



Harmony Wealth Strategies

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**Harmony Wealth
Strategies**

BUILDING AND SAFEGUARDING
YOUR FINANCIAL WORLD

Government-Sponsored Disability Insurance Programs

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Government-sponsored disability insurance programs are designed by federal, state, and local governments to provide basic income protection (and sometimes medical benefits) to disabled individuals. Although these programs may not offer the comprehensive protection you'd like, they can help you and your family if you can't work.

Social Security disability benefits

Two programs administered by the Social Security Administration pay disability benefits. The Social Security disability insurance program pays benefits to qualified individuals who are under age 65, regardless of income. The other program, Supplemental Security Income, pays benefits to qualified individuals with limited income who are over age 65 or are blind or disabled. Neither program covers partial disability, and both programs define disability strictly. Your impairment must prevent you from earning a substantial income, must be medically determined, and must last (or be expected to last) 12 months or more (or result in your death). Like other Social Security benefits, disability benefits are based on your Social Security earnings record.

Workers' compensation

All states and the District of Columbia have workers' compensation laws designed to protect employed individuals who get sick, injured, or killed on the job. Although most workers are covered by these laws, a few occupations are excluded, and some states exempt small-business employers from the law. Under workers' compensation, disability benefits are paid only to covered workers whose illnesses or injuries are work-related. How benefits are paid and in what amount are determined by state law and are based on how severe and permanent your injury or illness is. In most states, you will receive 66 2/3 percent of your wages (subject to a weekly maximum), although this percentage may be higher for permanent total disabilities.

Veterans benefits

Military servicemembers and veterans are entitled to disability compensation for service-connected health problems. Military-sponsored programs include disability retirement, temporary disability retirement, and disability severance pay. Department of Veterans Affairs (formerly known as the Veterans Administration) benefits include disability compensation, vocational rehabilitation, and VA pensions. Since the rules surrounding these benefits can be complex and change often, it's best to check with your military personnel office or local VA office if you have questions about any of these benefits.

Federal Employees Retirement System

Federal employees covered under the Federal Employees Retirement System (FERS) are eligible for disability benefits if they have at least 18 months of creditable service. To receive benefits, you must be unable to perform your job because of injury or disease. During the first year of disability, you receive 60 percent of your average salary (your average salary is based on your three highest earnings years). After the first year of disability, you receive 40 percent of your average salary. However, in the first year, any Social Security benefit you receive will offset your FERS disability benefit dollar for dollar. In the second year of disability, your FERS benefit will be reduced by 60 percent of your Social Security disability benefit. At age 62, your benefit is further adjusted.

State-sponsored programs

To date, five states--California, Hawaii, New Jersey, New York, and Rhode Island--and Puerto Rico require employers to provide short-term disability benefits to residents who are disabled due to injuries or illnesses not related to work. Benefits may be payable up to 26 weeks (39 weeks in California).

Who is eligible for coverage?

To be eligible to receive disability benefits from government insurance programs, you must meet the requirements established by each program. For instance, your disability may need to be totally disabling (Social Security), work-related (workers' compensation), or non-work-related (state assistance). You may have to work a certain length of time before becoming eligible for benefits (Social Security and FERS).

Advantages of government-sponsored disability programs

You don't have to pay a premium for government-sponsored disability coverage (unlike other types of disability coverage). It's not a free benefit; you finance some types of government disability insurance by paying taxes. However, you don't have to pay the relatively high premiums that you pay for private disability insurance, and you get basic protection against disability.

In addition, government disability programs often have provisions for disabled and nondisabled family members of a disabled worker. For instance, if you suffer a job-related illness or injury and later die, your family may receive survivors' benefits under

workers' compensation. By comparison, a private disability insurance policy doesn't pay any benefits to your family members.

Disadvantages of such coverage

One of the main disadvantages of government disability programs is that qualifying for benefits can be tricky because you must meet a strict definition of disability. For instance, to be considered disabled under workers' compensation, your disability must be job-related. In contrast, to qualify for state assistance (if you live in one of the five states that have disability programs), your disability must be non-work-related. To qualify for benefits under Social Security, you must be unable to work at any job (not just your own job) and unable to earn income, and your disability must be expected to last at least a year or end in your death.

If your earnings are high, it's also likely that your benefit check from a private disability policy would be larger than a disability benefit check you receive from the government. Like private disability insurance, government disability programs aim to replace a portion of your earnings lost to disability. However, government benefits are often capped at legal maximums that may not reflect your true earnings level.

Finally, government disability is less flexible. When you buy a private disability insurance policy, you can determine (within certain limits) your base coverage and purchase riders to help personalize your policy. But government disability is essentially an impersonal product designed to protect the average worker. If you rely on government disability insurance to meet your individual needs, you may end up disappointed.

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