

# **DREGGORS, RIGSBY & TEAL, P.A.**

## **CERTIFIED PUBLIC ACCOUNTANTS**

### **Disability Income Insurance for the Self-Employed**

Your ability to earn income is your most valuable asset. It allows you to buy and maintain assets such as your house, your car, and your jewelry. People routinely insure these types of property against loss, yet a lot of us neglect to buy insurance for the one cash source that makes it possible to maintain a particular lifestyle--the ability to earn income.

The cold reality is that, at any age, you have a greater chance of suffering a long-term disability during your working years than dying. As a self-employed person, suffering an illness or injury without disability income insurance could mean disaster for both your business and your family.

### **Why is disability income insurance important?**

Disability income insurance pays cash benefits in the event you are unable to work due to illness or accident. Disability income insurance:

- \* Protects your ability to earn an income
- \* Allows you to tailor the cost and policy terms to fit your own budget and needs

Disability income insurance is designed to provide for the essentials of daily life. As a result, disability income insurance does not:

- \* Replace your entire paycheck--most policies will replace 50 to 70 percent of your salary, although typically the benefits will be received tax free
- \* Pay benefits under any and all circumstances--policies contain a specific definition of disabled that must be met in order to qualify for benefit payments

### **What makes disability income insurance so critical for self-employed people?**

As a self-employed individual, you don't have a large company providing you with long- and short-term salary continuation plans, group medical and disability plans, and other benefits. Your business may consist of you alone, or you and a few employees. If you become sick or disabled, there may be nobody else to carry on your business while you are unable to work. As a result, there is no income for the business or for you.

Unfortunately, just because you have become sick or disabled and cannot work, your personal and business obligations don't stop. You are personally liable for all of the debts of your business, because as a sole proprietor, there is no legal distinction between personal and business assets. So you could lose everything you own if you're unable to pay your debts. Adequate disability coverage can provide you with enough cash flow to prevent financial ruin for you and your business.

Another type of disability insurance, known as business overhead expense insurance, is also important. Because you're self-employed, you probably generate most of your business's income. This type of

insurance provides funds to pay the normal operating expenses of a business when you suffer a disability and are unable to work. This allows you to keep the business open until you recover, replace yourself with another person to generate income, or sell the business.

Finally, you could use disability insurance to fund a buy-sell agreement. A buy-sell agreement is a binding agreement between you as the business owner and a second party. You agree to sell your business interest, and the second party agrees to buy it, on a specified triggering event. For example, your permanent disability could be a triggering event. When you become disabled, the purchaser will use the proceeds from the disability insurance policy to buy your share of the business from you.