PROTECTING YOUR GREATEST ASSET

When most people are asked what their most valuable asset is, they respond that their house, car, retirement plan or business is most valuable. I disagree. I believe that your most valuable asset is your ability to earn a living. I believe this is true for just about anyone who is not already retired. Most people protect their car, house, and other possessions, but neglect to protect the most valuable asset they own: their power to generate income.

The extent of the risk of a serious injury or illness affecting your ability to earn a living is startling. The probability of a 35 year old being disabled for more than three months before age 65 is over 50%. People in their 40s are three times more likely to be disabled than die before age 65. And the numbers get worse as you get older for remaining disabled for 5 years or more. Yet a great majority of the population has no disability coverage beyond Social Security and worker's compensation.

To evaluate your disability income needs, begin with an estimate of the income that will be needed during disability. Once the income need has been established, the resources available should be deducted. The first deduction should be from any employer paid short-term disability or group insurance benefits. Next, you may wish to consider social security disability benefits. However, the social security system rejects most of the claims made for disability benefits. Finally, reduce the monthly income need by earnings from other sources such as interest and dividends on investments. The remaining balance is the disability insurance need. You should note that insurance companies limit the amount of income they will replace through a disability benefit, so you may not be able to insure the entire need.

As you might expect, the key to any disability insurance policy is its definition of the term "disabled." There are four key definitions of disability: "any occupation," "own occupation," "reduction in income," and "residual." You are disabled under an "any occupation" definition when your condition prevents you from doing anything for anybody that will bring home a paycheck. It is the most restrictive definition.

The "own occupation" definition is far more favorable. Under this definition you are disabled if your condition prevents you from performing the major duties of your occupation.

"Income reduction" is a relatively recent innovation. Under these policies, you are disabled as long as your condition forces you to earn less than you were earning before you were sick or injured. How much less you have to earn depends on the policy.

"Residual disability" is also a recent innovation. This definition is an enhancement of an "own occupation" policy. Frequently, a person's disability may permit them to return to their own occupation, but only at "half speed." In other words, it may take a considerable period of time after they return to work to get back to their former level of earnings. The "residual disability" provision is designed to provide benefits to bridge that gap.

Of course, this brief article is no substitute for a careful consideration of all of the advantages and disadvantages of this matter in light of your unique personal circumstances. Before implementing any significant tax or financial planning strategy, contact your financial planner, attorney or tax advisor as appropriate.

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