Disability Insurance

Disability Insurance Pre-/Post-Quiz ................................................................. 41
Lesson 1: What Do You Know About Disability Insurance? .......................... 42
  Taking Care of Business Activity ................................................................. 43
  Johnny’s Lucky Break Activity ......................................................................... 43
What Do You Know? Knowledge Assessment Quiz ................................. 44
  Taking Care of Business Answer Sheet ......................................................... 45
  Johnny’s Lucky Break Answer Sheet ............................................................ 46
GUIDE: Disability Insurance

Pre-/Post-Quiz

Before launching this unit, print the “Disability” quiz from the “Lessons & Worksheets” section of the site, or send students to www.scholastic.com/NextGeneration/Students to take an interactive version of the quiz and print their answers. Explain to your class that the quiz is meant to be a benchmark to assess their prior knowledge of the topic and will help you organize class discussions. The quiz can also be used as a post-assessment tool after students have completed the unit lessons.

QUIZ ANSWERS

1. What is the main purpose of disability insurance?
   - A. To provide replacement income if you have an accident or illness and can’t work
   - B. To cover your medical expenses if you have an accident or illness and can’t work
   - C. To provide replacement income and cover all your medical expenses if you have an accident or illness and can’t work
   - D. To provide your family with income when you retire

2. When should people consider disability insurance?
   - A. When they get married
   - B. When they graduate from college
   - C. When they start a full-time job
   - D. When they retire

3. Employers must provide all employees with disability insurance free of charge.
   - A. True
   - B. False

4. Most disability insurance policies will replace:
   - A. 80%–100% of your income
   - B. 60%–80% of your income
   - C. 40%–60% of your income
   - D. 20%–40% of your income

5. Which of the following are types of disability insurance?
   - A. Short-term, long-term, and indemnity
   - B. Short-term, indemnity, and workers’ compensation
   - C. Long-term, indemnity, and workers’ compensation
   - D. Short-term, long-term, and workers’ compensation

6. A computer technician is in an accident on his way home from work and breaks both wrists. Which of his insurance plans will provide him with income while he is out of work recovering for six weeks?
   - A. Short-term disability insurance
   - B. Long-term disability insurance
   - C. Workers’ compensation
   - D. Health insurance

7. Which of the following could require long-term disability insurance to help cover costs?
   - A. A broken leg
   - B. A degenerative disease
   - C. The flu
   - D. None of the above

8. A young woman falls on the ice, hurts her back, needs surgery, and will be out of work for three months. What does she need to do in order to claim the disability insurance she has through her employer?
   - A. Inform her employer only
   - B. Call her doctor and ask him to send her employer a note
   - C. Contact her health insurance company
   - D. Inform her employer and see her doctor to have the doctor confirm that she is not able to work

9. Social Security administers a disability insurance program that covers most workers and has strict eligibility requirements.
   - A. True
   - B. False

10. Disability insurance can only be provided through an employer or the government.
    - A. True
    - B. False
Lesson 1
What Do You Know About Disability Insurance?

Estimated Time: 90 Minutes

Type: Class discussion and share. Activity encompasses math skills and critical thinking/reasoning.

Description: Introduction to disability insurance. This is a type of insurance students may be unfamiliar with, but it is one that can be very important to their families and to them when they start working.

Learning Standards:
Financial Literacy: Risk Management and Insurance
Overall competency: Use appropriate and cost-effective risk management strategies.
Standard 1: Identify common types of risks and basic risk management methods.
Standard 3: Explain the purpose and importance of health, disability, and life insurance protection.

Financial Literacy: Financial Responsibility and Decision Making
Overall Competency: Apply reliable information and systematic decision making to personal financial decisions.
Standard 4: Make financial decisions by systematically considering alternatives and consequences.

Math Learning Standards for Grades 9–12 (National Council of Teachers of Mathematics)
Problem Solving: Instructional programs should enable all students to: build new mathematical knowledge through problem solving; solve problems that arise in mathematics and in other contexts; apply and adapt a variety of appropriate strategies to solve problems; monitor and reflect on the process of mathematical problem solving.
Connections: Instructional programs should enable all students to: recognize and use connections among mathematical ideas; understand how mathematical ideas interconnect and build on one another to produce a coherent whole; recognize and apply mathematics in contexts outside of mathematics.

Life Skills: Life Works
Standard 5: Makes general preparations for entering the workforce. Benchmark 12: Understands the nature and function of worker’s compensation, disability insurance, and unemployment insurance.
Benchmark 14: Makes an accurate appraisal of basic insurance needs.

Common Core State Standards for English Language Arts
Reading: Informational Text: CCSS.ELA-Literacy.RI.9-12.1–Key Ideas and Details: Cite strong and thorough textual evidence to support analysis of what the text says explicitly as well as inferences drawn from the text.
Speaking and Listening: CCSS.ELA-Literacy.SL.9-12.1–Comprehension and Collaboration: Initiate and participate effectively in a range of collaborative discussions (one-on-one, in groups, and teacher-led) with diverse partners on grades 9–12 topics, texts, and issues, building on others’ ideas and expressing their own clearly and persuasively.

Common Core State Standards for Mathematics
Number and Quantity: CCSS.Math.Content.HSN-Q.A.1: Use units as a way to understand problems and to guide the solution of multi-step problems; choose and interpret units consistently in formulas; choose and interpret the scale and the origin in graphs and data displays.

Learning Objective: Help students understand the role of disability insurance in protecting income once they’re in the workforce full-time. At the same time, students will learn the importance of owning other types of insurance (e.g., health) and accumulating assets.

Educator Resources/Materials Needed:
What Do You Know? knowledge assessment quiz questions (see Lesson Script/Teaching Steps in this lesson) and the What Do You Know? answer key to present on cards, flip chart, or as a PowerPoint. Sheets can be printed and distributed to put in students’ lesson folders. You may also want to find a sample disability policy or plan. You may also want to view the video Kylie: Planning for the Unexpected.

Related Activities/Student Worksheets:
• Coming to Terms With...Disability Insurance Glossary
• Taking Care of Business
• Johnny’s Lucky Break

Subject/Skill Focus: Critical thinking, analysis of written material, practical math skills

Lesson Script/Teaching Steps:
Many of your students may not know about disability insurance, but it’s a type of insurance that could be very important to their families and to them once they start working full-time. In fact, young adults are much more likely to become disabled than to die prematurely.
• Just over one in four of today’s 20-year-olds will become disabled before they retire.¹
• Fifty percent of working Americans couldn’t make it a month before financial difficulties set in, and more than one in four would have problems immediately.²
• Illness causes 9 out of 10 disabilities, all workers need disability insurance regardless of job.³

For a real-time disability counter visit Council for Disability Awareness at www.disabilitycounter.org.

Before conducting the lesson, you may want to view the Disability Insurance video Kylie: Planning for the Unexpected with your students. (See the Video Guide, page 7.)

Next, review the Coming to Terms With...Disability Insurance Glossary and the What Do You Know? knowledge assessment questions in preparation for your discussion. Following your initial discussion, you can hand out the sheets and glossary.

Prepare a short What Do You Know? knowledge assessment quiz with the following questions:

1. Can you name the most common disabilities for which claims are filed?
2. Who is likely to become disabled?
3. What does disability insurance do?
4. Who pays for disability insurance?

Choose a style and format that will be interesting and relevant to your class. For example:

• Put questions and answers on cards you or your students can read.
• Plan to read questions and have answers written on flip-chart pages that you can reveal after each question.
• Create an interactive PowerPoint Q&A that you can use in pre- and post-discussion and post-lesson skills assessment.

See answers on the next page.

After you have conducted the quiz and presented the answers, hand out the Coming to Terms With... Disability Insurance Glossary, or have your students go to the Life Happens website to learn more about disability insurance (www.lifehappens.org/disabilityinsurance). Briefly discuss how disability policies work, and ask students to share any experiences they may have had with disability insurance through friends or family.

Review with students the differences between short-term disability insurance (STD) and long-term disability insurance (LTD). Begin by asking your students to explain the term “short-term disability insurance.” Then ask them to explain the term “long-term disability insurance.” (Or have them read the definitions aloud from the Disability Insurance Glossary and explain how they interpret the definitions.)

> Taking Care of Business and Johnny’s Lucky Break Activities:

There are two activity sheets that help illustrate the value of disability insurance: Taking Care of Business and Johnny’s Lucky Break. Both can be used as individual activities or group activities that include role-play and point/counterpoint discussion.

Assessment:

After the disability insurance segment is complete, conduct the What Do You Know? knowledge assessment again and compare results. If you want to let students participate in creating a more detailed post-assessment vehicle, you may have them add questions to the quiz related to material covered in the lessons.

¹ Social Security Administration, Basic Facts, Feb. 7, 2013.
² The Disability Survey conducted by Kelton Research on behalf of Life Happens, April 2009.
Can you name the most common disabilities for which claims are filed?
According to CDA’s 2011 Long-Term Disability Claims Review, the following were the leading causes of new disability claims in 2010:

- Musculoskeletal/connective tissue disorders caused 27.5% of new claims
- Cancer was the second leading cause of new disability claims at 14.6%
- Injuries and poisoning caused 10.3% of new claims
- Cardiovascular/circulatory disorders caused 9.1% of new claims
- Mental disorders caused 9.1% of new claims

Also, approximately 90% of disabilities are caused by illnesses rather than accidents.

Who is likely to become disabled?
The answer is anyone: An office worker or construction worker, race car driver or mom who works in a card store.

- Just over one in four of today’s 20-year-olds will become disabled before they retire.
- Fifty percent of working Americans couldn’t make it a month before financial difficulties set in, and more than one in four would have problems immediately.
- Illness causes 9 out of 10 disabilities, all workers need disability insurance regardless of job.

For a real-time disability counter, visit the Council for Disability Awareness at www.disabilitycounter.org to view America’s Disability Counter.

What does disability insurance do?
Disability insurance replaces part of your salary. Remember, this is not health insurance. It does not pay medical or doctor bills directly. It provides you with a percentage (generally between 40% and two-thirds) of your gross income while you are unable to work.

Who pays for disability insurance?
- Some companies, especially larger ones, provide workers with a disability insurance benefit at no extra cost to the employee. This is called group coverage and the two types are: short-term disability (STD) and long-term disability (LTD).
- When a group benefit is provided, employees often can add to their coverage if they wish to.
Educator Answer Sheet:
**Taking Care of Business**

Janice Brown Davidson, single mother of two in her late 20s, manages an in-store boutique at Lacy’s Department Store.

- She earns $60,000 a year before taxes (that’s her gross income).
- She pays 20% in taxes $12,000
- Her net annual income (after taxes) $48,000
- Her net monthly income is $4,000
- Her monthly living expenses are $2,400
- Her discretionary monthly living expenses are $1,600
- Her current emergency savings are $13,000

She has an employer-paid disability benefit through the department store where she works. Lacy’s provides a long-term disability insurance benefit that pays 60% of an employee’s gross salary up to a maximum of $5,000 a month.

1. Would a policy that pays 40% of her gross salary provide enough income to cover Janice’s fixed monthly expenses if she became disabled and couldn’t work? **No. Forty percent of $60,000 is $24,000. Since benefits through an employer-sponsored plan are taxed, her annual after-tax benefits would be $19,200, or $1,600 per month.**

2. If yes, how much could she set aside each month after fixed expenses are paid? If no, how much of a shortfall would she have, and how would she cover it? **She would have an $800-per-month shortfall, and she would have to tap into her emergency savings to make up the difference.**

3. Now assume that Lacy’s offers employees an option to increase their disability coverage through the company’s group insurance plan. Janice would have to pay $10 per month to increase her disability benefit to 60% of her gross monthly income. If she were to suffer a long-term disability, how much monthly income would Janice receive through this program? **$2,400 per month. Sixty percent of $60,000 is $36,000. Once you account for taxes, her annual benefit would be $28,800 or $2,400 per month.**

4. Would the new total cover her monthly expenses? **Yes.** Would she be able to put anything into savings and other discretionary spending? **No.**

**Discussion Points**

This scenario illustrates that disability insurance is designed to help people make ends meet when they are unable to work due to a disability. Typically, it does not replace 100% of a person’s pre-disability income. Why do you think this is the case? **If disability insurance replaced 100% of a person’s pre-disability income, there would be a disincentive to work and cases of insurance fraud would probably increase (i.e., some people would feign disabilities in the hopes of receiving their full paycheck without having to work). Disability insurance is designed to help people “make ends meet” until they are able to return to work. By drawing a respectable but lesser income than they did when they were working, people have an incentive to get better and return to work.**

If Janice became disabled and her employer did not offer any disability insurance coverage, how long could she have paid her fixed expenses before her emergency savings would have run out? What does that tell you about the role of disability insurance? **Her emergency savings would have run out after 5.4 months. If Janice’s disability was a long-term disability lasting several years or longer, she would have faced a severe financial crisis at that time. If she had disability insurance, she would have had replacement income to live on for many years, maybe even until retirement age.**
**Educator Answer Sheet:**

**Johnny’s Lucky Break**

Johnny Sanchez started a job as a web designer for a small company about a year ago after graduating from college.

- Gross earnings are $2,100 a month before taxes.
- Net earnings (what he takes home) are $1,800 a month.

Do the math to fill in the blanks, using the information you have.

**Johnny’s Monthly Expenses**

<table>
<thead>
<tr>
<th>Item</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Taxes—automatically taken out of paycheck</td>
<td>$300</td>
</tr>
<tr>
<td>Rent (he shares a place with two friends)</td>
<td>$550</td>
</tr>
<tr>
<td>Food, clothes, and other expenses</td>
<td>$750</td>
</tr>
<tr>
<td>Discretionary funds (all the money that is left)</td>
<td>$500</td>
</tr>
</tbody>
</table>

His company provides health insurance, but does not offer a disability insurance benefit.

Here is the long-term disability policy Johnny could buy on his own:

**Long-Term Policy Option**

<table>
<thead>
<tr>
<th>Cost</th>
<th>$40 per month</th>
</tr>
</thead>
<tbody>
<tr>
<td>Coverage*</td>
<td>Sixty-five percent of his salary would be replaced until age 65</td>
</tr>
<tr>
<td>Elimination period</td>
<td>Ninety days. The coverage would start 90 days or three months after a disabling accident or illness occurs.</td>
</tr>
</tbody>
</table>

*Note that he gets the full amount. He would not pay tax on disability payments because he paid for his policy with after-tax dollars.

How much would Johnny receive each month in disability payments? $1,365

Would that cover his expenses? **Yes**

What would he have left in discretionary funds? **$65**

His fiancée, Jill, thinks he should purchase an individual disability insurance policy. Why might she think that?

1) Anyone who is working should have disability insurance to make sure he or she would be able to make ends meet in the event of a disabling illness or injury. 2) A young person’s chance of becoming disabled during his or her employment career is much higher than the chances of dying prematurely. 3) Men who file disability claims tend to have longer periods of disability than women. 4) Young people generally do not have the financial resources or savings to cover being out of work for an extended period.

Johnny isn’t sure he wants to buy the insurance. He thinks he will be okay without it for now. Why would he think that? **Johnny may be assuming that since he is young, his chances of needing disability insurance are small. He probably has never done an assessment to determine what is at stake. He may not understand the risk and wants to use the $40 policy cost for other things.**
An Accident!

Over the weekend, Johnny was in a serious auto accident. He won’t be able to return to work for nine months while his broken bones heal.

His health insurance will help pay for his hospital stay, doctor visits, and physical therapy sessions.

He has $6,000 in savings.

Scenario A
No Disability Insurance
How long can Johnny pay his monthly expenses before he runs out of money? 4.6 months

Scenario B
With Disability Insurance
How much will Johnny receive each month? (Refer back to the worksheet.) $1,365

Remember, the payments do not start right away. Since Johnny must pay his expenses without a salary until disability begins, how much will he have left in savings when the payments start? $2,100

Can he cover monthly expenses with disability payments? Yes

How much could he save each month? $65

When he goes back to work, how much savings will he have (assuming he saves all he can each month, and returns to work after nine months)? $2,490 ($2,100 left in savings when insurance kicks in + ($65 x 6 months))