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Disability Insurance: How to Tailor the Policy to Your Needs

What would happen if your paycheck suddenly stopped because you were ill or injured and couldn't work? Could you still pay your mortgage or rent and monthly bills? You could if you had long-term disability insurance. Disability insurance provides monthly income when you're disabled and unable to work. Without coverage, a disability can deplete your savings or drive you into serious debt.

Coverage options

You may already have some disability coverage through your employer, but it may not be enough. Benefits provided by employers typically cover only 50% of your income up to a certain monthly maximum (which may be less than 50% for highly compensated employees). And since benefits from group plans generally are taxable, there's less money available for paying your bills.

There's always Social Security disability, you may be thinking. Think again. Social Security disability replaces only a limited portion of your salary, and it's very difficult to qualify. Generally speaking, you must have been disabled for at least five months, with a disability that is expected to last at least 12 months or end in death. Additionally, you must be unable to be gainfully employed in any occupation, not just the occupation you worked in at the time your disability began.

There are several types of policies available with features that make it possible to tailor coverage to fit your needs and pocketbook. To select the best policy for you, you'll need to consider the following scenarios.

Own occupation or any occupation?

The most important consideration is how your policy defines disability. The best policies pay benefits if you are unable to perform the major duties of your own occupation, even if you can do some other tasks. Other policies pay only if you cannot perform the duties of any occupation for which you are reasonably qualified by training, experience or education.

Short elimination period or longer?

All long-term disability plans have an elimination period before benefits are paid. An elimination period is similar to the deductible for medical and car insurance. The most common waiting period is 90 days, but you can select a policy that doesn't pay until you've been disabled for 180, 365 or 730 days. The longer the elimination period, the lower the premium.

Two years of benefits or more?

With most policies, you can select to receive benefits for a specified period of time, such as two years, five years or until retirement age. The shorter the benefit period, the less expensive the policy. If you can afford it, it's best to purchase a policy that provides benefits until retirement age.

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Market Watch

	1/15/2008	YTD
DJIA	12,501	-5.76%
S&P 500	1,380	-6.02%
NASDAQ	2,417	-8.87%

Updated Tax Rules for 2008

Increased IRA contribution limits

Beginning in 2008, the maximum yearly contribution for a traditional or Roth IRA increases from $4,000 to $5,000. People who will reach age 50 before the end of 2008 can contribute an additional $1,000 for a total of $6,000.

"Kiddie tax" coverage expands

The "kiddie tax" rules on unearned income will apply to children under age 19 and full-time students under age 24 whose earned income is less than one-half of their support.

For the Referrals...

THANK YOU for referring your friends, family, and co-workers. We strive to exceed your expectations ***every time*** and hope you will continue to be an advocate for PFA.

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Disability Insurance -(cont.)-

60, 70 or 80 percent of income?

Disability insurance is designed to pay you enough to cover the basics, but not enough to keep you from returning to work as soon as possible. To determine the percentage of income you want to replace, compute how much you would need each month to cover your monthly expenses. Keep in mind that while some work-related expenses may be lower, you could be paying more for medical expenses. On the plus side, unlike a group plan, benefits from a personal disability policy are generally tax-free.

Non-cancelable or guaranteed renewable?

The key difference between these two policy types is that under a non-cancelable contract, once you have been approved, the company cannot cancel your policy or raise your premiums. With a guaranteed renewable policy, your policy cannot be canceled as long as you pay the premiums. However, the insurer can raise your premiums as long as the change affects an entire class of policyholders and doesn't single you out. While the price for a non-cancelable policy is higher, it's the best option because it locks in your rates and benefits.

Source: vscpa.com

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Retirement Plan Limits for 2008

	2008	2007
Maximum annual benefit under a defined-benefit plan	$185,000	$180,000
Maximum annual contribution for defined-contribution plans	$46,000	$45,000
Annual compensation limit used for determining retirement plan contributions	$230,000	$225,000
Maximum annual contribution to 401(k), 403(b), and 457 plans	$15,500	$15,500
Catch-up contribution for individuals age 50 or over	$5,000	$5,000
Maximum annual SIMPLE employee deferral	$10,500	$10,500
SIMPLE catch-up deferral	$2,500	$2,500
Income of key employee in top-heavy plan	$150,000	$145,000
Definition of highly compensated employee	$105,000	$100,000
Social Security wage base	$102,000	$97,500
Maximum annual IRA contribution	$5,000	$4,000
Catch-up IRA contribution	$1,000	$1,000
Roth IRA (AGI limit phase-out range):		
Married filing jointly or Head of household	$159,000-169,000	$156,000-166,000
Single	$101,000-116,000	$99,000-114,000