



# SHERPA INSIGHT

Detterbeck Wealth Management, Inc.



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## COVERING YOUR INSURANCE RISKS

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In this edition of Sherpa Insight, we would like to turn your attention to areas of insurance that are often overlooked. As comprehensive financial planners, we urge our clients to make sure they have adequate coverage in disability and long term care insurance. The following are basic overviews of these types of insurance. Please give us a call to review your specific insurance needs and existing coverage.

### *About Disability Insurance*



Disability insurance is often overlooked when individuals put together their financial plans. If you became sick or hurt and couldn't work, how would you pay your bills? Unless you're retired, your ability to get up each day and earn an income is one of your most valuable assets. Disability insurance will help you maintain your income when a qualifying disability, such as illness or injury, leaves you unable to work. Furthermore, your chances of becoming disabled at some time during your working career are probably higher than you would expect. Studies show that a 20-year-old worker has a 3-in-10 chance of becoming disabled before reaching retirement age.

Disability insurance can replace a portion of your income when you are unable to work because of injury or illness. There are two major types of disability coverage:

- **Short-term disability** provides an income for the early part of a disability. A policy may pay benefits for two weeks up to two years. Short-term disability is often included as part of an employee benefits package.
- **Long-term disability** helps replace income for an extended period of time, usually ending after five years or when the disabled person turns 65. Some people have long term disability insurance through their employers; others purchase it individually.

The two major types of individual long-term disability insurance are guaranteed renewable and non-cancelable. With guaranteed renewable policies, the coverage cannot be changed or canceled; premiums, however, can be raised. These premium increases can only occur if the premiums are raised for an entire class, for example all people in your age group. Non-cancelable policies cannot be changed unless you request the change.

*(Disability continued on page 2)*

### *Long Term Care Insurance Considerations*

The decision to purchase long term care insurance can be a difficult one to make. While no one likes to think about needing full-time care in their future, the reality is that twenty-five to fifty percent of Americans will be faced with a long-term care expense at some point in their lives.

The difficulty many of us have with purchasing insurance is paying today for something that might never happen, yet most people would never consider owning a car or a house without insuring it because replacing it would be so expensive. Long-term care costs can also be quite expensive. The average cost of staying at a nursing home in the Chicagoland area is \$167 per day. The average stay in a nursing home is 2.5 years, making the average total cost of a nursing home stay about \$152,400. Long term care also covers medical and non-medical home care.

### **Government Programs**

Many people believe that Medicare will cover the bulk of these long-term care expenses. Unfortunately, this is not the case. Medicare was not designed to cover long-term care expenses. Current requirements state that you must be over 65 years of age; you must stay three days in the hospital before long term care costs will be covered; and nothing beyond 100 days of care is covered. Medicare will cover the first 20 days at 100%. For days 21-100, you must pay a \$99 per day deductible before Medicare will cover the rest of the costs. Medicare supplements are also not designed to cover long term care costs.

Medicaid is a government-sponsored insurance that does cover long term care. However, you would have to meet a government-established poverty level in order to qualify.

The Health Insurance Portability and Accountability Act  
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*(Disability continued from page 1)*

### **Factors in a Policy**

Several factors affect the price and effectiveness of disability insurance. The amount of coverage you select will play the greatest part in your policy's pricing. Depending on your occupation and earnings, most policies will cover a maximum of 65% of your gross income with a monthly benefit ceiling of \$15,000. Please remember that, generally, disability benefits are not taxable and therefore 65% should represent approximately the net take home pay. The definition of income can vary widely by policy. Some do not consider bonuses, overtime or commissions to be income. Depending on your profession, this could dramatically affect your benefit.

There are also different types of disability classifications: own occupation or any occupation. Own occupation will pay when you are unable to perform your existing profession. Any occupation will only pay when you are unable to perform any job that your training and education have prepared you for. Own occupation coverage allows you more flexibility. Also, you may want to consider residual benefits, which will pay you the difference between a part-time income and your former income.

Other factors that affect disability insurance pricing include the elimination period and the benefit period. The elimination period is the period between the onset of your disability and when the policy begins paying you, usually 90 days. The benefit period determines how long the policy will pay your benefit. You can elect a stated period, such as two years, or to a certain age, such as until age 65.

If you are still early in your career, you may want the option of increasing coverage down the road - when your income could be substantially higher. To have this option available to you, you should consider adding a future insurance option to your policy. This option allows you to purchase more insurance without having a medical exam.

Disability insurance can be an important risk management tool in your overall financial plan. Be sure to consult a trusted financial professional like DWM to help determine the coverage that will best fit your personal financial needs.



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of 1996 made it a crime to transfer assets for the purpose of qualifying for Medicaid coverage.

Some incentives for purchasing long-term care insurance include: premiums are tax deductible, with some restrictions; benefits are tax free from tax-qualified plans; and expenses not covered by insurance are tax deductible. Also, a new type of policy is available that combines whole life with long-term care. It can pay a death benefit if the long-term care benefits are not used and some offer a 15 year return of premium election.

### **Costs**

Several factors influence the cost of long-term care premiums. How your benefits will be paid and how long your policy will cover you are two of the largest factors influencing cost. Will your benefits be paid only when eligible services have been received, or will the benefits be paid directly to you regardless of services received? How long will your waiting period last? If you are in good health now, you could probably afford to wait out a longer period and reduce your premium. Policies come with a variety of coverage periods. You can choose unlimited, two-, four-, or five- year periods from most insurance carriers. The longer the coverage period, the higher your premiums will likely be.

Another factor that will affect your premium is the daily benefit. What is the maximum amount the policy will cover each day? Will this amount keep pace with inflation? Inflation protection can be expensive, but may make a difference in what kind of care you can afford down the road. This daily benefit amount may dictate what kind of care you choose in the future, and it will certainly influence the price of your premiums.

### **Putting it all Together**

Deciding to purchase long-term care can remove a significant moral burden from your loved ones in the event a situation should arise. You must determine your risk for needing long term care in your future and if you can afford the premiums today. It is important to discuss this decision with a financial professional from DWM, who can help you evaluate your finances and discuss tax ramifications of this insurance.



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