

November *MoneyMinute* – Company Benefits Open-Enrollment

By Jennifer Cray, CFP®

November marks the annual benefits open-enrollment time at many companies. Employee benefits are a very important component of your financial plan. So don't just automatically renew what you have without looking at all that stuff you get from the HR department.

Of all the benefits that companies offer, among the most important – and most overlooked – is disability coverage.

Disability insurance replaces all or a portion of your income when illness or accident leaves you unable to work. Just recently at ICM, we've seen healthy clients suddenly find themselves in this situation. Fortunately, they were covered by long-term disability policies offered through work.

For a younger person, the chance of becoming disabled is much higher than the odds of premature death. So if you need that paycheck you're earning, it is vital to get disability insurance.

There are two types of coverage: short-term and long-term.

Short-term disability: This is designed to cover you for a short period of time, usually 90 days. In California, the state operates a short-term disability program that replaces up to 55% of your income, up to \$917 per week in 2008. Your employer may offer an additional short-term disability plan to supplement what the state provides.

Long-term disability (LTD): LTD is designed to kick in once you've exhausted the short-term coverage, and may last for several years, even up to age 65 or beyond. The benefit typically covers 50%-75% of pay. Some employers automatically cover part, or all, of LTD coverage, but some don't.

A key distinction is whether the plan covers "own occupation" or "any occupation." "Own occupation" means that your disability prevents you from doing your particular job. "Any occupation" means you can't do your job, but you could do *some* job, in *some* field. "Own occupation" is the best coverage, as it takes a catastrophic disability to convince the insurance companies that you can't do any gainful work at all.

If your policy has no "own occupation" coverage at all, you should investigate getting a supplemental private policy.

Critical point: It's best for you to pay the premiums yourself, with after-tax dollars – not as part of a pre-tax cafeteria plan. That way, the benefit, should you become disabled, is tax-free to you. If the company pays your premium, the benefit is fully taxable, and that

won't fully replace your paycheck. Check with your HR department to see what your options are.

Other benefits to evaluate at open enrollment:

Health plan choices: Most workers just automatically take the coverage they've had over the past year. But first examine all your choices and costs. Try to avoid any plan that limits lifetime benefits to \$1 million. It's surprising how quickly people can surpass such a limit if they experience an accident or serious illness.

Flexible spending accounts: An FSA lets you deposit funds on a pre-tax basis to pay your out-of-pocket health and dependent-care costs. However, you need to make a good estimate on the funds you'll use by year-end (or optionally by March 15th of the following year) otherwise they will be lost.

Health savings accounts: HSAs allow workers to save pre-tax dollars for health care costs without the "use it or lose it" restrictions in FSAs, though they require enrollment in a qualified high-deductible health plan. More employers are adding these plans to their existing choices.

HSA dollars can often be directed into different investment accounts and used on a tax-favored basis in retirement. In 2009, HSA contribution limits are \$3,000 for individuals and \$5,950 for family coverage plus \$1,000 catch-up for those 55 or older.

Life insurance: Most benefit packages include a nominal amount of life insurance. Sometimes that insurance can be two or three times base pay. Usually, you can get a better deal with term insurance bought on your own, but if you have health problems, you should consider this option. Note that when you leave your employer, to take the policy with you, you'll usually have to pay a much higher rate than available on the open market. Find out how much life insurance you really need, because for breadwinners with young families, 2 or 3 times salary is unlikely to be enough.

Education benefits: Tuition for college or professional seminars is extremely valuable because it can help you advance in your career. Companies that offer these benefits often don't advertise the fact, so you may be happily surprised. If your company offers to pay for coursework of any kind – even courses taken strictly for fun – consider making use of that benefit.

Adapted from information from the Financial Planning Association, the California Estate Planning Practice Blog, and HSA Bank.

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