

Group benefits

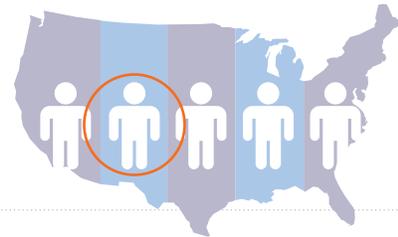
Strategies for income protection — attorneys and law firm partners

Insights on ways to protect current income and earning potential

Summary | There's no question about it. For attorneys, the ability to protect their income is crucial. The **median annual wage** for attorneys is **\$119,250**, or \$57.33 per hour¹ — a significant amount to replace if they become too sick or hurt to work. Disability insurance is designed to help people meet their income protection needs.

Consider this:

56 million Americans, or **1-in-5**, live with disabilities.²



And more than **1 in 4** of today's 20-year-olds will become disabled **before** reaching retirement age.²



Being prepared is key.

How can attorneys and law firm partners prepare for a loss of income?

There are three strategies to help protect the current income and future earning potential of attorneys and law firm managing partners.

Strategy 1

Review language in the disability contract

Strategy 2

Ensure there's enough replacement income

Strategy 3

Maintain retirement funding

Strategy 1 | Review language in the disability contract

Disability insurance contracts have plenty of moving parts. And just like no two groups of employees are the same, no two disability contracts are, either. Make sure your firm's employees have their income protected if they're unable to work. When reviewing the disability contract, consider the answers to these questions.

Q | How is disability defined and what qualifies a person for disability insurance?

A | The most important part of a disability contract is its definition of disability. The definition determines who's qualified to receive benefits and who isn't. And definitions can vary by contract and carrier, so it's a good idea to make sure you understand how your contract defines disability.

An own occupation definition can protect attorneys by evaluating disability based on the inability to practice law when disability begins. And attorneys' duties differ by area of expertise. If an attorney is highly specialized or practices in a niche market, consider upgrading the definition of own occupation to own occupation for attorneys — commonly referred to as own specialty.

This definition can provide even more protection. For example, a patent attorney doesn't perform the same duties as a trial attorney. A family attorney's day-to-day tasks differ from a corporate attorney's. A specialty own occupation definition of disability protects attorneys by evaluating them based on their ability or inability to perform in the specialty area of law they're working in when the disability begins.

Q | How are earnings defined?

A | The amount of a long-term disability benefit is linked directly to an attorney's earnings before their disability. Depending on how earnings are defined (base wage or W-2) — it may exclude bonuses, leaving part of their income unprotected.

Q | How is business profit handled?

A | Profit generally makes up a large part of a managing partner's total compensation. That's why any profit-sharing should be included in the disability contract's definition of earnings. It's also important to understand that business profits may be considered an offset during total disability. Make sure to look for a contract that doesn't offset against the disability benefit during total disability, which would reduce the net benefit amount.

Q | Is there a work incentive benefit?

A | Some disability insurance contracts offer an incentive for attorneys who work part-time by providing up to 100% of the attorney's pre-disability income to help make up the difference between the disability benefit and part-time earnings.

Q | How are benefits affected by employees who normally work more than 40 hours a week?

A | You may have attorneys who work more than 40 hours a week. If so, check your disability contract to see if it includes language about employees not being considered disabled if they can work at least 40 hours per week. For example, attorneys who normally works 60 hours, become disabled and are later cleared to work 40 hours may no longer receive benefits.

Q | Is there special protection to help attorneys as they rebuild their client base after a disability?

A | An extended earning protection benefit helps attorneys bridge the potential earnings gap while they work to rebuild their client base.

Strategy 2 | **Ensure there's enough replacement income**

Group disability policies may not always meet the income protection needs of everyone, especially higher paid attorneys. Those policies typically cover 60-66% of the employee's base salary, up to a maximum of \$6,000 per month. Some companies offer a larger benefit for attorneys — up to \$20,000 a month.

How can attorneys maximize their benefit amount during a disability? Here are a couple of solutions.

Benefit savings and tax-free benefits

When employers pay the premium for long-term disability coverage, employee disability benefits are taxed. And that can have a significant impact on the percentage of the employee's replacement income when compared to take-home dollars. Partners receive a tax-free benefit as business owners.

With a gross-up — or bonus-up — plan, an employer adds post-tax dollars to the employee's salary to cover the cost. That means the disability benefits aren't taxed. It benefits both employees and employers. Employers can purchase a policy with a lower benefit percentage at a lower price, while still providing employees with the same — or even more — take-home pay.

Add individual disability insurance

Individual coverage can increase the income replacement ratio to about 75% – 80%. Premiums can be paid for by the employer or employee. And if paid by the firm, the premium may be a tax-deductible business expense.

The coverage can also be carved out for a specific employee group, like partners, as an added benefit. And it is portable so the employee can take the coverage with them if they leave the company.

Strategy 3 | **Maintain retirement funding**

Even with both group and individual coverage, it's possible there may not be money left over to save for retirement after paying everyday expenses and handling ever-increasing medical costs.

Insurance companies have developed special programs to help replace lost retirement savings. For group disability, some carriers offer a supplemental insurance benefit that contributes additional dollars into a retirement plan for disabled employees. For individual disability, some carriers offer a supplemental benefit that places additional dollars into a trust. The trust invests the money, and then pays the balance at the end of the benefit period, typically retirement age.

In addition to individual disability income replacement products, overhead expense insurance is available. This coverage reimburses a business owner for business expenses incurred during a disability — ensuring they don't have to use personal funds that could be used to fund retirement to pay for those expenses.



It all boils down to this

Attorneys and managing partners have unique needs when it comes to protecting their income. Reviewing disability contract language, ensuring replacement income and using programs to reduce lost retirement savings are three strategies to help protect their income.

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¹ Bureau of Labor Statistics, U.S. Department of Labor, *Occupational Outlook Handbook*, Lawyers, <https://www.bls.gov/ooh/legal/lawyers.htm> (visited October 25, 2018).

² U.S. Social Security Administration; *The Faces and Facts of Disability*; <https://www.ssa.gov/disabilityfacts/facts.html> (visited October 25, 2018).

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