

# Employee Benefit ■ Plan Review

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## Employers Must Help Employees Become Aware of, and Plan for, the Financial Consequences of Disability

ROBERT TAYLOR

At age 48, David appeared to have the best years of his life still ahead. Between playing volleyball, participating on the local ski patrol, spending time with his family, and traveling for business, he led an active lifestyle. Disability was the furthest thing from his mind—until early 2005, when everything came to a halt. David suffered a stroke that greatly impacted his family's financial situation. David could not keep up with his colleagues and resume traveling—even part-time—at work, so he retired. His retirement left his family in a more financially challenging situation, as his wife was then the sole provider.

David's story is not uncommon—most Americans have no measures in place to prepare for the financial impact of losing their income.

### THE FACTS BEHIND THE MYTHS AND MISCONCEPTIONS

The number of U.S. workers experiencing a long-term disability is growing at an alarming rate. According to recent Social Security Administration data, since 2000, the number of disabled workers in America has increased by 35 percent. Three out of every 10 workers between the ages of 25 and 65 will experience an accident or illness that keeps them out of work for three months or longer at some point during their working careers.<sup>1</sup> Yet 90 percent of workers significantly underestimate their own chances of becoming disabled, according to the Council for Disability Awareness' ([www.disabilitycanhappen.org](http://www.disabilitycanhappen.org)) "2007 Disability Awareness Survey."<sup>2</sup>

As more of the responsibility, and risk, associated with protecting personal long-term financial well-being shifts to the employee, sound financial planning has become even more critical to today's workers and their families. Unfortunately, most employees are not prepared—and are not preparing—for this growing responsibility, especially when it involves "disability financial planning."

Nearly 60 percent of workers today have not even discussed how they would handle the sudden loss of income due to an accident or illness.<sup>3</sup> Besides ongoing living expenses such as paying the mortgage, utilities, food, and transportation, the added "costs" of being disabled are often overlooked. Disability often results in higher medical expenses (such as higher deductibles, greater co-payments, and the growing cost of care giving) and cause a drain on personal or education savings, and a negative impact on retirement assets. More than 350,000 personal bankruptcies are caused by sudden illnesses and accidents each year.<sup>4</sup>

No one wants to entertain the possibility of suddenly not being able to earn a living—especially someone who is young and healthy. The "2007 Disability Awareness Survey" illustrates people's tendency to believe "it will never happen to me." Yet, the facts say otherwise. More than 50 million Americans are currently classified as disabled,<sup>5</sup> and that number is growing, not surprising given the aging population, the ability of medical advances to keep people with disabilities alive longer, and a less healthy population due to poor health lifestyle choices and behaviors.

The “it’s not going to happen to me” perception is just one of many myths and misconceptions about experiencing and managing an income-limiting disability. For example, most workers think that if they do experience a disability, it will not last very long. However, the average disability lasts about 2.5 years,<sup>6</sup> and one in seven workers will be disabled at some point during his or her career for at least five years.<sup>7</sup>

Many individuals believe that workers’ compensation and Social Security will be adequate to cover the loss of income that would result from a disabling injury or illness. That may be true for a handful of workers, but more than 90 percent of disabilities occur off the job,<sup>8</sup> and Social Security’s average disability benefit is less than \$1,000 a month.<sup>9</sup>

Another prevalent misconception involves 401(k) contributions. Most employees do not realize that when their income stops, so do all their 401(k) contributions—including those from their employer—putting a worker’s retirement security in jeopardy.

#### **EMPLOYERS CAN HELP CLOSE THE INFORMATION GAP**

Clearly, a better job can be done to help employees become more aware of the likelihood of experiencing an income-limiting disability

(whether it is an unexpected accident or illness) and better informed about how to protect their current and future financial lifestyles. Disability awareness studies show that individuals who have discussed managing a disability, compared to those who have not, have a higher level of confidence that they will be able to financially maintain their pre-accident or illness lifestyle.

This presents a unique opportunity for employers to contribute to an educational opportunity for explaining the increased need for and value of disability financial planning. As more employees look to employers for information about retirement planning and medical cost management, employers also need to raise awareness of disability and the value of “disability financial planning.” Now is an opportune time to make sure that employees can differentiate between the facts and myths about becoming disabled and are thinking about the short- and long-term financial impact of being disabled and not being able to earn a living.

In addition to helping employees learn more about the realities of disability and the value of planning accordingly, employers can help employees recognize the positive impact that leading a healthy lifestyle can have on their long-term financial security. At a minimum,

all employees can visit the doctor regularly, receive appropriate health screenings, quit smoking, and remain physically fit. These healthy practices would be a good start to helping a person become less vulnerable to disability and improving their ability to achieve long-term financial security.

With an effective wellness program and good “disability financial planning,” American workers can lessen their odds of experiencing a disability and improve their ability to manage the cost of disability should their income suddenly stop due to accident or illness. When employers help employees lead personally and financially healthy lifestyles, everyone benefits. ☺

#### **NOTES**

1. Social Security Administration Fact Sheet 2007.
2. “2007 Disability Awareness Survey,” The Council for Disability Awareness.
3. “2007 Disability Awareness Survey,” The Council for Disability Awareness.
4. “Illness and Injury as Contributors to Bankruptcy,” *Health Affairs*.
5. “Americans With Disabilities: 2002,” U.S. Bureau of the Census, May 2006.
6. Commissioner’s Insurance Disability, Table A.
7. “Commissioner’s Disability Table, 1998,” Health Insurance Association of America, *The New York Times*, February 2000.
8. National Safety Council, *Injury Facts 2004 ed.*
9. Social Security Administration Fact Sheet 2007.

**Robert Taylor is the president of the Council for Disability Awareness.**

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