

Can Group, Private Disability Policies Work Together?

According to the Social Security Administration, a 20-year-old has more than a 25% chance of becoming disabled before reaching retirement age.¹

Loss of income for such a duration has the potential to cause significant financial hardship. And while Social Security Disability Insurance may help, it's critical to understand that about two-thirds of initial applications are denied and the average SSDI payment is only \$1,580 a month.^{2,3}

Disability coverage may be available through your employer, who may pay all or a portion of the cost for your coverage.

Employer plans typically pay up to 60% of your income. This limited coverage might not be enough to meet your bills, which is why you may want to supplement employer-based coverage with a personal policy.⁴

Taxation of Disability Benefits

When you purchase a personal disability policy, the benefit payments are structured to be income tax-free. Consequently, you may not be eligible for coverage that equals your current salary since your take-home pay is always less.

If your employer paid for your coverage, then the income you receive generally will be taxable. If you paid for a portion of the employer-provided coverage, then the pro rata amount of the benefits you receive are structured to be tax-free.

Choices, Choices, Choices

Consider the waiting period before disability payments begin. A longer waiting period saves you money, but it also means that you may have to live off your savings for a longer period. You are the best judge of how much of this risk you are comfortable assuming.

You also may want to coordinate the waiting period with any short-term disability benefits you could have. For example, if your short-term disability covers you for 90 days, look to have at least a 90-day waiting period so that you can potentially lower the cost of the long-term policy.

Ask how a policy defines an inability to work. Some policies will say "the inability to do any job or task;" others will say "own occupation." You may prefer the latter definition so you're not forced to perform some less-skilled, lower-paid work. That type of work may not help you meet your bills.

1. SSA.gov, 2025
2. Disability-Benefits-Help.org, 2025
3. SSA.gov, 2025
4. III.org, 2025

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