

DISABILITY INCOME INSURANCE “GAP”

DISABILITY PLANNING

Employer-provided group long-term disability (GLTD) often only offers basic income protection, which can leave the client with an insufficient level of income replacement. This is commonly known as the "gap" in coverage.

THE DISABILITY INCOME “GAP”

The disability "gap" refers to the difference between an individual's current monthly income and the monthly benefit provided by their employer's Group Long-Term Disability (GLTD) policy if they become disabled during their working years.

This gap can lead to financial difficulties unless addressed by purchasing an individual Disability Income policy to make up for the lower benefits provided by the GLTD policy.

Furthermore, it is essential for financial professionals to inform their clients about any benefit limitations within their GLTD coverage and the tax implications of these benefits to effectively plan for income in the event of disability.



Above chart assumes an effective tax rate of 25% and a GLTD plan paid for by the employer that provides 60% to \$5,000 per month.

AN EXAMPLE OF THE DISABILITY INCOME GAP

A LOOK AT THE NUMBERS

DISABILITY COVERAGE “GAP”

John is as a sales manager for a mid-sized company.

Annual Base Salary	\$100,000	
Annual Commission	\$20,000	
Employer Provided GLTD Benefits	60% base salary, up to \$5,000 per month	
GLTD Premiums	Employer Paid-Taxable	
	GLTD	Taxable
\$100,000 Base Salary	\$60,000	\$60,000
\$20,000 Commissions	\$0	-----

LEAVING JOHN WITH A GROSS DI GAP OF:

Salary + Commissions - GLTD Benefit = Gross DI Gap

\$100,000 + \$20,000 - \$60,000 = \$60,000 Gross Gap

TO SUMMARIZE

By purchasing an individual disability income policy, your client can close their disability income gap by using a small portion of their current income to pay the premium.

If John becomes disabled and his group long-term disability benefits begin after the 180-day waiting period, he will receive disability benefit payments from his policy for 12 months based on his base salary and up to the maximum allowed income limits.

Assuming an effective tax rate of 25%, John has a net disability income coverage gap of \$45,000.

Assumes an effective tax rate of 25% on \$120,000 in salary + bonus, and a GLTD plan paid for by the employer that provides 60% to \$5,000 per month. Individual tax rates may vary.

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