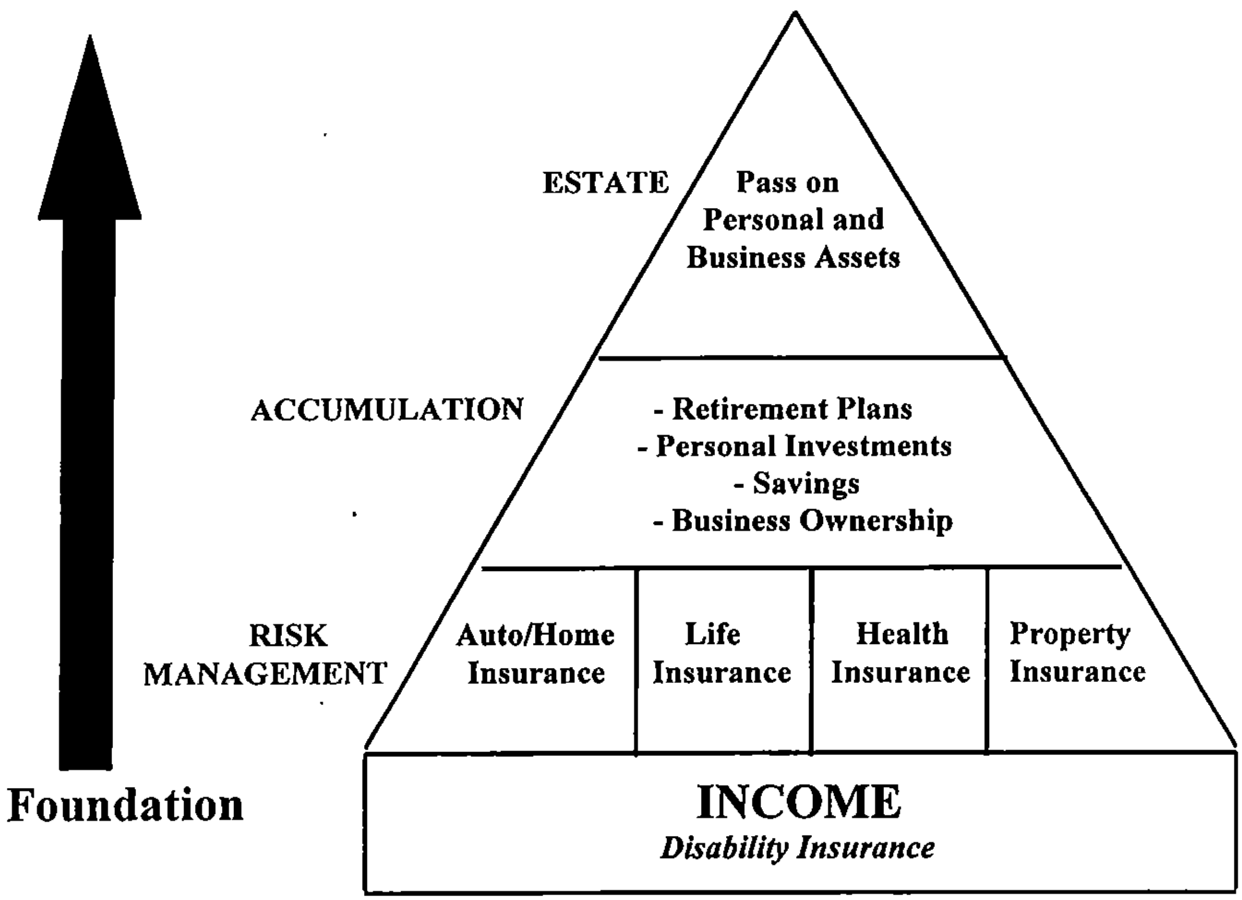
HOW SOLID IS YOUR FINANCIAL FOUNDATION?

This diagram shows how to make plans for your financial future. Protecting assets is the foundation of a solid financial plan. Insurance helps you prepare for the unexpected: property damage, medical expenses, loss of life, and loss of income due to disability.

Removing your income from the foundation can cause your financial plans to come tumbling down. When you fail to protect your income, your dreams for a comfortable retirement, college for the kids, or passing on assets may not become a reality.

Successful Financial Strategy



Need for Disability Income Insurance

The probability of disability at most ages before retirement is greater than the probability of death. Because disability can be both total and permanent, the exposure ranks in severity with the death of the wage earner. In fact, some authorities argue that loss-of-income protection should come even before life insurance. When a wage earner is disabled, his or her earnings stop just as surely as if death had occurred. This "living death" of disability can be economically more severe than actual death. If the breadwinner of the family dies, the family's income stops; if he or she is disabled, not only does the income stop, but expenses remain the same and usually increase. Because a disabled person – by definition – is one whose ability to work is impaired, he or she must depend on sources other than employment for income. When persons other than the disabled individual were also supported by the lost income, the problem is compounded.

In addition to a policy to cover living expenses, some self-employed persons carry business overhead which is designed to pay business expenses such as rent and clerical costs while they are disabled. Disability policies can also be obtained with provision for a lump-sum settlement, rather than periodic payments, to be used in purchasing a disabled partner's interest in a business.

Available Riders

Riders are contract provisions added to the contract to modify its provisions. The insurer can add riders to make insurance available to someone who otherwise would be ineligible for coverage. For example, riders may be added excluding disabilities resulting from hazardous activities such as skydiving or from existing medical conditions such as a knee problem, thus allowing the person to get a policy covering all other sources of disability; otherwise, the insurer would be unwilling to issue any policy. On the other hand, the insurer makes available desirable riders to applicants meeting the underwriting requirements on an optional basis at extra cost. These riders either add benefits or modify policy provisions in the applicant's favor. Such riders include guaranteed insurability options and cost-of-living adjustments.

The guaranteed insurability option guarantees the insured the right to increase the benefit amount under the policy or purchase additional policies at specified "option dates," or time periods in the future, regardless of physical health, as long as the insured's income at that time meets the underwriting requirements for the increased benefit. This is often called a purchase option.

The cost-of-living adjustment rider periodically increases benefits once a disability starts, to avoid the problem of the real purchasing power of the benefits decreasing over the course of a long-term disability. There are many different approaches to such riders, and the insurance contract must be consulted for the details of any such provision.

A variation on the combination of the cost-of-living rider and guaranteed insurability option is the additional insurance rider (AIR). This relatively new benefit automatically increases the policy benefits by 5% each year. Typically at the end of four or five years, the company asks for financial data to determine if the insured is eligible to continue to have benefits