

DIVORCE FINANCIAL ADVISING UPDATE

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Disability Insurance...important, but often overlooked

Most of us take for granted the many types of insurance we carry – health, life, homeowners, auto, professional liability, etc. What is often overlooked is that the premium payments for those policies as well as all other financial commitments are usually coming from the insured's earned income. Without a way to insure the continuation of that income, a disability could jeopardize the entire financial picture.

In divorce settlement agreements, it is common to secure support payments with life insurance. It is less common to include disability insurance and I think it should be whenever possible.

Disability Income Insurance

Most disability policies cover 55-66.67% of gross income. Many policies coordinate with Social Security Disability Income so that the calculation of actual \$\$ received includes SSDI.

- **Employer provided group disability insurance.** Most mid to large companies offer such insurance. For larger companies, employers provide a certain amount at no cost to employees. Employees are often able to purchase additional amounts up to a cap at very reasonable premiums.

Taxability of benefits. If the employee is **taxed on the premiums**, the **benefits will be received tax-free**. As the premiums for group insurance are modest, the tax on the premiums is a small price to pay for receiving benefits tax free. If either spouse is receiving such benefits, be sure to determine the tax character as it will make a difference in calculation of support.

- **Private Disability Insurance.** Most insurers won't issue a policy to a self employed individual until they can see two years of income history. So, if someone leaves an employer and starts a business, there will most likely be a two year uninsured gap (except for CA and SSDI) unless there are contracts or other proof of earnings capability. Taxability of benefits are the same as for group policies.
- **CA Short Term Disability Income and Social Security Disability Income (SSDI).** These benefits are usually less than group or individual policies. SSDI benefits are taxed in the same tiered manner that Social Security Retirement Benefits are. In Dissomaster, input SSDI under taxable income – Social Security received. The tiered taxation is built into the program.

SSDI benefits to children of a disabled worker are not taxable to the worker. For Dissomaster, enter it under "Other nontaxable income" for the disabled spouse.

Have Questions? Need help? Call or e-mail me!