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Y O U R T I M E

Saving Your Nest Egg

Retirement funds suffer if you go on disability. An insurance policy can help

By SHARON EPPERSON

SAVING FOR RETIREMENT IS hard enough these days, but what would happen if you became disabled? If you couldn't work, you probably would have to stop setting aside that money. If you work for a company that matches your 401(k) contributions, you would lose that investment as well. Disability insurance usually covers only 50% to 70% of your income, and many plans don't pay disability benefits after age 65.

But help is on the way. Some employers are offering group disability insurance that covers 401(k) contributions, and at least two disability-insurance companies have started offering individual policies that do likewise. Berkshire Life, a subsidiary of Guardian Life Insurance Co. of America, has introduced a new program called

Retirement Protection Plus, which allows an individual disability policy to cover not only the employee's contributions to a defined-contribution plan but also the employer's matching contribution if the worker becomes totally disabled. Massachusetts Mutual Life Insurance Co., which provides a stand-alone policy, also offers the option of attaching to its individual disability policies a rider that would pay the employee's plan contributions plus the employer's match. [This year's limit for 401(k) contributions is \$12,000; self-employed workers or small-business owners can set aside up to \$40,000 in a SEP-IRA.] The added coverage pays a separate disability benefit for the retirement contribution, which is put into trust. Unlike savings in a 401(k) or IRA, the earnings in the trust are taxable each year.

Who should consider it?

Insurance consultants say the plans are being marketed to highly paid executives and physicians who want to increase their disability coverage, not to the average office manager or factory worker. Yet a legitimate prospect could be "anyone who makes a significant contribution to a retirement-savings plan and whose employer also makes a significant contribution," says John Ryan of Ryan Insurance Strategy Consultants, which represents several disability insurers.

But don't get retirement-protection disability insurance instead of fully funding your IRA or 401(k). If you have already maxed out your retirement contributions and have purchased an individual disability policy to supplement the coverage that you may get through your job, then you should consider getting this extra protection, says financial planner James Knaus of

LaBrecque, Jackson, Price & Roehl of Troy, Mich. Count on paying about 2% to 3% of your gross income for an individual disability policy with retirement protection, Knaus says. Costs will vary according to factors that affect any disability plan: your age, your health, the length of time you can wait before the benefit kicks in and the duration of the benefit.

A typical candidate for such coverage is Michael Krencicki, a financial adviser and father of two in Troy who doesn't get disability insurance through his employer and wants the added retirement protection. "If I'm not making any earnings, I'm not making any contributions. So somewhere that has to be taken care of," he says. "The results of not having it—should you become disabled—would be catastrophic." ■

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