

## **Disability Insurance Can Protect Your Retirement Funds**

Disability insurance can help keep your cash flow going should you be hit by a disabling event such as an injury or a sudden illness that prevents you from working.

But besides protecting your income, disability insurance can also safeguard your retirement goals by giving you much-needed cash that may keep you from tapping your 401(k) for emergency funds. Having to withdraw funds from your 401(k) can be costly due to the lost prospects of investment income, as well as tax penalties that you'll be hit with.

Think you wouldn't do that? One in four consumers said they would make early withdrawals from their 401(k) or IRA plans if they were to suddenly become disabled, according to the "2022 Insurance Barometer Study" by LIMRA.

Only one in five said they would turn to some type of supplemental insurance or disability insurance to ensure they have cash coming in.

Almost half (49%) of respondents said their households would face financial hardship in six months or less due to a disability.

Despite that, LIMRA research showed only 14% of consumers have disability insurance. The rest would need to tap into other sources of financial assistance, which could threaten their long-term financial goals.

LIMRA's study found that protecting retirement funds is the top reason people purchase disability insurance.

According to LIMRA: "This suggests consumers are more aware of the risks that a disability could pose to a household income stream and retirement savings."

Here are the top reasons people purchase disability insurance:

- Protecting their retirement funds (27%)
- Entering the workforce (25%)
- Getting married (15%)
- Having a child (14%)
- Starting a business (13%).

### **What it covers**

Disability insurance is like insurance for your paycheck. If you become disabled and can no longer work, your disability insurance company pays out funds that roughly equal your take-home pay.

Disability insurance can cover everything from total disability to rehabilitation, and even the short period after you recover from your disability. Some policies also offer partial disability coverage and coverage for presumptive disabilities.

Virtually every type of illness or accidental injury is covered by disability insurance. Some injuries or non-illnesses could be covered as well, including complications from pregnancy and childbirth.

Coverage exclusions, such as certain pre-existing conditions or occupational hazards, will be outlined clearly in your policy, so there's no mystery or confusion when filing a claim.

### **The takeaway**

The COVID-19 pandemic has shined a spotlight on inadequacies in people's protection against severe illness and disability. But disability insurance is relatively inexpensive and can keep you from making emergency withdrawals, and by doing so help you to stay on track for a secure retirement.

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