



Protecting Your Income from the Unexpected

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Your ability to earn an income may be one of your most valuable assets, but an accident or unforeseen illness can put that asset at risk. Here's how to help protect it.

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Key Takeaways

- Your risk of becoming disabled before you retire may be higher than you think.
- Employer-provided disability insurance may not provide adequate coverage, especially for high earners.
- Even if you have disability insurance, you should maintain an emergency fund.

Have you ever had friends or family suffer from an accident or unforeseen illness that left them unable to work for months or years at a time? Not only is it hard to see the people you care about struggle, it's also difficult to imagine if it were you.

While it's impossible to plan for the unknown, one way to prepare is by ensuring you have sufficient disability insurance to help protect yourself and your family by helping to provide the financial breathing room to focus on your recovery. The risk may be higher than you think – nearly a quarter of today's 20-year-olds will become disabled (including temporarily) before they retire.¹

While many employers offer disability insurance, it can sometimes be beneficial to augment this coverage with a private policy. Here are three questions to ask yourself when evaluating whether private disability insurance is right for you:



If you're a high earner, buying a private disability insurance policy may help to ensure that you still have adequate cash flow to help cover your bills and lifestyle.

1

Will my workplace disability insurance be enough?

Employer-based long-term disability policies typically replace 60% of income² and may cap the dollar amount, which can pose a challenge for higher earners. A policy with a cap of \$120,000 per year, for example, might not provide adequate income replacement for an individual accustomed to earning more. Also, some workplace disability insurance plans only count salary as income,³ so they wouldn't replace additional income from commissions, bonuses or other sources. Private disability policies, in contrast, tend to offer more flexibility in terms of both the amount of income and types of income they'll replace.

Private disability insurance has some other benefits as well. It's portable, so you can keep it if you change jobs. Plus, most group policies through an employer would be pre-tax,⁴ meaning you would need to pay taxes if you receive disability benefits. Since most private disability insurance policies are paid with after-tax dollars, you would receive those benefits tax-free. Additionally, if your employer doesn't offer disability insurance, private disability insurance can help provide a basic safety net.

2

What kind of coverage should I have?

Your employer may offer short-term disability insurance, long-term disability insurance, or both.⁴

- Short-term:** Short-term disability coverage kicks in within a few weeks and covers lost wages over a period of three months to a year. If you have a fully funded [emergency savings](#) account, you may be able to skip this type of insurance.
- Long-term:** Long-term disability insurance provides wage replacement for two years or more. It typically kicks in after an "elimination period" that's, on average 90 days.
- If you purchase a supplemental long-term disability insurance plan, carefully read the policy documents to understand the coverage it offers. Generally, there are two types:
- "Any occupation":** A policy with any occupation insurance coverage pays out only if you can't work in *any* capacity.
- "Own occupation":** Policies that offer own occupation coverage pay out if you can't perform the occupation in which you're currently employed. This type of policy might make sense for those that work in highly specialized fields. If a surgeon has a hand injury and can no longer operate, for example, own occupation insurance would provide coverage, even if they could potentially perform other types of work. Some policies begin with own occupation coverage and transition to any occupation after a period.

3

Do I still need an emergency fund?

Even if you have short-term disability insurance at work, there's typically a waiting period of 14 days before short-term disability insurance kicks in: 90 days for long-term disability insurance.⁵ Having an emergency fund will help you cover your bills in the interim.

Aim to have an emergency fund with enough liquid assets to cover three to six months' worth of expenses. The amount you need in the account will vary depending on whether you have dependents (you may need more) or a spouse with a job (you may need less), or other sources you can ask for help (again, you'd need less).

Your Morgan Stanley Financial Advisor can help you determine if a private disability insurance policy makes sense for you and, if so, can help you choose the policy with the optimal combination of cost and benefits.

Footnotes:

¹Source: Social Security Administration. "Disability and Death Probability Tables for Insured Workers Who Attain Age 20 in 2024"

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