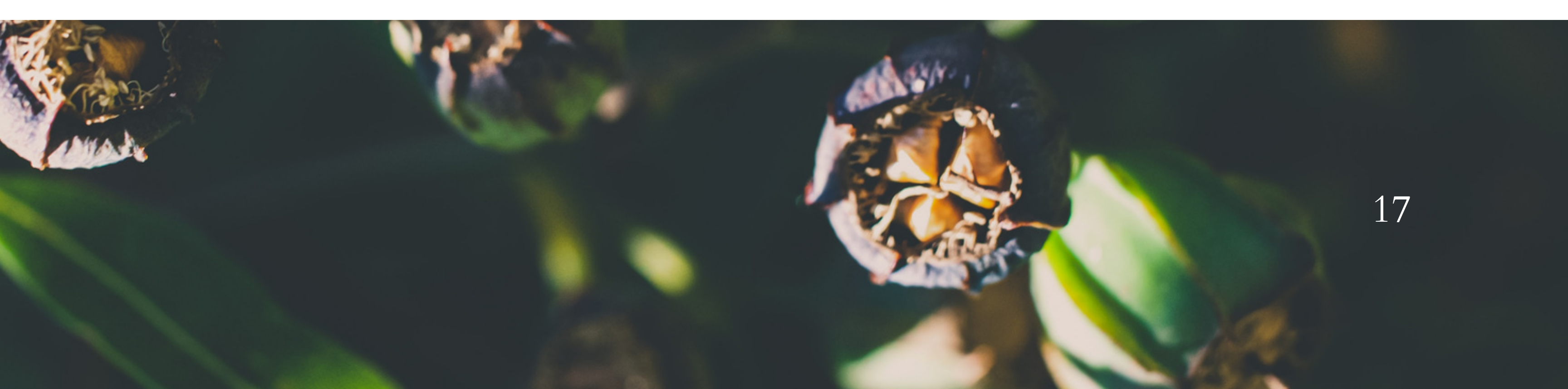
MODERN DAY BAKE SALE

The internet community has done great things when they rally together, much like a local community



FALSE HOPE

According to a University of Washington study, 90% of medical campaigns fail to meet their goals.



part 2: government benefits

The first government-based disability benefits were adopted as an extension of the Social Security Administration back in the 1950s.* Since then, there have been state and local attempts to strengthen the safety net and enhance services for people with disabilities.

The variation of government resources is highly regional, and the services provided tend to have different missions, thereby providing for people with disabilities in many different ways.

This section focuses on the three most relevant programs when it comes to publicly-funded income replacement:

- **social security disability insurance**
- **california state disability insurance**
- **universal basic income**

*https://www.ssa.gov/history/1986dibhistory.html

social security

Social Security Disability Insurance (SSDI) was designed as a safety net to assist those most in need. Therefore, the definition criteria for benefit eligibility requires expectation of a lifelong disability preventing the ability to work in any occupation.

Today's economies have been stratified into narrow specializations across all industries. A loss of one's ability to perform in a highly specialized field could result in catastrophic financial loss because SSDI is not designed to pay a benefit to those experiencing a total loss in their specialization, but rather in any occupation.

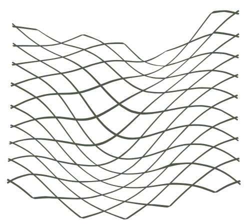
SSDI claims soared following the financial collapse of 2008-2009.* This backlog exposed SSDI's weaknesses. Claimants encountered strict qualifying definitions, an arduous appeals process, and inadequate monthly benefits.

Only about 22% of disability claims are approved the first time around.** Attorneys have established an industry around defeating the tough appeals process for SSDI. Even with their help, most people have to wait 15, 18, or even 24 months before they finally access their first payment, less legal fees. Those who have won their appeal and qualify for SSDI benefits may be discouraged when they find the average payment is far less than $2,000 per month.***

For those who are reliant on SSDI, legitimate questions have been raised about the financial stability of this program. Such uncertainty is not solid ground to fall back on, especially when more effective planning tools exist.

*https://www.ncbi.nlm.nih.gov/pmc/articles/PMC4545664/
**https://www.ssa.gov/policy/docs/statcomps/di_asr/2018/sect04.html
***https://www.ssa.gov/oact/STATS/dib-g3.html

SOCIAL SECURITY disability income.



A SAFETY NET

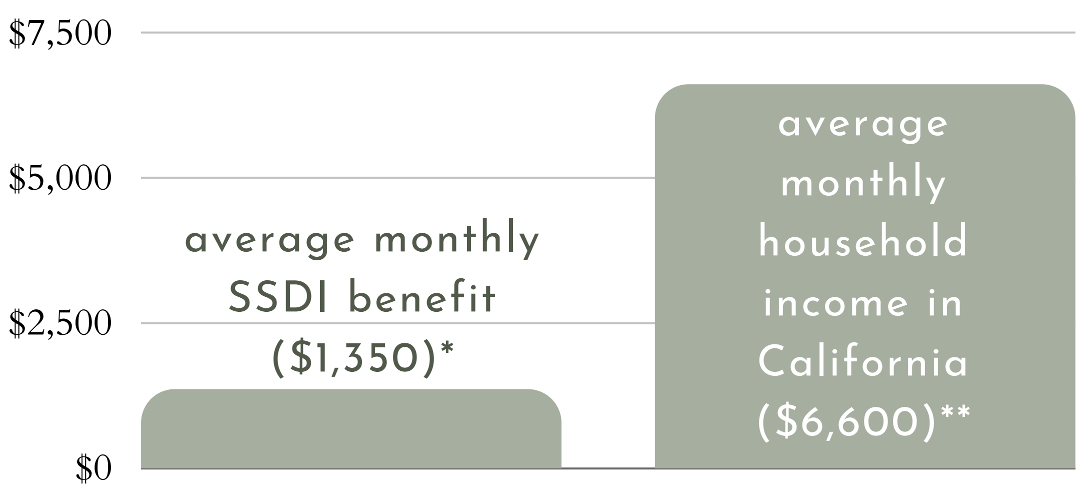
with

NARROW ELIGIBILITY CRITERIA

and an

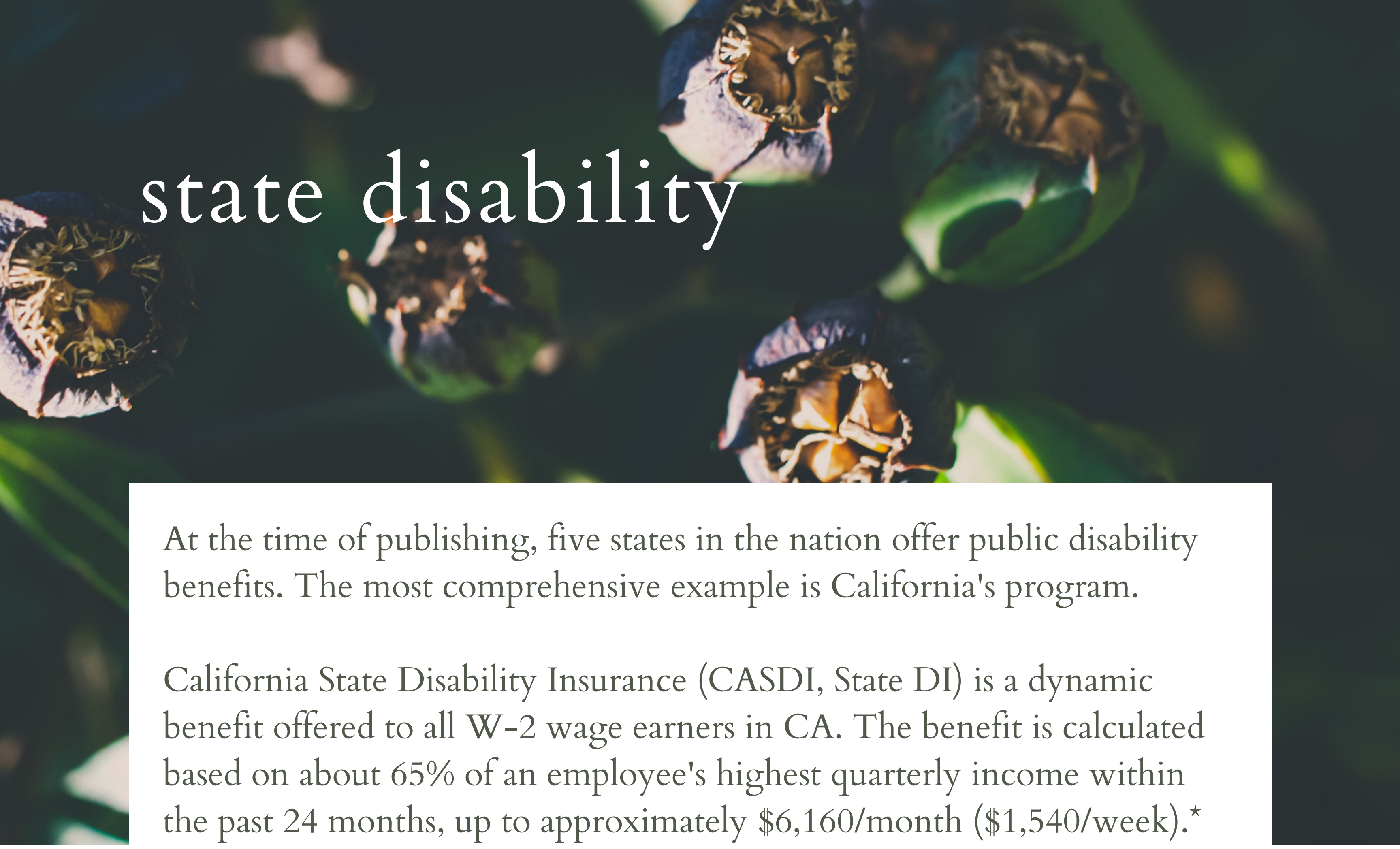
ONEROUS APPEALS PROCESS

NOT EVEN ENOUGH TO COVER RENT



*https://www.ssa.gov/oact/STATS/dib-g3.html

**https://www.justice.gov/ust/eo/bapcpa/20200401/bci_data/median_income_table.htm



state disability

At the time of publishing, five states in the nation offer public disability benefits. The most comprehensive example is California's program.

California State Disability Insurance (CASDI, State DI) is a dynamic benefit offered to all W-2 wage earners in CA. The benefit is calculated based on about 65% of an employee's highest quarterly income within the past 24 months, up to approximately $6,160/month ($1,540/week).* The premium for this mandatory benefit is automatically deducted from every W-2 employee's paycheck. Family leave benefits and unemployment insurance are part of this same insurance pool, resulting in substantial paycheck reductions of about 1-2% of income.

Income earned from sources other than W-2 wages is not considered in the benefit calculation, potentially limiting the claimant's take-home pay. Benefits are more liberally paid compared to Social Security, however. **It is extremely important to understand that the maximum benefit duration only lasts for twelve months.**

Californians who earn six figures or more must consider the inadequacy of the coverage limits. $6,160/month may not be enough to meet regular financial obligations. Furthermore, State DI is not a long-term plan. It's a great short-term safety net, but does not meet the need for someone seeking long-term income protection against a chronic medical issue.

*https://edd.ca.gov/en/Disability/Calculating_DI_Benefit_Payment_Amounts

CALIFORNIA STATE DISABILITY benefits.

CA SDI AUTO-ENROLLEES

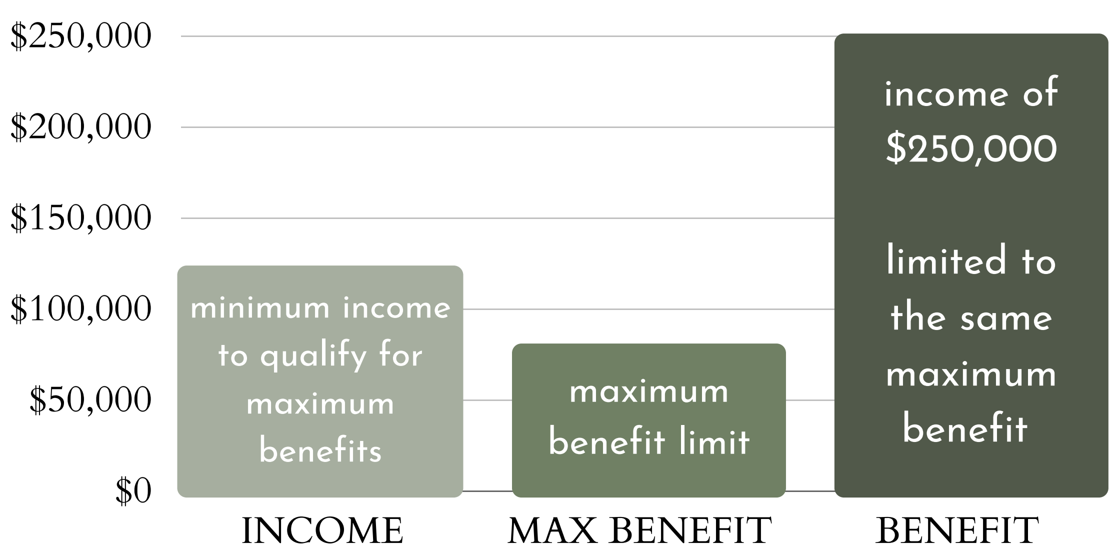
W2 Employees | Sole Proprietors | 1099 Contractors

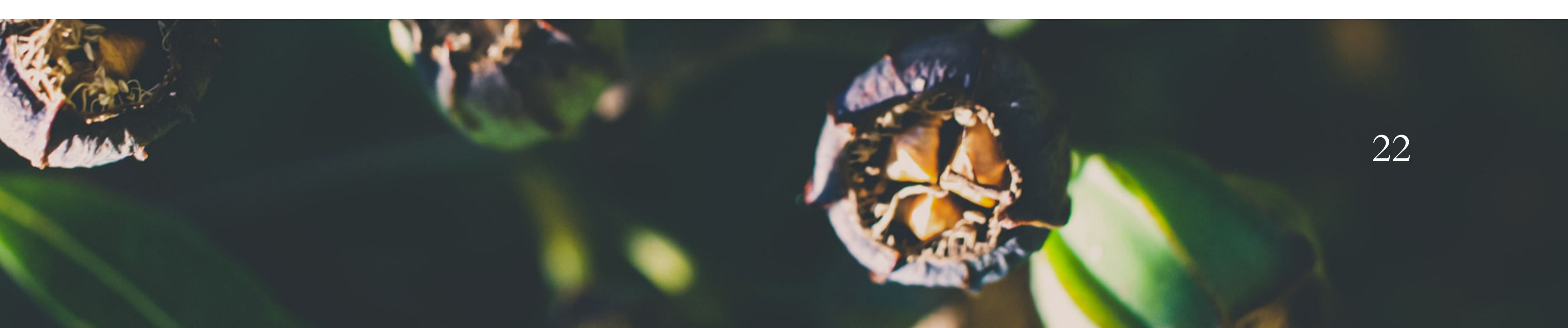
BENEFIT DURATION COMPARISON

12 mos maximum duration for CA State DI benefits

age 67 maximum duration for personally-owned individual DI

HIGH INCOME EARNERS BEWARE





basic income

Basic Income, or Universal Basic Income (UBI), in theory, is a minimum level of income that is supplied to every citizen of a certain state or municipality. Old, young, high socio-economic status, and low socioeconomic status all receive the same base level of income, and each individual is free to earn more in their otherwise free-market economy.

UBI is mostly speculative at this point in time. However, the idea is gaining traction and some communities have adopted a trial method. Finland is most famous for its attempt to implement a program, which ran for two years, and suggested results of an increase in participants' mental wellbeing.*

In 2019, Stockton, California became a new trial ground for this wealth-equalization strategy. Studies show that the extra $500 per month has, in fact, provided a stimulus to more economically challenged communities. As a result, participants' employment increased more than the control group.**

UBI is designed to offer a benefit of a small base income to everyone, resulting in a very minor share of covered expenses in the event of a disability. While current data suggests that UBI is beneficial to recipients, data also shows that it is not a reliable method for income replacement.

*https://www.kela.fi/web/en/news-archive/-/asset_publisher/lN08GY2nIrZo/content/results-of-the-basic-income-experiment-small-employment-effects-better-perceived-economic-security-and-mental-wellbeing
**https://www.bloomberg.com/news/articles/2021-03-05/what-did-500-a-month-buy-in-stockton-jobs

UNIVERSAL BASIC INCOME as a solution.

REGIONAL STUDIES

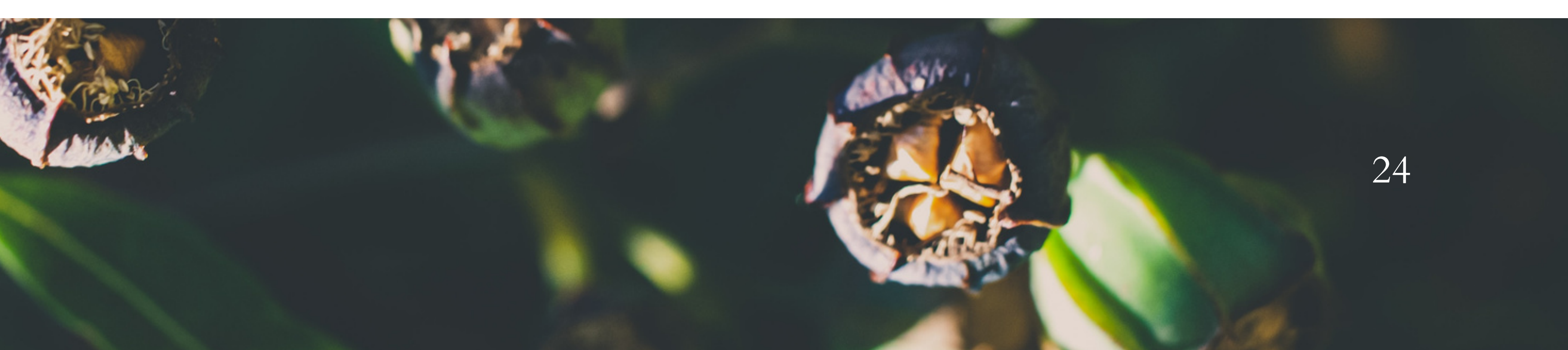
Universal Basic Income is a long way off from being "universal"

TINY BENEFITS

Previous trials have given benefits that are much lower than livable wages

NOT INCOME REPLACEMENT

The uncertain nature of UBI activity means that this is not a realistic income source now or in the near future



part 3: employee benefits

As we've learned, W-2 wage earners may have access to California State DI for up to $6,160/month and as long as one year.

Employees could have access to an even more robust benefits package which could supplement their disability income.

The following are potential available options:

- retirement disability (pension)
- workers' compensation
- group long-term disability
- executive income (GSI)
- worksite insurance

pension

Most government employees do not have access to Social Security DI or State DI, so a reliable stream of income for retirement and disability is necessary. Because of this, federal, state, and municipal employees may have access to a retirement disability pension benefit that is designed to pay in the event of a total disability (according to most government employee retirement guidelines). The pension eligibility criteria typically provide benefits for both retirement and total disability, which is sometimes considered an early retirement.

A government employee of 10 or more years may be able to access a full pension benefit upon disability. However, each municipality—whether federal, state, or local—may require a minimum years of service in order to qualify for full pension benefits. This is called a vesting period. There may be a significant gap in coverage during an employee's vesting period. Beyond 10 years, at least 60% of income is usually available.*

Despite not having access to a reliable residual or partial disability benefit, individual coverage would offset against these pension benefits; therefore, options in the open marketplace would be extremely limited.

*https://www.ssa.gov/policy/docs/ssb/v81n1/v81n1p1.html

PENSION as a source of income.

GOVERNMENT WORKERS

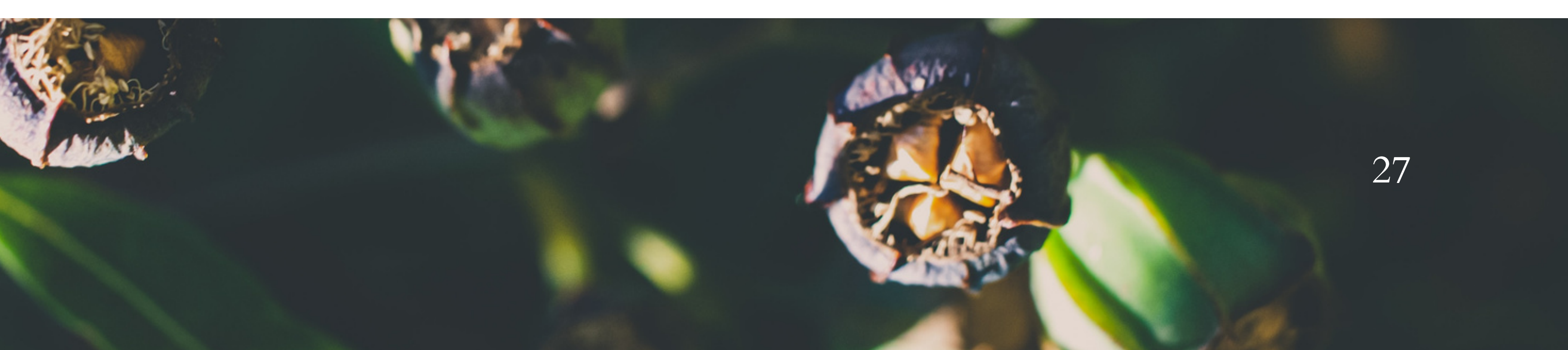
Many pensioners never contribute to CA State DI or Social Security DI

BUCKLE UP

Be aware that pension programs may not provide partial or residual benefits, so a strong emergency fund is important

ONE RUNG AT A TIME

Vesting rules may require up to 10 years of full employment in order to access full disability benefits from a pension program



workers comp

California requires workers' compensation coverage for all W-2 employees in the state. An employer pays a premium to an insurance company in exchange for financial protection if an employee is hurt on the job, leaving the company liable for payment. The benefit amount varies greatly based on the type of injury incurred.

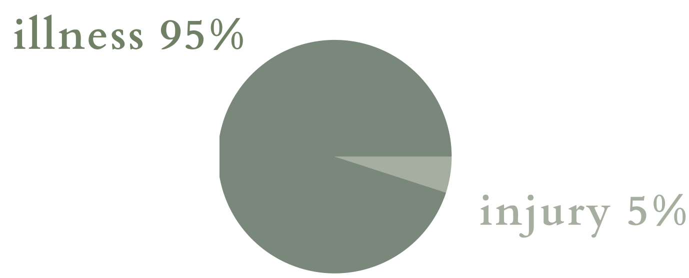
As noted in the legal settlement section on page 14, the likelihood of long-term disability due to injury is extremely low compared to the rate of disabling illness. Workers' comp is still valuable coverage for an employer — especially for employers who require employees to perform manual duties. However, the coverage is expensive, rates go up with each claim incident, and the insureds are only covered while at work.

Business owners are presented with the opportunity to purchase optional coverage on themselves. But due to the cost and further financial consequences if they actually file a claim on themselves, most savvy employers elect to remove themselves from the workers' comp plan. This leaves them completely exposed.

WORKERS' COMP
as income.

LESS THAN 5%

Injuries account for less than 5% of existing long term disability claims.

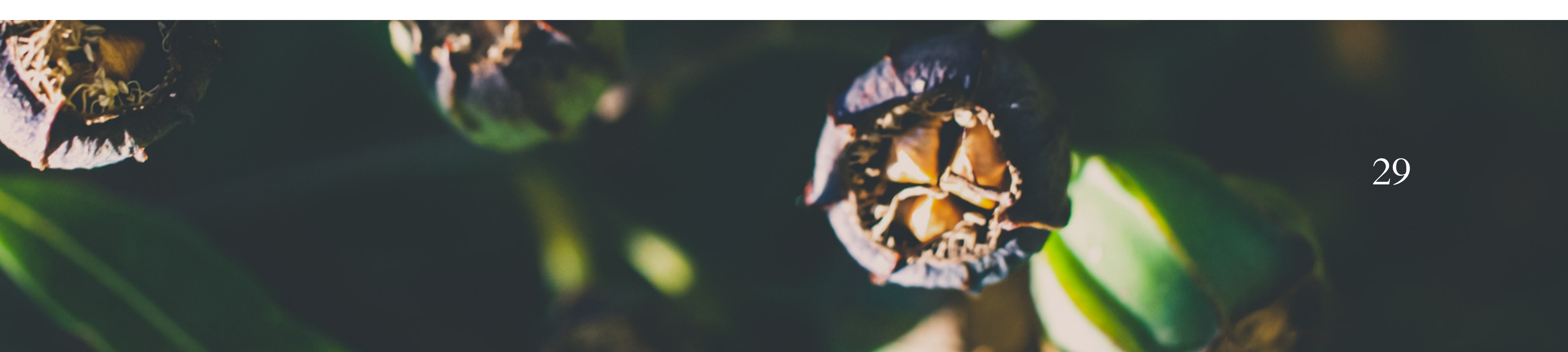


BUSINESS OWNERS

Employers typically remove themselves from the Workers' Comp plan to save premium, and often remain uncovered.

ON THE CLOCK

Workers' Compensation only works while on the job. Illnesses like cancer, heart disease, Parkinson's have no bearing on a time card.



worksite

Some employer groups decide not to purchase Group Long-Term Disability for their employees but instead opt for a menu of benefits that their employees can purchase on their own. This is especially common in industries with a high percentage of 1099 employees, like real estate or insurance.

These plans are often parametric in nature. Instead of using a definition that is based on the covered employee's ability to work, these plans generally pay out predetermined benefit amounts for a variety of predetermined conditions, like heart attack, stroke, or cancer.

The highly motivated buyers tend to piecemeal their insurance plans and purchase several different "coverages" but can later learn that the most common causes of disability — like back and shoulder issues, and other musculoskeletal conditions — are not covered under these parametric worksite plans. If there is a true disability offering, it is typically a short-term plan that would expire after a few months of benefit.

WORKSITE DISABILITY PLANS as income.

WORKSITE PLANS

Are like reading off of a menu

EXCEPT

Instead of wine and cheese pairings, you select illnesses for which you want to collect benefits.

WHICH MEANS

It's tapas, not dinner. You never really have a comprehensive plan that is tied to income replacement.

group ltd

Most large employers in California carry a group long-term disability (LTD) policy that covers their W-2 employees with a disability benefit that is payable until Social Security Normal Retirement Age (currently age 67 for most workers)* following a waiting period of 90 or 180 days. Group LTD benefits can be an affordable tool to attract and retain talent, and also serve as a way to outsource the moral obligation of providing an income stream for a valued team member while they recover from a difficult illness or injury.

These plans are designed to cover either a partial or total disability, meaning a proportionate benefit may be payable if even a fraction of income is suddenly lost. However, employees are often covered by a definition that changes over time. The first two years generally cover the ability to work in their specific occupation. After two years, LTD plans may require a disability from any occupation, resulting in a much more rigorous claims adjudication process.

Furthermore, LTD plans are not portable. If an employee leaves for any reason, if the employee is terminated, or if the coverage is terminated, there is no guarantee that the employee will be able to qualify for an individual plan or find another employer with group benefits. This presents major problems for employees who have a medical history or major diagnosis.

*https://www.ssa.gov/oact/progdata/nra.html

GROUP LTD & employer-paid DI plans.

INCOME REPLACEMENT ILLUSION

The majority of employer-paid group long-term disability policies list a 60% income replacement percentage, up to a certain benefit limit like $5,000, $10,000 or $15,000/month.

ACTUAL INCOME REPLACEMENT PERCENTAGE

The majority of employer-paid group long-term disability policies are taxable as income (because the employer uses the premiums as a business deduction). That means you are covered even less than you imagined, and that percentage reduces if you are a higher income earner.

DISAPPEARING DEFINITIONS

Most group plans start strong but the strength of these benefit definitions recede over time, resulting in a lackluster policy after just two years.

executive DI

Executive disability income plans, also known as Guarantee Standard Issue (GSI), are supplemental plans designed to overlay the existing Group LTD coverage already available to the employer group. GSI is a powerful way to equalize income replacement benefits for all employees.

GSI can be offered to a tailored group of individuals in a common class — most often an executive team. While the Group LTD coverage typically pays up to 60% of income replacement on a taxable basis, GSI can supplement up to 75% of income.

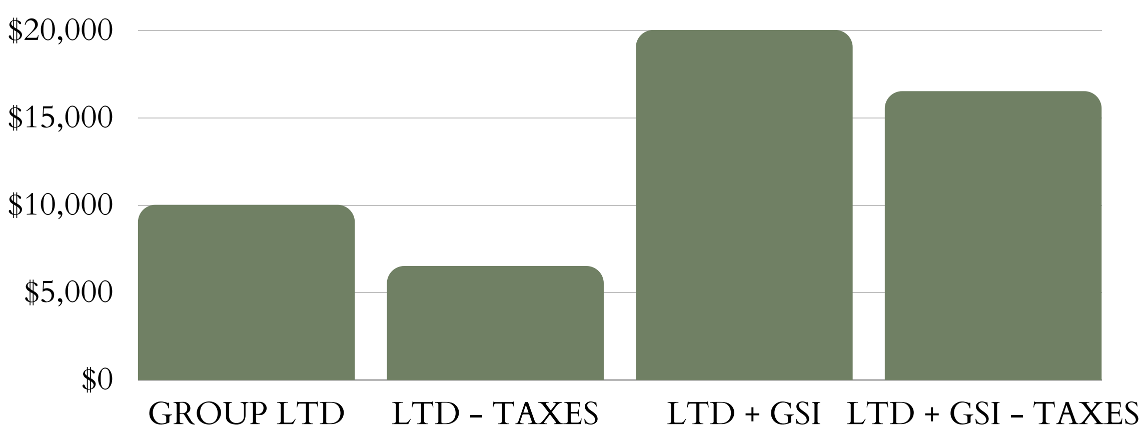
The plans are individual, which allow them to retain portability and stronger definitions for the duration of the claim (not just two years). GSI plans are more expensive than traditional Group LTD, but many employers find significant value in attracting top-tier talent to these most important positions.

EXECUTIVE DI (GSI) as an income source.

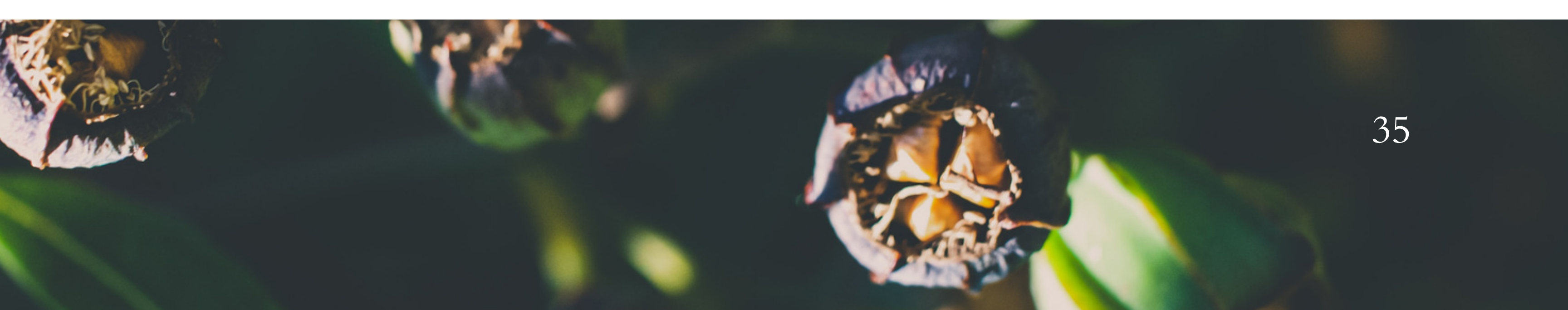
GROUP DI DOESN'T DO MUCH FOR HIGH-INCOME EARNERS

A group of executives who earn $300,000 each do not have the same income replacement percentage as those employees who earn $100,000 or less because their Group LTD plan is capped at $10,000 per month.

GSI PLANS ARE DESIGNED FOR HIGH-INCOME EARNERS



GSI can be structured tax-free for the high-income earners of a large group. In the example above we see a $10,000 LTD plan with an additional $10,000 GSI supplement.



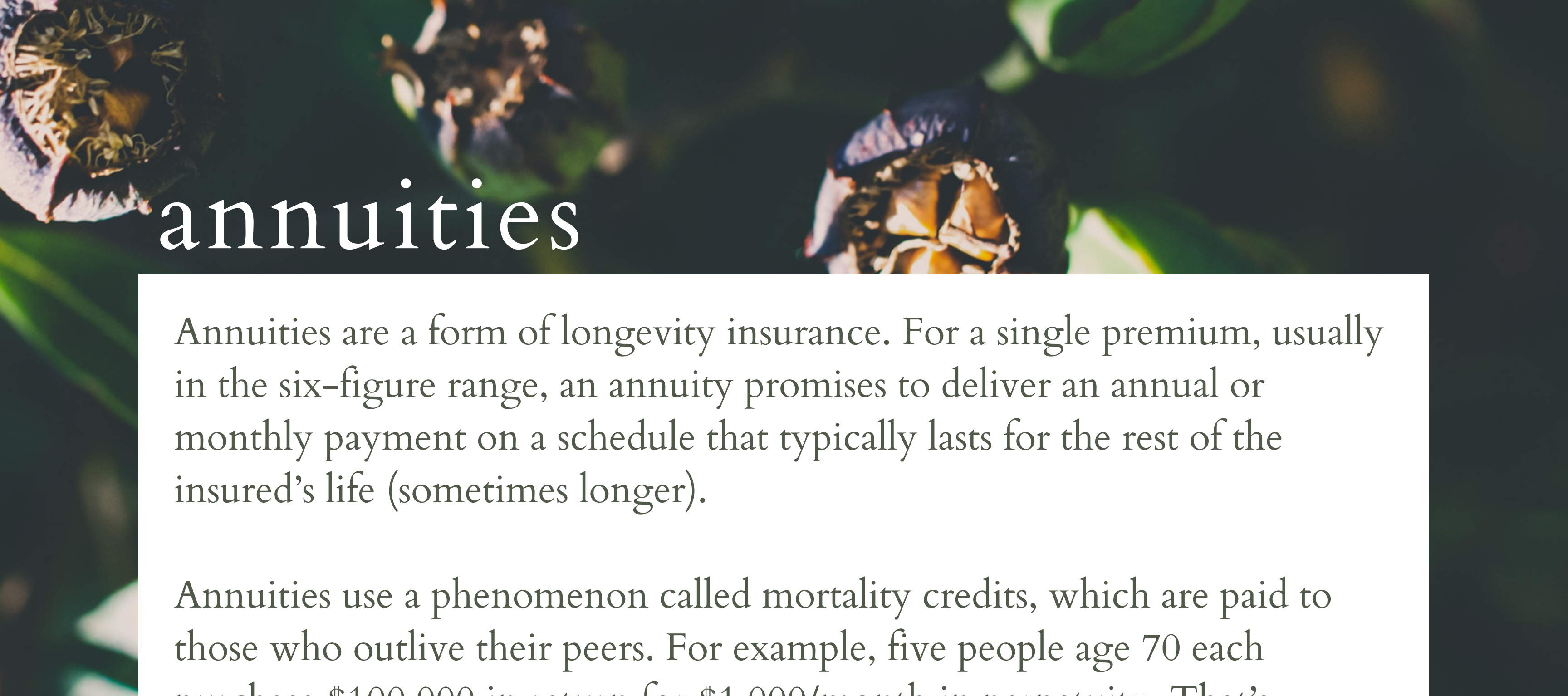
part 4: individual coverage

Business owners, sole proprietors, independent contractors, and 1099 employees are not eligible for group benefits and have to opt-in to state disability programs which are both expensive and restrictive.

These clients will need to assess their options in the individual marketplace, almost always requiring some degree of underwriting.

The following types of insurance may be able to provide a benefit in the wake of a disability.

- annuities
- life insurance
- long-term care insurance
- critical illness
- disability insurance



annuities

Annuities are a form of longevity insurance. For a single premium, usually in the six-figure range, an annuity promises to deliver an annual or monthly payment on a schedule that typically lasts for the rest of the insured's life (sometimes longer).

Annuities use a phenomenon called mortality credits, which are paid to those who outlive their peers. For example, five people age 70 each purchase $100,000 in return for $1,000/month in perpetuity. That's $500,000 total to start, and $1,000 paid out per month per individual, or $5,000 per month in total, for a maximum duration of 100 months in this case. One person dies after just 10 months. Only $10,000 was paid to this deceased insured and their remaining share of the premium stays in the pot. The survivors benefit from this event and continue to earn their monthly benefits because that $90,000 from the deceased insured will go to the rest of the group, effectively increasing the maximum duration.

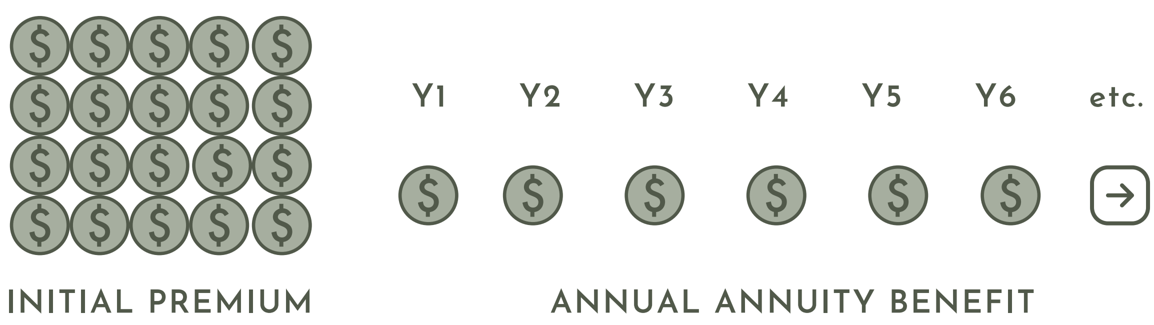
The larger the pool, the easier it is for actuaries to identify a pattern that looks a lot like the life expectancy of the broader American public. Combine this technique with interest from market forces, and it becomes a powerful tool to hedge against outliving your means.

The problem with annuities as a form of disability income lies in the initial premium requirements. As mentioned above, these plans typically require a six-figure payment. Furthermore, the monthly benefit is very low for someone still in their working years. A meaningful benefit would require an even greater premium.

Most working-age people do not have the resources to fund a significant annuity before retirement. Those who do are probably not in need of disability income since their regular investment interest may be enough to meet their lifestyle needs.

ANNUITIES as an income source.

ANNUITIES REQUIRE CAPITAL



Significant up-front expense is required to secure an annual payout from an annuity. That means only the wealthy or those nearing retirement typically have the capital required to use an annuity as an effective income replacement tool.

ANNUITIES ARE FOR RETIREMENT INCOME

Annuities can be a great income strategy when it comes to retirement years, but it is not an option for most working-age people. The longevity credits don't have an impact until much closer to average age of life-expectancy.

life insurance

Some permanent life insurance policies have features to help plan for a disabling illness or injury. Individual life insurance is medically underwritten, so you have to be in good health to qualify.

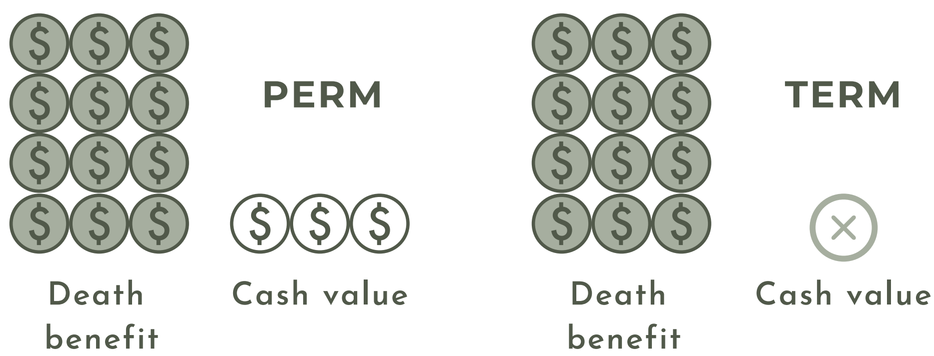
Whole life and universal life insurance policies are designed to accrue cash value over time. A portion of each premium paid is allocated to the cash value pool of benefits. This amount can increase based on the investment performance of the carrier, usually with predetermined limitations on interest rates. Access to these cash benefits can be triggered at any time, but they are to be repaid by the insured, either ad hoc, on a scheduled basis, or upon death (withheld from the death benefit).

Another popular mechanism available on today's life insurance policies is the chronic illness rider. These plans may allow the insured to access an accelerated death benefit if there is an eligible illness. The eligibility criteria for these policies can vary widely. One plan may require a loss of two activities of daily living or severe cognitive impairment, while another requires a hospice stay. It's paramount to review the definitions and different options with your client.

Term life insurance offers no value in the way of disability benefits. However, some companies pay a reduced cash advance to sick or dying individuals in exchange for their life insurance policy. This is called a viatical settlement and could be an option for people in hospice care who urgently need money and are willing to forego the maximum benefit paid by the life insurance policy.

LIFE INSURANCE
as an income source.

PERMANENT LIFE INSURANCE CAN BE DYNAMIC, BUT IS IT ENOUGH?



Death Benefits and Cash Value are useful financial tools in hard times, but it takes a long time for the cash value to build.

BEWARE THE HYPE OF THE ACCELERATED DEATH BENEFIT

The acceleration of the death benefit may be an option on your life insurance policy. However, the definition language can vary widely. Make sure you're working with an expert or attorney to review the policy.

long-term care

Long-term care insurance (LTC) is usually purchased between the ages of 50 and 60, approaching the end of a career. Benefit criteria are different from disability insurance. The federal standard for LTC eligibility is a loss of two or more activities of daily living (ADLs) — bathing, dressing, eating, continence, toileting, and transferring — or severe cognitive impairment.

LTC policies provide a benefit that can be used to reimburse the cost of long-term care services like adult daycare, homecare, assisted living, or nursing facility care. Some plans have a cash benefit option that pays a reduced amount. The cost of services in the San Francisco Bay Area is approximately $6,800/month for homecare based on 40 hours per week. Around-the-clock care at a nursing facility can easily exceed $14,000/month.*

LTC benefits should not be considered as a source of income since benefits are based on services rendered, but it is an invaluable way to hedge against a quick depletion of assets as someone enters into retirement.

*https://www.genworth.com/aging-and-you/finances/cost-of-care.html

LTC INSURANCE
as an income source.

THE LIKELIHOOD OF NEEDING LONG-TERM CARE SERVICES

60% of Americans will need assistance with activities of daily living at some point in their lives.*

LONG-TERM CARE INSURANCE PAYS FOR HOMECARE, RESIDENTIAL CARE, AND NURSING FACILITIES

LTC is typically received as a reimbursement benefit that pays up to a predetermined maximum monthly benefit and usually grows over time thanks to the policy's inflation rider.

*longtermcare.gov

individual DI

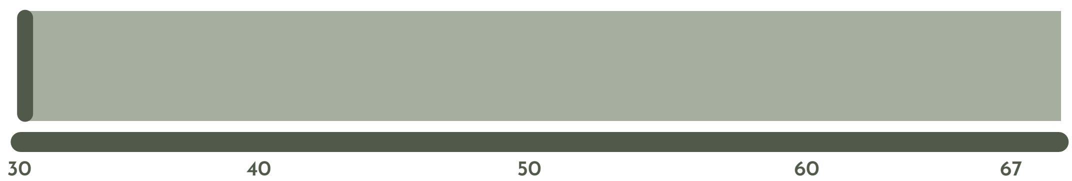
Individual disability insurance is designed to pay either partial or total disability benefits. The benefit eligibility criteria is typically based on the policyholder's ability to perform the substantial and material duties of their regular occupation.

Individual DI benefit designs are flexible and can vary person-to-person to meet premium targets or budget constraints, but generally include a benefit amount of up to 65% of income, payable to normal retirement age usually following a waiting period of 90 days. Some policies include increase and inflation features that allow the benefit to grow over time, either before claim or while on claim.

Individual DI is fully underwritten — medically, occupationally, and financially. More and more plans are available on a simplified issue basis, which is a streamlined process but could result in regular underwriting if the health questions require further investigation.

INDIVIDUAL DI
as an income source.

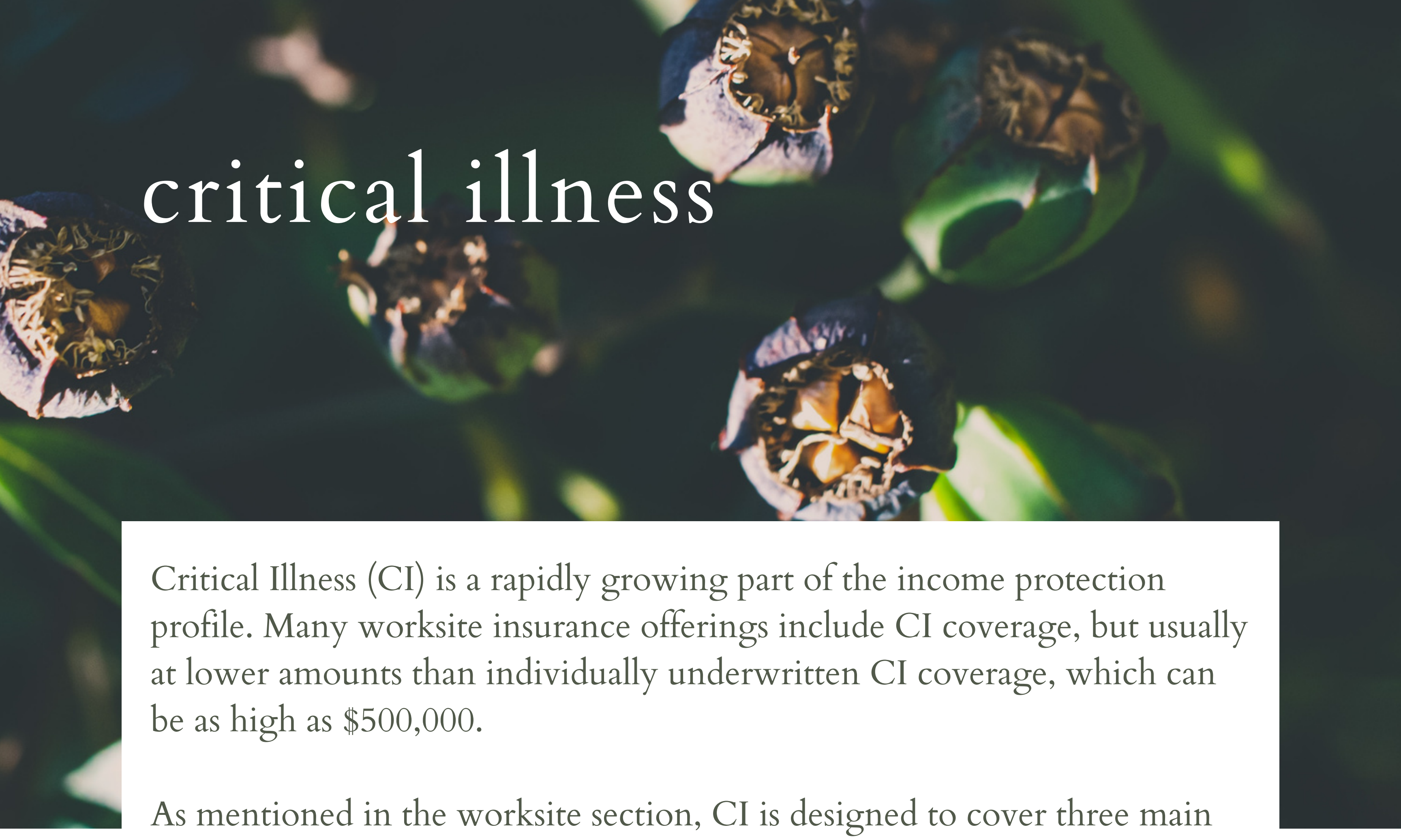
DISABILITY INSURANCE IS DESIGNED TO REPLACE INCOME



Benefits typically begin following a 90-day deductible period, and then last until retirement age or until you recover and are back at work, whichever comes first.

JOB A VS. JOB B

DI typically costs around 2% of income (depending on the occupation) and can replace up to 65% of income on a tax-free basis.



critical illness

Critical Illness (CI) is a rapidly growing part of the income protection profile. Many worksite insurance offerings include CI coverage, but usually at lower amounts than individually underwritten CI coverage, which can be as high as $500,000.

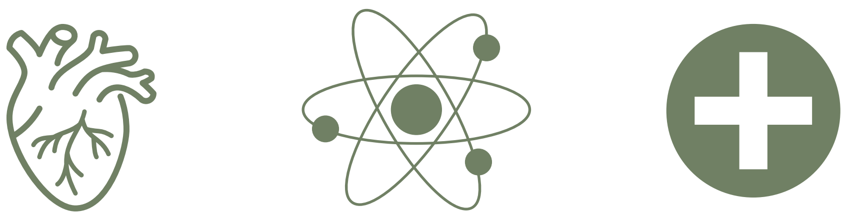
As mentioned in the worksite section, CI is designed to cover three main categories: cancer, cardiovascular, and other. Stage I cancer or higher is usually covered in full, with smaller amounts payable for in situ/stage 0 diagnoses. The cardiovascular category covers heart attack and stroke with reduced benefits paid for angioplasty or bypass surgery. The "other" category typically includes paralysis, organ transplant, and a few other chronic conditions that result in a dramatic change of lifestyle.

The most attractive feature of a critical illness plan is the simplicity of the benefit. A predetermined lump-sum benefit, ranging from $5,000 to $500,000, is paid upon proof of diagnosis. This is vastly different compared to traditional disability insurance which often requires proof of income loss in addition to a physician's statement.

Another advantage of critical illness is access. Disability insurance requires a single income source as an insurable asset. Critical illness is not necessarily looking at your income as the insurable asset, but your ongoing health. That means students, stay-at-home parents, firefighters, gig economy workers, entrepreneurs, and more can access CI benefits when they might not have any good options in the traditional DI marketplace.

CRITICAL ILLNESS
as an income source.

THE 3 CATEGORIES OF CRITICAL ILLNESS



CARDIO CANCER OTHER

RATE OF INCIDENCE PER 100 AMERICANS

38 will be diagnosed with a form of cancer
[National Institute of Health, cancer.gov,]

14 will incur chronic kidney disease
[National Institue of Health, niddk.nih.gov,]

12 will have heart disease
[National Center for Health Statistics, cdc.gov,]

8 will incur disabling hearing loss (Deafness)
[National Institue of Health, nidcd.nih.gov,]

2 will incur a visual disability (Blindness)
[National Federation for the Blind, nfb.org,]

2 will be paralyzed
[National Institue of Health, niddk.nih.gov,]

postface

Illness and injury play no favorites. They can strike at any time. There is no wrong way to protect yourself from the financial repercussions of a long-term disability, but the lack of a plan can quickly lead to an insurmountable burden when compared to comprehensive planning techniques.

A disability plan does not have to be expensive. A basic plan may include some combination of self-funding, public benefits, group benefits through work, and individual insurance.

Self-funding may not require any change to a person's regular savings practice. Government benefits are available if the right circumstances are met. Employee benefits are usually provided at no cost to the employee. Individual insurance is the only category that may require a premium, and there's almost always an affordable option available in the marketplace if one can qualify.

Having completed this guide, it is now up to you to determine what strategies are readily available in your client's disability plan. Don't be afraid to explore each option and assess whether or not they are fully protected.

about the authors

Maxwell Schmitz, MSFS is the President and co-owner of Yetworth Insurance Solutions, an independent insurance general agency. He is a disability income specialist who has developed a proprietary e-application system for multiple carriers and products. Max earned his Master's degree in Financial Services through the American College and has been a frequent speaker at industry events virtually and in person. Max conceptualized Planting the Seed, wrote the initial draft, and designed the infographics.

Emma Schmitz is a Director and co-owner of Yetworth Insurance Solutions and specializes in marketing and finance. She is a writer by trade with years of content marketing experience. Emma edited, formatted, updated, and fact-checked Planting the Seed.

Max and Emma have been siblings for a long time.

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