



Lawyers at risk: The case for disability insurance top-ups

One in four. Those are the odds that you will be disabled due to a serious illness or accident for a period of 90 days or longer at least once before you turn 65. As a lawyer, the good news is that you likely have disability insurance through your firm's group coverage. The bad news is that it likely falls far short of your needs.

Protecting your family's well-being and lifestyle

Lawyers know the value of risk mitigation: it is generally far more cost effective to invest in minimizing risks upfront rather than cleaning up a mess after it happens. No one wants to imagine that they will be in a serious car accident or diagnosed with a debilitating illness. But if you don't have adequate safeguards in place, the outcome can be devastating if misfortune strikes.

How much does your family spend on average per month? When you include mortgage payments, car payments, schooling, travel and so on, this can add up very quickly. If your family is used to spending, say, \$30,000 or \$50,000 per month, imagine how your family lifestyle would be impacted if you were suddenly forced to live on \$15,000 or \$25,000 per month.

If disaster strikes and you're unable to work, you may have short-term coverage to replace your income for the first 30–60 days, but what about the long term? Although you have savings and investments, how long would these last if you had to rely on them instead of income from your job?



One-size-fits-all won't meet your unique needs

Long-term disability coverage is often included in group insurance benefits provided by employers, but it typically offers a uniform solution for individuals with diverse circumstances and requirements.

The long-term disability coverage in a group plan generally provides an income replacement percentage – for example, 85%. But here's the catch: there is often a cap on monthly payments. If the cap is set at \$15,000/month, employees at the low end of the firm's pay scale receive the full 85% income replacement. However, lawyers at the high end of the pay scale see a significantly lower income replacement percentage.

Example: the long-term income replacement gap

1. Annual earned income (\$700,000, or about \$360,000 after tax*): $\$360,000 \times 10 \text{ years} = \3.6 million
2. Group long-term disability coverage (\$15,000/month cap): $\$180,000 \times 10 \text{ years} = \1.8 million
3. Potential for lost earnings (i.e. income replacement gap): \$1.8 million over 10 years

*Assuming a marginal tax rate of 53.53%

In the example above, the lawyer earning \$360,000/year after tax receives long-term disability payments of only \$15,000/month. This translates to only 50% income replacement, not the 85% income replacement enjoyed by the firm's employees at the low end of the pay scale.

Would your family be able to manage on 50% of your current salary? In addition to putting an enormous strain on your family and wiping out many of your plans for the future, living on this much-reduced level of income would likely also make it extremely difficult to save for retirement

Tailoring your coverage with an individual top-up

When your firm's group coverage doesn't cut it, you can cross your fingers and drastically reduce your living expenses, or you can supplement your group insurance with an individual top-up. Additional individual long-term disability insurance allows you to customize the coverage to your family's income needs, not an arbitrary figure determined by the monthly cap of your group coverage.

Beyond ensuring an income replacement level that will allow your family to maintain its standard of living, there are three additional key advantages to an individual top-up:

1. **Non-cancellable.** Once you have individual disability insurance, the coverage cannot be cancelled by your insurer unless you stop paying your premiums or decide to terminate the plan.
2. **Portable.** Your long-term disability coverage under your group plan is tied to your current employer: if you leave the firm, you generally leave this coverage behind. On the other hand, individual disability insurance will stay with you wherever you go, whether that's joining a new firm, changing industry or even taking a break from work.
3. **Locked-in premiums.** With individual disability insurance, your premiums are locked in at the time when your coverage starts. What you pay depends on numerous factors – including your age, health, occupation, etc. – so the earlier, the better. However, once set, these premiums won't change, even if your health deteriorates.

Closing the gap, mitigating the risk

An individual top-up is not intended to replace your group disability insurance. Instead, its purpose is to provide supplementary coverage to close the income replacement gap that likely exists under your group plan.

Even the best lawyers cannot predict a car accident or a cancer diagnosis, but it's not difficult to foresee how your family would struggle if you were unable to work and required to survive on 50% of your current income. By topping up your group coverage with individual disability insurance, you can mitigate this risk.

If you would like to review your current disability coverage and explore your options for a customized top-up, Rubach Wealth can help. Contact us today to start a conversation about protecting your family against an uncertain future.