

Education Centre

The Real Risk of an Economic Death

Economic Death occurs when a prolonged disability prevents you from earning a living and you have no other source of income. You are still alive, but have become a financial burden on your family, friends and society. This can have a profound impact on you and your family's future and for some it's a fate worse than death.

Think the risk is low? You may be surprised to learn that during your working years, the odds of suffering a disability are much greater than the odds of dying prematurely. According to actuarial tables, between ages 35 to 65, 3 out of 10 people will become disabled for at least 90 days. Of those disabled, the average duration is 2 years and 1 in 7 will be disabled for more than 5 years. Think about how different your life would be without an income for 5 years or longer.

You are probably asking yourself "**if so many people suffer from disabling conditions, why don't I see or hear much about it?**" The reality is that most disabilities are the result of invisible conditions such as heart disease, cancer, psychiatric disorders and addictions. In addition, many lawyers hide their disabilities out of fear that it will negatively impact their peer and client relationships. Only those closest to a disabled lawyer know the real reason for the "long-term sabbatical", "early retirement" or "leaving the partnership to start a new career".

A disabling accident or illness can strike even if you believe you are in good health. In fact, the stresses of being a legal professional may put you at a much higher risk for certain illnesses than the average professional. Of lawyers who claim under their Canadian Bar Insurance Association (CBIA) disability benefit each year, more than 40% are the result of a mental or nervous system illness such as depression, addiction and other neurological disorders. With other professional groups, the rate is almost half this amount.

The most cost effective way to avoid an Economic Death is by purchasing a disability income insurance policy designed specifically for your needs as a lawyer. These insurance policies will replace your lost income with a monthly benefit should you no longer be able to practice law. Although these policies normally cost more to own than a life insurance policy, it reflects the increased possibility of you making a claim and the potentially larger benefit payment.

If you've ignored or avoided your disability insurance needs because you think you can rely on other sources of income, please consider the following:

Savings: If you saved 5% of your income each year, a disability that lasts for 6 months could wipe out 10 years of savings.

RRSP Withdrawals: Not only are there tax consequences and penalties when you withdraw from your RRSP, your long term retirement plans may be seriously jeopardized.

Borrow from the Bank: It's extremely unlikely that a bank will be interested in loaning money to a person without a source of income.

Borrow from Family Members: Your family has its own financial needs, obligations and goals. These don't include the financial burden of loans that may never be repaid by an unlucky relative.

Working Spouse: Can one person really be expected to be the parent, your private nurse and breadwinner all at once? What if your household depends on two incomes? Is it realistic to believe your spouse can easily find a new job to make up the difference?

Liquidation of Assets: You could sell assets, but what are you left with should you recover? Do you really believe people will offer you a fair market price if they know you have been forced to sell?

Government Benefits: Canada Pension Plan pays an amount based on how long and how much you have contributed. To qualify before retirement, you must prove that you have an extremely serious disability that will likely lead to death. If you do qualify, the maximum benefit for 2010 is only \$1126.76 per month and subject to taxation. Government benefits like CPP and welfare are intended to provide those most in need with a subsistent income.

Given the odds and risk to you and your family, I believe disability insurance is the most important insurance purchase of your life. Even if you already own disability insurance on your own or through an employer, make sure you have it reviewed regularly by a disability insurance expert to ensure there are no gaps in your protection and that your benefit has kept pace with your income needs.

If you want to learn more, before speaking to an insurance agent, the Canadian Bar Insurance Association (CBIA) offers excellent insurance education articles and planning tools for lawyers at www.barinsurance.com. You can also find your local insurance sales representative that can assist you with your disability insurance questions and needs.

Please note that my advice is not intended to replace that of a qualified insurance expert who has personally reviewed your specific benefits and insurance needs.