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# A Nation In Denial

## *Most American Workers Lack Awareness of and Planning for the Impact of Long Term Disability*

When Joshua was in his twenties, disability was the furthest thing from his mind. A skilled elevator repairman, Joshua loved his job and made a good salary. But one day, his world was suddenly shattered by 700 pounds of cargo that fell on his back. Joshua was permanently confined to a wheelchair. Even though he qualified for workers' compensation benefits, his income still wasn't enough to cope financially. His mother had to leave work to care for him, losing her own income as medical bills piled up.

Joshua never expected to become disabled, so he had no measures in place to prepare for an accident—and unfortunately, his story is not uncommon.

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.<sup>1</sup> And the number of U.S. workers experiencing a long term disability is growing at an alarming rate. Since 2000, the number of disabled workers in America has increased by 35 percent, according to recent Social Security Administration data. Yet 90 percent of workers significantly underestimate their own chances of becoming disabled, according to a survey from the Council for Disability Awareness (CDA).<sup>2</sup>

Workers also are not taking effective measures to financially prepare themselves and their families from the potential financial hardship of a long term disability, such as high medical bills, lost income, a drain

on savings or impact on retirement assets. Nearly 60 percent of workers haven't even discussed how they would manage an income-limiting disability.<sup>3</sup>

No one wants to entertain the possibility of not being able to earn an income—especially someone who is young and healthy—and most people have a tendency to believe “it will never happen to me.” Eighty-five percent of workers express little or no concern that they may suffer a disability lasting three months or longer, and more than half are unaware that the chances of becoming disabled have risen over the past five years.<sup>4</sup> Clearly, as more responsibility for one's financial security shifts to the individual, a better job must be done of helping employees and the self-employed become more aware of the chances of becoming disabled and the steps they can take to protect themselves and their families.

### **Haven't Thought About It**

In some ways, it's not surprising that workers are not thinking about protecting what, to many, is their most valuable asset—their ability to earn a living. Most workers are not doing much planning for the future at all. One-third of Americans have no retirement savings whatsoever, and most are not eligible for a pension.<sup>5</sup> Further, in 2006 the overall U.S. savings rate was minus 1 percent—the worst since the Great Depression.

Just as alarming as this lack of basic planning for financial security is Americans'

mindset about long term disability. Fewer than 30 percent of all U.S. workers participate in long term disability insurance programs<sup>6</sup> at their jobs or buy it on their own, leaving more than 100 million workers without private disability income insurance.<sup>7</sup>

Disability financial planning just isn't on the mind of most workers. When asked why they hadn't discussed how they might manage through a period of lost income due to a disability, 38 percent of respondents said they "haven't really thought about it."<sup>8</sup> Even among employees who are saving for their futures, the threat and impact of a disability often doesn't figure into their plans. Nearly two-thirds of workers with 401(k) or IRA plans haven't thought about or don't know what would happen to their contributions if they were unable to earn an income for a period of time.<sup>9</sup> Since 401(k) plan contributions are a function of earned income, when an employee's income stops so do the retirement contributions.

#### What Workers Should Know

The role of financial planners and insurance brokers has never been more critical in addressing the need to better inform America's workforce about the likelihood of experiencing a disability, as well as the potential financial consequences.

Employers also are a vital link in this education and communication process, particularly as more disability benefits are being offered on a voluntary basis at the worksite. In order to make more informed financial security decisions, employees as well as the self-employed should be aware of these basic facts about long term disability:

**The financial risks of ignoring long term disability planning are high.** With the likelihood of becoming disabled surprisingly high and rising—one in seven people can expect to be disabled for five years or more before retirement<sup>10</sup>—not planning

ahead can be catastrophic. More than half of all personal bankruptcies and mortgage foreclosures are due to disability.<sup>11</sup> Many people have not figured in the added cost of medical expenses and COBRA if disability strikes. Plus, losing your income during your working years can also have a significant impact on your retirement assets and security as well.


**Social Security and workers' compensation may not be enough.** While Social Security Disability Insurance "covers" virtually all workers, it may not be adequate. Fewer than half (39 percent) of the 2.1 million workers who applied for Social Security Disability Insurance (SSDI) benefits in 2005 were approved. In addition, the average SSDI benefit for the 6.8 million disabled workers was only \$938/month.<sup>12</sup> And payments averaged much less—\$834/month—for the 2.3 million disabled workers in their twenties, thirties and forties.<sup>13</sup> Relying on workers' compensation for coverage may not be sufficient, either, as the vast majority of income-limiting accidents or illnesses don't occur on the job.

**Health issues are the number one cause of long term disability.** Although many people associate disability with accidents or workplace injuries like Joshua's, most long term disabilities are caused by illnesses such as cancer, heart disease and diabetes. Arthritis and back pain are also significant contributors. Basic lifestyle changes like visiting the doctor regularly, getting health screenings, quitting smoking and staying physically fit can help a person reduce, or even avoid, becoming disabled in the first place.

**Developing a financial security plan is critical.** Proactively creating a "disability financial security plan" can help reduce the economic, physical and emotional impact should a person become disabled. This plan may include identifying all possible sources of income during a disability, including how to qualify for disability-related benefits, understanding how to manage

expenses during a disability, developing a savings program, participating in employer-sponsored disability programs or purchasing individual long term disability insurance, and being familiar with how COBRA works. A plan also provides a sense of security in the present: More than 80 percent of survey respondents who have planned financially for disability said they are confident about their ability to maintain their current lifestyle if a disability strikes.<sup>14</sup>

Even the healthiest, most cautious person is at risk for an unexpected disability. Taking the time to understand the risks associated with disability and planning ahead can save workers and their families from enormous financial and emotional impact. Financial planners, insurance brokers and employers are critical links in this process.

To learn more about tools that can help assess an individual's current financial situation and provide considerations to enhance financial security in the event a disability strikes, visit the CDA website, [www.disabilitycanhappen.org](http://www.disabilitycanhappen.org). 

1. *Fact Sheet 2007*, Social Security Administration.
2. "2007 Disability Awareness Survey," Council for Disability Awareness.
3. *Ibid.*
4. *Ibid.*
5. *Fact Sheet 2007*, Social Security Administration.
6. *Ibid.*
7. *Long Term Disability Claims Review, 2005*, Council for Disability Awareness.
8. "2007 Disability Awareness Survey," Council for Disability Awareness.
9. *Ibid.*
10. "Commissioners Disability Table, 1998," Health Insurance Association of America, *The New York Times*, February 2000.
11. "Health Affairs," *The Policy Journal of the Health Sphere*, 2 February 2005.
12. *Social Security Administration, Office of Disability and Income Security Programs*.
13. *Ibid.*
14. "2007 Disability Awareness Survey," Council for Disability Awareness.