

# Long Term Disability Example for Maximizing Monthly Disability Benefit

Long term disability payments are taxable to the insured to the extent they are paid by the employer. Since the employer pays 100% of the premium for LTD, 100% of the monthly benefit at time of disability is taxable. The following is an option, approved by the IRS, which dramatically increases the benefit at time of disability if you choose to have the employer paid premiums included as taxable income in your W-2.

## Example of 100% taxable Benefit - 60%

Employee earning \$40,000 per year becomes disabled. The employer pays 100% of the cost of the long term disability insurance. Assume for this example that Social Security has not yet been approved. Employee actually receives only 42% of their pre-disability earnings, even though the benefit is considered to be 60% of salary.

Salary	\$3,333.33
Benefit %	0.60
Gross Mo. Benefit	\$2,000.00
Less 30% taxes	0.70
Net Mo. Benefit	\$1,400.00
<b>Salary replacement %</b>	<b>0.42</b>

## Example of non-taxable benefit - 60%

Employee earning \$40,000 per year becomes disabled. The employer pays 100% of the cost of the long term disability insurance. The employee has chosen to have the amount of the employer paid premiums included as taxable income on his W-2 and he will pay taxes on the annual premium amount. Assume for this example that Social Security has not yet been approved. Employee actually receives 60% of their pre-disability earnings, which is more per year than in the taxable 60% benefit plan.

Salary	\$3,333.33
Benefit %	0.60
Gross Mo. Benefit	\$2,000.00
Less Taxes	0.00
Net Mo. Benefit	\$2,000.00
<b>Salary replacement %</b>	<b>0.60</b>
<b>Annual difference in amount of benefit paid:</b>	<b>\$7,200.00</b>

## Your savings

Annual premiums at your current cost:  
Employee would pay taxes on the annual premium.  
Using this technique, the disabled employee would realize additional annual income of:

\$3,333/Mo. @ .189/\$100 X 12	\$75.60
30% tax = annual cost to employee	\$22.68
<b>Net annual increase in payments to employee</b>	<b>\$7,177.32</b>

This equates to over three additional months of income per year. If you earn more than \$6,000 per month, there is even greater benefit for you to take advantage of this optional technique to **safeguard your financial security. The negative impact of having a taxable disability benefit becomes even greater as the level of income increases.**