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Disability Can Wreck Finances

Sherry Sherman was on an empty two-lane highway in 2002 as she returned from a job interview. The last thing she remembers was leaning over to change a CD. Days later, she woke up in the hospital with a broken spine.

Sherman, then single and healthy, had never considered the possibility of being disabled. But nine weeks of hospitalization ate up her savings. Unable to work in her marketing job for more than a year, she was unable to make car loan and credit card payments. She moved in with her parents and filed for bankruptcy protection.

"It was a nightmare. Nobody anticipates becoming disabled," she said.

As Sherman, now 46, learned the hard way, a disabling illness or injury can destroy a family's finances and is the most common reason cited for both bankruptcy and home foreclosure. And the rate of disability is soaring, thanks to an aging population, increasingly stressful working conditions, rising obesity and -- as in Sherman's case -- medical advances that can keep badly injured people alive but still leave them unable to return to work.

The government reports that the rate of Social Security disability claims soared over the last two decades to more than 4% of the adult population currently from 2.2% in the 1980s.

Roughly 3 in 10 workers will have an injury or illness at some point during their careers that keeps them out of work for three months or more, according to the Council for Disability Awareness. And 1 in 7 can expect to be disabled for five years or more.

"Disability among the American workforce is on the rise," said Robert Taylor, president of the council, a nonprofit funded by disability insurers. "But the working population is not prepared and not preparing."

How do you prepare? First, look at your own situation. Do you have a working spouse who could support both of you if one of you were to become disabled? How much sick pay are you entitled to? How much vacation time do you have coming?

The answers to each of those questions will help determine whether you could handle a short-term disability, experts say. If you believe your finances would be stretched to a breaking point by a disabling illness or injury lasting six months to a year, you should consider buying a short-term disability insurance policy, Taylor said.

Many companies offer such plans to their employees. By and large, the policies promise to make up a portion of your pay while you're unable to work.

If you have sufficient savings and sick time to handle a relatively short stretch of unemployment, you probably don't need short-term disability insurance.

But many experts say you do need long-term disability coverage -- no matter who you are.

"I would advise anybody who has access to it at work to buy a long-term disability policy," Sherman said. "If I had gotten disability benefits, I would never have had to file bankruptcy."

If you pay into the Social Security system, you already are covered by Social Security's long-term disability program, which is supposed to pay benefits to a person who is likely to be disabled for a year or more.

In theory those benefits can be paid before the year is up, after a five-month waiting period. But in practice they rarely are. In California, only 36% of initial disability claims are approved, the government says. The national average is about the same.

Are the claims denied because they're invalid? No, according to Ed Swierczek, senior claims consultant with Allsup Inc., a Belleville, Ill.-based firm that helps people pursue Social Security disability claims. Often claims that are denied are later approved on appeal. But the system is so Byzantine that many applicants drop their claims before getting paid, he said.

Sherman waited three years to get her Social Security disability claim approved -- after two denials. By that time, she had recovered and was in graduate school studying public policy with an emphasis on health and disability systems. "I was so furious by that point, there was no way I was going to give up on it," she said.

Her benefits were approved retroactively, and she got a check for about \$25,000. In retrospect, Sherman, who now works for Allsup, wishes she had had private coverage to provide benefits during that long stretch before Social Security approved her claim.

Daniel Neer also wishes he had had such coverage, not only because Social Security benefits can be slow in coming but also because they often prove to be insufficient.

The 37-year-old father of three in Bismarck, N.D., injured his back nearly five years ago while picking up a TV set. At the time Neer was a sales manager at a furniture store. Now he walks with a cane, is in nearly constant pain and has been unable to work for more than four years.

He, too, received Social Security disability benefits only after the government initially denied his claim. And Social Security doesn't give him close to what he earned at the store, he said, so he and his wife struggle to pay their bills on a monthly income that falls about \$2,000 short of what they brought home when Neer was working.

"I didn't buy disability coverage because I thought it was too expensive," he said. "Being young, I never thought I'd have to worry about something like that. Now, I can't stand for any length of time. I can't sit for any length of time. I can't push. I can't pull."

"Not buying that insurance was about the dumbest thing I've ever done."

-- Kathy Kristof