

Understanding the Disability Income Insurance “Gap”

And understanding the potential exposure that comes along with it.

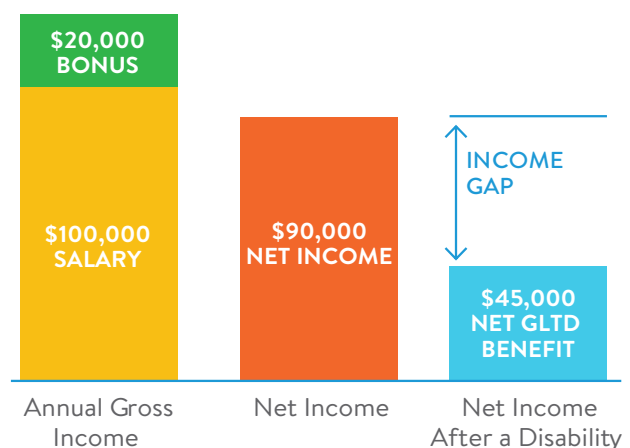
Although GLTD provides important basic income protection to employees, the level of income protection may not be adequate.

Many people know the group long-term disability (GLTD) benefits made available to them in the form of a company’s employee benefits package will pay a portion of their income should they become disabled.

Of course, the difficulty for many people is correctly identifying what the portion of income covered under the GLTD benefits actually is. Knowing the actual benefits that would be paid, what income is covered, and which benefits are, and are not taxable, is the first step in identifying the “gap” in your disability income insurance (DI) coverage.

A review of your current employee benefits and income from all sources will help you determine how big, or how little, this “gap” is.

DISABILITY INCOME “GAP” EXAMPLE



Above chart assumes an effective tax rate of 25% and a GLTD plan paid for by the employer that provides 60% to \$5,000 per month.

How can you help reduce the DI Gap?

To reduce the DI Gap, often a cost effective approach is the purchase of an individual disability income insurance policy.

An individual disability income insurance policy can cover a portion of your earned income if you become too sick or hurt to work. The very income you rely on for the things that matter most to you and those you care about.

A DI GAP EXAMPLE:

John works for a mid-sized corporation as a sales manager.

Annual Base Salary	\$100,000
Annual Commissions / Bonus	\$20,000
GLTD Benefits Payable	60% of salary, up to \$5,000 per month
GLTD Premiums	Employer Paid-Taxable

Your financial services professional will work with you to identify your DI Gap, assess your disability income needs and help you design a policy that can help reduce your DI Gap.¹

Assume John became disabled for an extended period of time and his current GLTD plan has a 180 day waiting period. After the waiting period, John received 12 months of benefits from his current GLTD plan. This would result in a total pay out of:

	GLTD Pays	Taxable
\$100,000 Base Salary	\$60,000	\$60,000
\$20,000 Bonus / Commissions	\$0	—

Assuming an effective tax rate of 25%, the net benefit payment of the GLTD benefits is \$45,000.

In this situation, the Disability Income (DI) Gap for John is as follows:

Net Salary		\$90,000
Net GLTD	—	\$45,000
DI GAP	=	\$45,000

Assumes an effective tax rate of 25% on \$120,000 in salary + bonus, and a GLTD plan paid for by the employer that provides 60% to \$5,000 per month. Individual tax rates may vary.

¹ Supplemental individual disability income insurance does not coordinate with your group long term disability coverage. Claim decisions are rendered independent of each other.

The information provided is not written or intended as specific tax or legal advice. Individuals are encouraged to seek advice from their own tax or legal counsel.

