Are you safeguarding your income from a disability?
If you can't work because of an accident or illness, where will your paycheck come from? Learn about the key differences between employer-provided coverage and private coverage. A difference that could be costly to you if you become disabled.

Safeguarding Your Income...

If you become disabled and can't work, where will your money come from?

You put a portion of every paycheck in savings. You keep on top of your monthly bills. You've signed up for your employer's disability plan. And you can always tap into Social Security or Workers' Compensation (if you're injured on the job).

So if your income were interrupted due to illness or injury, you'd have everything covered, right?

Not necessarily.

No matter how carefully you think you've safeguarded yourself and your family, your "safety net" may not stretch as far as you believe, particularly if your disability keeps you from earning a paycheck for six months or longer.

Think a disability can't happen to you?
More than one in four of today's 20-year-olds can expect to be out of work for at least a year because of a disabling condition before they reach the normal retirement age.*

Protecting Your Income

Recovering from an injury or an extended illness is difficult enough for you without worrying about your family's finances. Wouldn't you feel relaxed if you knew you were guaranteed at least enough income to prevent a financial crisis?

There are several ways to help protect your income during these difficult periods: employer plans, government-provided programs and benefits, and private plans. This article explores each category in more detail.

*Chances of Disability. Me, Disabled? disabilitycanhappen.org September 2021

Employer Plans

If you are employed full-time, it's likely your employer offers some form of sick leave. Often, this is a short-term benefit that protects your income as you recover from an illness or injury.

In addition, many midsize to large employers offer their employees long-term disability benefits. These benefits are designed to replace some portion of what you had been earning, typically about 60 percent before taxes. Benefits may vary, depending on your ability to work. Some plans pay benefits only if you are unable to work; others restrict benefits once you can resume working at least part-time.

Employer plans are an affordable option for most technology professionals because usually, your employer pays part of your long-term disability coverage. But there are some disadvantages:

- If your employer pays for your disability benefits, your disability check is taxable. That could reduce your actual payment as much as 30 percent, depending on your tax bracket.
- Employer-paid plans often have time limits, usually three to five years. If you're permanently disabled after this time period, you'll have to find another source for your income.
- Employer-paid plans often have long waiting periods (up to six months) before you start collecting benefits.

Government Programs and Benefits

Workers' Compensation

Most states insure employees who are injured on the job. These precautions come from your state's workers' compensation laws, which mandate that all employees must have some sort of coverage—either through private insurance or a state fund.

Workers' compensation laws are intended to protect employers from being sued by their employees who are injured on the job. Workers' compensation benefits usually cover your medical expenses, payments for incapacity to work (both temporary and permanent disability) and often vocational rehabilitation. The amount of benefits you receive varies according to your state and your type of disability.

Benefits—about two-thirds of your income in most states—are not taxed. However, many states set a benefit limit. Usually, this is based on your state's average wage, which may be less than two-thirds of your gross income. (Check with your state department of labor for how much you'd collect if you were injured on the job.)

Social Security

In addition to providing retirement benefits, Social Security also offers disability benefits to salaried workers. The program bases its payment structure on your salary and how long you've been contributing to Social Security.

Although Social Security offers a long-term program of support, there are several restrictions and disadvantages:

- You must be unable to work in *any* job, not just the one you hold.
- You have to be disabled five months or more before you can start collecting benefits.
- Your benefits may be reduced if you collect payments from other sources such as your employer plan.
- Social Security benefits are also subject to federal income tax.

Other sources

Depending on the circumstances of your illness or injury, and other factors related to your job and income level, you may be eligible for additional sources of disability income. These could include disability pension payments for veterans; benefits from an auto insurance policy that protects income if you've been injured in a vehicle accident; and Medicaid, which is designed for persons with few assets.

Private Plans

Private long-term disability policies are good solutions for technology professionals whose employers don't offer affordable disability coverage that pays up to 60 percent of your income or for those who don't qualify for government programs. They are also good options for supplementing benefits from other sources.

If you own your own business or are a consultant, purchasing a private long-term disability coverage helps protect not only your income but the viability of your business. Disability protection helps cover your overhead, protects one partner when another becomes disabled, and may even pay you as you rebuild your business following a disability.

Similar to employer-paid plans, private policies vary widely from length of coverage to size of benefits to payment schedule. You can select the options that best suit your household or business, even adding features such as renewability and cost-of-living adjustments.

You also may choose disability insurance coverage through a group plan, made available through your employer or through a professional association such as IEEE. These policies often represent the best value because of their affordability. And unlike long-term disability coverage from other sources, when you pay the premiums for a private or group policy benefit payments are not subject to income tax.

Playing the Tax Card

As you plan to protect your income in the event of a disabling illness or injury, don't overlook a critical factor in your calculations: taxation.

If disability benefits are taxable, such as with employer-paid or most government-sponsored plans, the true value of what you collect is significantly reduced.

For example, say your employer-paid plan is designed to replace 60 percent of your monthly income. After taxes are withheld, however, those payments actually may be *only 40 percent of your income.*

As previously mentioned, private long-term disability benefits are not taxable if you pay the premiums. If you become disabled, you receive the full eligible benefit amount. (See the tax example for how much of a difference this could make.)

Hypothetical Tax Example
A 30-year-old engineer earning $4,167 a month ($50,000 a year) would receive $2,500 a month (full 60%) from a private disability plan, but only $1,750 (60% minus tax deduction of 30%) from his employer plan. The $750 a month difference would be a substantial amount if the disability became a prolonged one.

Coordination of Disability Benefits

Coordination of benefits is the process of working with other coverage (employer coverage, private coverage or government-sponsored benefits) that you may have to share in the cost of providing benefits. This is a common practice that attempts to make sure you don't receive more in benefits than you would if you were working.

When you file a claim for disability benefits, you must provide information about other coverage you may qualify for, including employer coverage, private coverage, workers' compensation, Social Security or other sources. If your disability happens on the job, you'll most likely receive all your benefits from your state workers' compensation program.

However, if your disability is not work-related, you'll need to rely on your employer or other sponsored coverage for benefits. Most insurance companies only allow you to collect up to 60 percent of your income. So if your employer covers you for this amount, then you can't receive benefits from anywhere else. But if your employer's plan pays less than 60 percent, then your coverage can coordinate with other sources up to the 60 percent limit.

If you file for Social Security benefits and combine them with your other coverage, Social Security reduces its benefits so the total you collect does not exceed 80 percent of what you earned before the disability.

Opportunity for IEEE Members

If you're an eligible IEEE member, you have an opportunity to strengthen your family's safety net and protect your income if you become disabled for a long period.

The IEEE Member Group Disability Income Insurance Plan was specifically developed with technology professionals in mind. The plan is flexible in that it lets you choose the benefit amount you need, the waiting period, the duration of coverage, and more. Long-term coverage is available at low group rates, made available only to IEEE members. Perhaps most importantly, any benefits paid to you are tax free.

For more information†, call toll-free 1-800-493-IEEE (4333) or visit the product page at IEEEinsurance.com.

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