How Insurance *Really* Works

OVERVIEW

Let's face it: nobody likes insurance. Well, unless you're Flo from the Progressive commercials, that is. As the great philosopher/fictional television character Al Bundy once said, "Insurance is like marriage. You pay, pay, pay, and you never get anything back." The fact is, for most of us, we pay for insurance in return for some peace of mind, and we rarely give a second thought to whether it's adequate, well-priced, or even necessary in the first place. In this month's guide, we'll help walk you through four common types of insurance and how to identify whether you're properly covered. We'll also unpack some key estate-planning considerations to keep in mind as they relate to insurance, and we'll explore some comparisons between Medicaid coverages and provisions associated with long-term care insurance. Without further ado, let's get to it.

Insurable Interest

Insurable interest is an essential requirement for issuing an insurance policy that makes the entity or event legal, valid, and protected against intentionally harmful acts. People not subject to financial loss do not have an insurable interest. Therefore a person or entity cannot purchase an insurance policy to cover themselves if they are not actually subject to the risk of financial loss.[1] Hence, you cannot insure property that belongs to someone else.

Property and Casualty

For starters, there are a couple of different types of property and casualty insurance. In general, there are 2 lines of Property and Casualty insurance: Commercial and Personal. For the purposes of this discussion, let's take a look at the personal lines which offer a multitude of different policy types such as, homeowner's (inclusive of renter's), auto, recreational vehicles, bike, watercraft and umbrella insurance.

Homeowner's Insurance

Homeowner's insurance coverage may provide you with protection if the unexpected happens to your home or property. This type of insurance covers damage to your home, property, personal belongings, and some other assets that you own. Your homeowner's insurance policy may also cover living expenses if a covered loss forces you to stay elsewhere while your home is being repaired or rebuilt. In addition, it may provide coverage for accidents or injuries that occur in your home or on your property. A homeowner's policy covers injuries you may unintentionally cause to others away from your property for which you may be liable.

Renter's Insurance

Renter's insurance is a type of property insurance that protects tenants who live in a rented property. Counterintuitively, Renter's insurance usually is written as a Homeowner's insurance form with no coverage for the dwelling or unit, as tenants have no ownership of such property. Coverage is provided by insurance companies in exchange for premiums paid by people living in apartments, single-family homes, and condominiums. Policies provide coverage for an insured party's personal property as well as liability claims that are not due to a structural problem with the property. These kinds of policies also cover living expenses that need to be paid out when someone makes an insurance claim after their unit is damaged. Although renter's insurance isn't a legal requirement, some landlords require their tenants to have some type of coverage.

Auto Insurance

Auto insurance is effectively a contract between yourself and an insurance company in which you agree to pay premiums in exchange for protection against financial losses stemming from an accident or other damage to the vehicle. Auto insurance can offer coverage for vehicle damage, including damage to your car or another driver's vehicle, property damage or bodily injuries caused by an accident, and medical bills and/or funeral expenses associated with injuries sustained in an accident. The exact details of what's covered depend on the minimum coverage requirements for your state and any additional coverage options you choose to include. Every state – except for New Hampshire – requires drivers to have a minimum amount of bodily injury liability coverage and property damage liability coverage.

Umbrella Insurance

Personal Umbrella insurance offers additional liability coverage and extends your automobile, homeowners, watercraft and boat insurance policy limits beyond the coverage. Umbrella insurance can provide coverage for injuries, property damage, certain lawsuits, and other personal liability situations. When applicable, this type of insurance might cover not just the policyholder, but also other members of their family or household. Generally, umbrella insurance often represents a cost effective solution to increase your coverage limits.

How do you know if you have enough homeowner's and auto insurance coverage?

If disaster strikes, you'll want enough homeowner's insurance to rebuild the structure of your home, help replace your belongings, defray costs if you're unable to live in your home and protect your financial assets in the event of liability to others. When determining how much coverage you need, the market price of your home is a good place to start, but the cost to rebuild or replace your home may be more or less than the market value. For a quick estimate of how much insurance you'll need, you could multiply the total square footage of your home by local per-square-foot building costs. The cost per square foot to build a home in Massachusetts could range from $100 per square foot to $600 per square foot (or more), with the average cost being roughly $280 per square foot. Using this number, let's say someone wanted to build a 1,500-square-foot home. The price to build would be approximately $420,000. If your coverage limit is based on your mortgage, as some banks require, it may not be enough to cover the entire cost of a rebuild.

Another consideration tied to homeowner's insurance is the methods that insurance companies typically use to calculate the amount of compensation you're owed for any damage claims. Generally, there are two ways to calculate that amount: actual cash value and replacement cost value. With an actual cash value reimbursement, the insurance company will give you the cash value for the items included in your claim. For example, if you have a 15-year-old dryer included in a covered loss, the insurance company will pay you the equivalent of the value of the dryer instead of what it'd cost to replace the dryer. With replacement cost coverage, you'd get the equivalent of the cost to replace your dryer instead of an amount that matches the current value of the dryer.

When it comes to auto insurance, most states require that vehicle owners buy liability auto insurance, but coverage requirements vary by state. Depending on where you live, you may be required to buy additional types of coverage, such as uninsured motorist coverage, personal injury protection, or medical payments coverage. Drivers who lease or finance their vehicles are usually required to buy collision and comprehensive insurance.

The required minimum coverages for Massachusetts residents are outlined below:

Required Coverage	*Required Minimum Limit*
Bodily Injury to Others	$20,00 per person $40,00 per accident
Personal Injury Protection	$8,000 per person, per accident
Bodily Injury Caused by an Uninsured Auto	$20,00 per person $40,00 per accident
Damage to Someone Else's Property	$5,000 per accident

Source: https://www.mass.gov/service-details/understanding-auto-insurance

How much renter's insurance should you have?

The best way to determine the amount of renter's insurance coverage you need is by completing a home inventory list. The inventory list should contain your personal possessions, along with details regarding their cost, current value, age, and any other pieces of identifying information. Taking pictures of the items would be an added benefit since it'd make your life significantly easier if you ever need to file a claim with your insurance company.

Does it pay to shop and switch carriers?

Auto insurance makes for a great example when trying to figure out whether it makes sense to shop around and switch carriers if you find a better deal than what you have now. Studies have shown that consumers could save upwards of 19 percent on their auto insurance by shopping for rates and switching carriers. According to Bankrate, the average cost for auto insurance in Massachusetts is $429 for minimum coverage and $1,262 for full coverage[2]. Based on those averages, this could amount to savings ranging from $80 to $240 per year. Every dollar adds up, especially if you're trying to find ways to reduce your expenses and save some money. It is important to remember, that switching policies often might affect your insurability, as well as the fact that certain states allow insurance carriers to charge fees and penalties for mid-term policy cancellations ("Short-Rate cancellations").

Life Insurance

There are two types of life insurance: term and permanent. Term life insurance is designed to last a certain number of years, then end. You choose the term when you take out the policy. Common terms are 10, 20, or 30 years. It's important to remember that the best term life insurance policies balance affordability with long-term financial strength. Permanent life insurance stays in force for the insured's entire life unless the policyholder stops paying the premiums or surrenders the policy, and it's usually more expensive than term life insurance. Whole and universal life insurance[3] are two types of permanent insurance. Let's take a deeper dive:

Term Life Insurance Policies

Term life insurance is the most popular type of life insurance because it's usually affordable and lasts for as long as you need it. For example, let's say someone wanted a death benefit of $500,000 and needed protection for 20 years. In exchange for paying their premium, that person would have protection for that 20-year period. In many cases, once the 20-year period ends, a term policy would likely turn into a one-year renewable policy. At this point, it's a safe bet that the premium will increase considerably.

*Whole Life Insurance Policies**

A whole life insurance policy is a type of permanent life insurance that provides coverage for the entire lifetime of the insured individual if the policy premiums are paid. Here are some key features of whole life insurance:

- *Lifetime Coverage:* Whole life insurance remains in effect for the insured's entire lifetime if the premiums are paid. This ensures that the death benefit will be paid out to the beneficiaries upon the insured's death, regardless of when it occurs.
- *Cash Value Accumulation:* Whole life insurance policies have a cash value component that grows over time. A portion of the premiums paid is applied to this cash value, which accumulates on a tax-deferred basis. The cash value can be accessed by the policyholder through withdrawals or policy loans during their lifetime.

*Universal, whole and some other life insurance products require securities licensing. Neither Armstrong Advisory Group, Inc. nor its affiliate Armstrong Insurance Group, Inc. maintains such licensing. Such products cannot and will not be recommended by either of the above-referenced companies.

- *Level Premiums:* Whole life insurance policies typically have level premiums, which means that the premium amount remains constant throughout the life of the policy. Premiums are typically higher compared to term life insurance, but they remain fixed and predictable. This can be beneficial for long-term financial planning.
- *Death Benefit:* Upon the death of the insured, the whole life insurance policy pays out a death benefit to the named beneficiaries. The death benefit is generally tax-free to the beneficiaries and can provide financial support for things like funeral expenses, outstanding debts, income replacement, or estate-planning needs.
- *Dividends (for Participating Policies):* Some whole life insurance policies are referred to as participating policies, which means that policyholders may receive dividends from the insurance company. However, dividends are not guaranteed and depend on the company's financial performance. Policyholders can choose to receive dividends as cash, use them to reduce premiums, accumulate interest, or purchase additional coverage.

*Universal Life Insurance Policies**

A universal life insurance policy is a type of permanent life insurance that offers flexibility in premium payments and death benefit amounts. It combines a death benefit with a cash value component, allowing policyholders to adjust certain aspects of the policy to meet their changing needs. Here are some key features of universal life insurance:

- *Premium Flexibility*: Universal life insurance policies allow policyholders to adjust the amount and timing of premium payments within certain limits. Policyholders can pay premiums that exceed the cost of insurance, and the excess goes into the cash value component. This has the potential to grow over time.
- *Death Benefit:* Like other types of life insurance, universal life insurance policies provide a death benefit that is paid out to beneficiaries upon the death of the insured. The death benefit can be set at a level amount, or it can vary based on the cash value accumulation. Policyholders can typically choose between a level death benefit or an increasing death benefit as the cash value grows.
- *Cash Value Accumulation:* Like whole and other types of life insurance policies, universal life insurance policies have a cash value component that accumulates over time. The cash value grows based on the premiums paid, the credited interest rate set by the insurance company, and any fees or charges deducted by the policy. The cash value is typically accessible by the policyholder through withdrawals or policy loans during their lifetime.
- *Adjustable Death Benefit:* Universal life insurance policies often allow policyholders to adjust the death benefit amount within certain guidelines. This flexibility can be useful in adapting the coverage to changing circumstances, such as life events or financial needs.
- *Interest Crediting Options:* Insurance companies typically offer various interest-crediting options for the cash value component, such as a fixed interest rate or a variable interest rate linked to investment performance. The policyholder's choice of an interest-crediting option can impact the growth potential of the policy's cash value.
- *Cost of Insurance and Expenses:* Universal life insurance policies have costs associated with them, including the cost of insurance, administrative fees, and other expenses. These costs are deducted from the premium payments and can affect the growth of the cash value.

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How are benefits taxed?

Term life insurance policies generally have straightforward tax implications. The premiums paid are not tax-deductible and the death benefit paid to beneficiaries is generally tax-free.

Universal life and whole life policies benefits generally fall under the same rules as they relate to taxation:

- *Death Benefit:* The death benefit paid out to the beneficiaries of a universal life insurance policy is generally not subject to income tax. This means that the proceeds received upon the policyholder's death are typically tax-free
- *Cash Value Growth:* Again, universal life insurance policies have a cash value component that can grow over time. If the policyholder decides to surrender or withdraw funds from the cash value, the taxation will depend on the amount withdrawn and the policy's tax basis.
- *Withdrawals:* When withdrawing funds from the cash value, the policyholder can generally withdraw an amount up to the premiums paid into the policy without incurring an income tax liability. However, any amount withdrawn above the total premiums paid may be subject to income tax. Additionally, if the policy is classified as what's called a modified endowment contract, special tax rules apply, and the growth portion of the withdrawal may be taxable. For example, if someone has a policy with a cash value of $40,000 and $30,000 is the policyholder's basis, they'd be able to withdraw up to $30,000 and it would not be taxable. If they decided to withdraw $40,000 from the policy, then $10,000 of the distribution would be taxable as ordinary income, but not at capital gains rates.
- *Surrenders:* If the policyholder surrenders the universal life insurance policy entirely, any cash value amount received that exceeds the total premiums paid is generally considered taxable income.
- *Loans:* Policyholders can also take out loans against the cash value of their universal life insurance policies. In most cases, loans from the cash value are not taxable. However, if the policy lapses or is surrendered with an outstanding loan balance, the loan amount may be considered taxable income to the extent that it exceeds the premiums paid.

The Role of Life Insurance in the Context of Estate Planning

Life insurance can play an important role when it comes to estate planning. For instance, life insurance policies provide financial protection and liquidity to help address various estate planning needs and objectives. Here are a few ways life insurance can provide benefits from an estate-planning standpoint:

- *Estate Liquidity:* Life insurance can help provide immediate cash to cover estate taxes, debts, final expenses, and other costs that arise upon the death of the insured. This ensures that the estate can be settled efficiently without the need to sell assets hastily or disrupt the intended distribution of assets. For example, if someone has a large net worth and an estate tax bill will be due to Uncle Sam when the person passes away, but the majority of their estate is comprised of real estate holdings, it could make sense to have a life insurance policy to cover the estate tax bill and any final expenses, which could prevent the beneficiaries from finding themselves in a position where they're forced to sell a piece of real estate.
- *Equalizing Inheritances:* If an estate includes assets that are difficult to divide equally among beneficiaries, such as a family business or real estate, life insurance can be used to provide an equalizing inheritance. The policy proceeds can be directed to specific beneficiaries to balance the distribution of assets and ensure fairness. For example, let's say someone had a small business worth $2,000,000, no other assets, and two children. In this scenario, one of the children has joined the family business and will continue to run it once their parents have passed, and they don't want the other child to be left empty-handed. They could purchase a $2,000,000 death benefit life insurance policy and both children would end up receiving the same inheritance amount from their parents.

- *State Tax Planning:* Life insurance can be utilized to help mitigate the impact of estate taxes. By structuring the ownership of the policy or establishing an irrevocable life insurance trust, death benefit proceeds can be kept outside of the taxable estate, potentially reducing the overall estate tax liability.
- *Business Succession:* Life insurance can be deployed as part of a business succession plan. It can provide funds for the transfer of ownership interests or the purchase of shares from the deceased owner's estate, ensuring a smooth transition and financial stability for the business.
- *Charitable Giving:* Individuals who wish to leave a charitable legacy can use life insurance to make a substantial contribution. By naming a charitable organization as the beneficiary or owner of a policy, the proceeds can be directed to the charity, potentially resulting in a significant donation.

Rules of Thumb: Methods of Determining How Much Coverage You Really Need

Most insurance companies suggest that a reasonable amount of life insurance is roughly 10 times someone's annual salary, but there are three other methods for determining the amount of life insurance you should purchase. These methods include the years until retirement method, standard of living method, and debt, income, mortgage, and education method. When it comes to the "10 years times your annual salary" calculation, the process of determining exactly how much insurance you need is straightforward. If an individual is making $100,000 per year, it'd be smart for that person to purchase a policy with a $1,000,000 death benefit. Some also recommend adding an additional $100,000 per child to the "10 times your annual salary" amount. Here are some details about the other methods:

- *Years Until Retirement Method:* This method takes someone's years until retirement and multiplies that number by their salary. For example, if a 40-year-old person plans to retire at the age of 65 (so, in this case, they'd be 25 years out from retirement) and has an annual salary of $100,000 per year, they'd want to purchase a policy with a $,2,500,000 death benefit.
- *Standard of Living Method:* This is based on the amount of money a survivor would need to maintain their current standard of living if the insured passes away. To arrive at the income a surviving spouse would need if a spouse passed away, you'd take their income and subtract any costs that were associated with the spouse that'll no longer exist due to their passing. Examples include health insurance costs, car payments, or reduced taxes. There could be some items that may need to be added into the mix; for example, if the spouse was the primary childcare provider and if they passed, there would be an increased cost for childcare services. Some professionals will also account for income growth rates and expected returns on savings. For example, let's say a spouse makes $100,000 per year and the income the surviving spouse would need is $80,000 out of the $100,000. You'd take $80,000 and multiply it by 20 ($1,600,000) with the thinking that a surviving spouse could take five percent of the death benefit per year.
- *Debt, Income, Mortgage, and Education Method:* This method is meant to calculate the minimum amount of coverage needed to cover expenses and debt due to an untimely passing. For example, let's say a couple has a mortgage of $500,000, no other debt, would like to cover full educational expenses for their two kids at a non-public private university (at a cost of $60,000 per year), and each spouse makes $100,000 per year. These individuals would want policies with a $1,080,000 death benefit.

Employer Benefits and Portability

Employer insurance benefits are generally not portable, which means they don't typically follow a person when they change jobs or leave their current employer. Employer-sponsored insurance plans are usually tied to the specific employer, and coverage ends when the employment relationship is terminated. When someone leaves their job, they may have the option to continue their health insurance coverage for a limited period through a program called COBRA (the acronym stands for the Consolidated Omnibus Budget Reconciliation Act).

However, COBRA coverage can be expensive since the individual is responsible for paying the full premium, including the portion previously covered by the employer. For example, an employer may be paying 75 percent of the health insurance premium for an employee. If the employee is paying $250 per pay period for their health insurance and premiums are paid bimonthly, their COBRA premium would be $2,000 per month. In some cases, individuals may be eligible to enroll in a new employer's insurance plan immediately upon starting a new job. Alternatively, they might have to wait for a specified waiting period before becoming eligible for insurance coverage. This can vary depending on the employer's policies. It's always good to ask questions about these benefits when changing jobs.

Long-Term Care

Simply put, long-term care insurance is a type of insurance policy that provides coverage for the costs associated with long-term care services. Here's a breakdown of how it typically works:

- *Purchase:* Individuals purchase a long-term care insurance policy from an insurance company. The policyholder pays regular premiums to maintain coverage. Premiums for traditional long-term care policies aren't guaranteed and can be increased.
- *Eligibility:* To access the benefits, the policyholder must meet certain eligibility criteria, often referred to as "benefit triggers." These triggers are conditions or events that indicate a need for long-term care, such as being unable to perform a certain number of activities of daily living (ADLs) or being diagnosed with a cognitive impairment. There are six ADLs: bathing, eating, dressing, transferring, toileting, and continence. Generally, not being able to complete two of the ADLs is a trigger for benefits, but each policy is different.
- *Coverage Options:* Long-term care insurance policies may offer different coverage options. These can include coverage for care received in various settings such as nursing homes, assisted living facilities, adult day care centers, and even at home. Policies may also provide different levels of coverage for different services or have a maximum benefit amount. For example, someone may purchase a five-year benefit with a monthly maximum benefit of $5,000. They can purchase a rider that will increase the maximum monthly benefit over time. The pool of money the insured has available to cover the cost of care is the maximum benefit, in this case monthly, multiplied by the maximum coverage period, which is five years in this case, providing a total pool of funds of $300,000.
- *Waiting Period:* Many policies have a waiting period, also known as an elimination period, which is the period between the onset of a qualifying event and the time when the policy benefits begin. The policyholder is responsible for covering the costs of care during this waiting period. A common waiting period is 90 days, but it can be shorter or longer. With many long-term care policies, there is a waiver of the elimination period for in-home care.
- *Benefit Payments:* Once the waiting period has been satisfied, the policy starts providing benefit payments. These payments can be used to cover the costs associated with long-term care services, which may include assistance with ADLs, nursing care, therapy, and other services specified in the policy.
- *Policy Limits:* Long-term care insurance policies may have certain limits on benefits, such as a maximum daily or monthly benefit amount or a maximum total benefit amount. These limits vary depending on the policy and the chosen coverage options. How this impacts the policy will depend on whether the policy is an indemnity policy or a reimbursement policy.

Indemnity Policies vs. Reimbursement Policies: What's the Difference?

An indemnity long-term care policy provides a fixed benefit amount regardless of the actual expenses incurred for long-term care services. With this type of policy, the insured individual receives a predetermined daily or monthly benefit, regardless of the actual cost of care. The policyholder can use the benefit as they see fit, whether for professional caregiving services or informal care provided by family members. For example, if the policy has a daily benefit of $200, the insured will receive $200 per day in benefits, regardless of whether their actual expenses for care are higher or lower. Any unused portion of the benefit can typically be kept by the insured.

On the flip side, a reimbursement long-term care policy pays for the actual expenses incurred for long-term care services, up to the policy's specified limits. With this type of policy, the insured individual must submit claims for reimbursement of covered expenses. The insurance company reviews the expenses and reimburses the insured up to the policy's benefit limits. For example, if the policy has a maximum daily benefit of $200 and the insured incurs $150 in long-term care expenses, they can submit a claim for reimbursement for the $150 amount. Reimbursement policies typically require the insured to provide documentation of the care services received and any associated costs. Accordingly, since the insured didn't use their daily maximum in this case, their pool of money could last beyond the benefit period.

Hybrid Long-Term Care/Life Insurance

Hybrid long-term care/life insurance works similarly to traditional long-term care insurance, but there are a few notable differences. With a hybrid policy, an insured person would generally get less of a benefit for the same premium due to the life insurance component. If the insured passes away without using their benefits, the hybrid policy would pay out a death benefit, and there's usually a return of premium option tied to this type of policy. Another difference between the two is that with a hybrid policy, the premiums are guaranteed not to increase over time, and the premiums are often paid up in 10 years or as a lump sum.

Medicaid Coverage vs. Long-Term Care Insurance

Medicaid is a joint federal and state program that provides healthcare coverage for individuals with limited income and resources, including coverage for long-term care services. To be eligible for this care, an individual must meet the financial requirements outlined in the chart below. For illustrative purposes, let's say someone is single, has $400,000 in an IRA, $2,000 per month in Social Security benefits, and no long-term care insurance. If this person had to go into a nursing home, they'd need to use their IRA to pay for care until they met the eligibility requirements listed below, and they may have to use a portion of their Social Security benefit to cover the cost of care.

2023 Massachusetts Medicaid Long-Term Care Eligibility for Seniors

Type of Medicaid	**Single**			**Married (both spouses applying)**			**Married (one spouse applying**		
	Income Limit	***Asset Limit***	***Level of Care Required***	***Income Limit***	***Asset Limit***	***Level of Care Required***	***Income Limit***	***Asset Limit***	***Level of Care Required***
Institutional/Nursing Home Medicaid	$1,215/month	$2,000	Nursing Home	$1,643/month	$3,000	Nursing Home	$1,215/month	$2,000 for applicant/$148,620 for non-applicant	Nursing Home
Medicaid Waivers/Home and Community Based Services	$2,742/month	$2,000	Nursing Home	$2,742/month	$3,000	Nursing Home	$2,742/month	$2,000 for applicant/$148,620 for non-applicant	Nursing Home
Regular Medicaid/Aged, Blind & Disabled	$1,215/month	$2,000	Help with ADLs	$1,643/month	$3,000	Help with ADLs	$1,215/month	$3,000	Help with ADLs

Source: https://www.medicaidplanningassistance.org/medicaid-eligibility-massachusetts/

Disability

Short-term disability and long-term disability are two types of insurance coverages that provide income replacement in the event of a disabling illness or injury. Here's the rundown:

Short-Term Disability

- *Coverage Duration:* Short-term disability policies typically provide coverage for a shorter duration, usually ranging from a few weeks to several months. The exact duration varies by policy and may also depend on the nature of the disability.
- *Waiting Period:* Short-term disability policies have a waiting period, also known as an elimination period, before benefits begin. This waiting period is generally shorter, typically ranging from a few days to a few weeks.
- *Benefit Amount:* Short-term disability policies typically provide a higher percentage of your pre-disability income as benefits compared to long-term disability policies. The percentage can range from around 60 to 80 percent of your income.
- *Coverage Scope:* Short-term disability policies are designed to cover – as the name would suggest – short-term disabilities that prevent you from working for a limited period. These policies commonly cover conditions such as injuries, surgeries, illnesses, or temporary disabilities.
- *Job Protection:* Depending on the laws and regulations of your country or state, short-term disability insurance may not provide job protection, meaning your employer is not obligated to hold your position for you while you're on disability leave.

Long-Term Disability

- *Coverage Duration:* Long-term disability policies provide coverage for a longer duration, typically starting after the short-term disability period ends. The coverage can last for a specified number of years or until retirement age, depending on the policy.
- *Waiting Period:* Long-term disability policies have a longer waiting period before benefits start, often ranging from several weeks to several months (or even longer).
- *Benefit Amount:* Long-term disability policies generally provide a lower percentage of your pre-disability income as benefits compared to short-term disability policies. The percentage can range from around 40 to 70 percent of your income.
- *Coverage Scope:* Long-term disability policies are designed to cover long-term disabilities that prevent you from performing the duties of your occupation or any occupation for that matter, depending on the policy terms. These disabilities may include chronic illnesses, permanent disabilities, or conditions that extend beyond the short-term disability period.
- *Job Protection:* Long-term disability insurance does not guarantee job protection. However, in some countries like the U.S., there are laws like the Family and Medical Leave Act that can provide certain job protections for eligible employees who need to take leave due to a serious health condition.

Many employers will provide short-term and long-term disability insurance for their employees. The benefits associated with both policy types generally cover 40 to 60 percent of an employee's earned income. One thing to be aware of is that when you receive disability income payments from the insurer, the percentage of the benefit your employer paid for the premiums will be taxable to you. For example, if the employer is paying 75 percent of the premium, 75 percent of the income benefit from the insurer will be considered taxable. If someone is on long-term disability and they become eligible for Social Security Disability Insurance (SSDI), the employer benefit would be reduced by that person's SSDI benefit, which should generally result in the same income. However, it would not be paid out in addition to the employer benefit. For instance, let's say that an individual had been receiving $2,000 per month in group disability income. If they get approved for an SSDI benefit of $1,000 per month, their group policy benefit would be reduced by $1,000. They would get $1,000 from SSDI and $1,000 from the group policy.

How much of your income can you insure?

Generally, insurance companies will not allow someone to cover 100 percent of their income; this is a way for insurers to seek to reduce the number of fraudulent claims that exist out there. However, an individual could purchase disability insurance through an insurance policy and cover up to 90 percent of their income. A couple of the benefits of a private insurance policy include the fact that the income received is not taxable because the individual paid the premium and, typically, the income benefit would not be reduced by SSDI.

State-Managed Disability Programs

Paid Family and Medical Leave (PFML) is a state-run program designed to help provide income for people who would like to take time off for family or medical reasons. In Massachusetts, employees who have earned at least $6,000 in 2023 over the past last four completed calendar quarters and at least 30 times more than their PFML benefit amount are eligible for PFML benefits. This program, unlike disability insurance, will provide income not only if an individual needs medical services, but also if a family member requires medical services for a specified period. Most employees are eligible for up to 26 weeks of combined family and medical leave per benefit year for a qualifying reason. Below are the qualifying reasons:

- Caring for your own serious health condition as certified by a health care provider, including illness, injury, or pregnancy/childbirth (up to 20 weeks of paid medical leave),
- Caring for a family member with a serious health condition as certified by a health care provider, including illness, injury, or pregnancy/childbirth (up to 12 weeks of paid family leave),
- Bonding with your child during the first 12 months after birth, adoption, or placement (up to 12 weeks of paid family leave),
- Caring for a family member who was injured while serving in the armed forces (up to 26 weeks of paid family leave), and
- Managing affairs while a family member is on active duty (up to 12 weeks of paid family leave).

CONCLUSION

We'll end where we started: yes, nobody likes insurance. However, from a financial planning standpoint, it's critical to know whether your coverages are adequate, well-priced, and necessary. It's our hope that this guide has outlined some ways to help you identify where you stand in the context of insurance. If you have any questions about your current insurance coverage or want to know more about how to develop a comprehensive financial plan in the first place, our team of advisors are fiduciaries, and they're ready to serve you.

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If you have at least $400,000 in investable assets and would like to sit down with one of the Armstrong Advisory Group's financial advisors to discuss your investment needs, call (800) 393-4001 to schedule a complimentary, no-obligation financial consultation at an office near you. We have offices conveniently located throughout Massachusetts, New Hampshire, Rhode Island, and Connecticut.

ADDITIONAL INFORMATION

[1]https://www.abi.org.uk/data-and-resources/tools-and-resources/glossary/insurable-interest/

[2]https://www.bankrate.com/insurance/car/massachusetts/

[3]Universal, whole and some other life insurance products require securities licensing. Neither Armstrong Advisory Group, Inc. nor its affiliate Armstrong Insurance Group, Inc. maintains such licensing. Such products cannot and will not be recommended by either of the above-referenced companies.

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