

Disability Insurance - "Too Late" Is Not When to Plan for What You Have

I still remember early in my career helping a long time field employee from a construction contractor we work with set up a 401(k) rollover, his wife accompanied him to the meeting, we reviewed all the paperwork, his hand shook terribly as he signed the paper with what looked like all the strength he had. He looked up at me proudly and slurred, "I couldn't sign till last week, since I went down!" His wife explained that doctors said he did not have a stroke, he had lesions on his brain that grew suddenly, they were retracting now, but he'd never work again, they were going to need to make this IRA last as long as it could. His only income protection was a little bit of voluntary coverage.

When I do Open Enrollments as a part of our Employee Benefits Practice I have a line I use on a regular basis, "What is the greatest asset you currently have?". I get a lot of answers, the answer I always give the room which causes "oh yeah" looks to come across faces is: "Your greatest asset is your ability to earn an income." Often High Income Earners are most in danger when they lose this asset considering they often carry high debt loads with low liquid assets. This month's case study reviews an idea of one such situation.

O'Leary, O'Connell & O'Neal (OOO) is multi-practice law firm with offices in DC. They employ 75 attorneys, a Partner at the firm on average earn \$350,000 and Senior Partners earn well in excess of \$500,000. There are 5 Senior Partners and 15 Partners. The other 55 attorneys are a mix of "Of Counsel", Senior and Junior Associates earning anywhere from \$125,000 to \$250,000 with bonuses. The average non-attorney salary varies greatly between Assistants, Paralegals and Administrative personnel.

OOO has group disability policy that covers 66.666% of monthly income and pays on a taxable basis for all employees with maximum benefits based on classes: \$15,000 per month for Partners and Senior Partners, \$12,500 per month for Senior, Junior Associates and Managers, and \$6,500 for all other employees. To all appearances this is a generous benefit for employees.

James Smith, a 47 year old Partner in the Tax Practice, a consistent star that is being groomed to be a Senior Partner is diagnosed in June of 2015 with ALS (Lou Gehrig's Disease). He has earned \$400,000 each of the last 7 years. He has a 4 Bedroom, 3 bath home in Bethesda worth \$1.75M with \$1M mortgage. He has 3 children (16, 13 and 9), James' wife was a working CPA, but chose to stay at home after the 3rd child. The Oldest Child is a Junior at an All Girls School in Bethesda, the Middle Child just started at the same school and the Youngest Child is in a Montessori School in Potomac. James has Life Insurance, \$2 million of death benefit; however, he has only his disability from OOO in place to protect his income.

In early 2016 James can no longer work. It is unknown how long it will be till he passes, Doctors estimate between 2 and 4 years. His wife will be acting as his primary caregiver, OOO is picking up the cost of his COBRA for 18 months. Cash did come in from the purchase of James' partnership by OOO. His prior income was \$400,000 before taxes, approximately \$260,000 after taxes; his disability coverage will be \$180,000 before taxes, approximately \$117,000 after taxes.

James and his wife now must consider while they dealing with ALS: How do they make earn \$143,000 in income or cut 55% of their family budget.

If you were to review the scenario above with your clients, how many could sustain James situation for more than 1 year. How many would be willing to make their children changes schools to make ends meet? How many would move?

How could this be prevented? James could individually purchase coverage to make up the gap between his income and the employer paid benefit, or OOO could offer and/or purchase through their current carrier the opportunity for the James of this world to layer extra coverage on top of their group benefit.

