MAKING YOUR RETIREMENT PLAN DISABILITY-PROOF

Preparing for retirement is perhaps one of the most critical financial challenges you will face during your working life—especially since employers have shifted much of the burden of retirement funding to employees. In order to build an adequate retirement fund, you must be working and making contributions. But what happens to your retirement plans if you become sick or injured and cannot work?

Consider this example: An individual, age 45, works until age 65 and makes 20 annual payments of $10,000 to a defined contribution plan. Assuming an annual return of 8%, her retirement fund will grow to $494,229 by age 65.

But what happens if, after five years of contributions, she becomes totally disabled at age 50, and can no longer make contributions? Assuming the same 8% return, her retirement fund would amount to only $200,986. The gap created is a whopping $293,243. Even if her disability weren't permanent, she would still experience a dramatic loss in retirement plan value. A disability lasting two years would mean she'd have $61,094 less in her plan at 65; a five-year disability would result in a $136,788 gap.

Fortunately, there is a solution. Traditionally, group and individually owned disability insurance policies are designed to replace a portion of current income. They are not meant to replace lost contributions to pension plans. However, a few disability insurers have developed programs designed specifically to replace lost retirement savings.

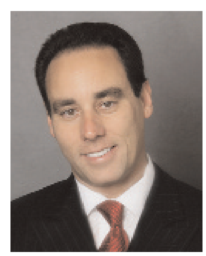
The most effective approach uses an individual disability insurance policy to pay benefits into a trust for the benefit of the insured individual. If total disability occurs, benefit payments from the policy go into the trust. The trustee invests the funds received at the insured's direction until the individual (the trust beneficiary) reaches the age of 65. At that point, trust assets are distributed to the individual to provide retirement income.

One of the attractive features of this type of program is that disability insurance coverage is issued in addition to any other disability insurance you have, and the trust is activated only if you become disabled. Since the program is funded by an individual disability policy, you own the policy and can take it with you if you leave your current employer.

Some conditions to consider when choosing coverage:

- To avoid the possibility of losing your coverage when you need it most, choose a policy that's non-cancellable and guaranteed renewable to age 65, with premiums also guaranteed until age 65.
- Although premiums may increase after age 65, your policy should be conditionally renewable for life, as long as you work full time.
- Through a rider, a good individual disability insurance plan can provide you with protection against the income loss you may suffer as a result of partial disability.

If, like most people, you are concerned about the security of your retirement nest egg, consider speaking with a knowledgeable financial representative who can discuss this concept with you. There is a way to ensure adequate retirement income even if disability prevents you from working.



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