Creative
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2018 / V052018

Non-Can: A Term You Need to Know

Are you…?

- *A highly-compensated professional for whom career advancement typically includes changing employers?*
- *A self-employed independent contractor or freelancer?*
- *A business owner whose active participation is critical to the company's success?*
- *An employee who could be transitioning to an independent consultant?*

In the next decade, more than 50% of American workers may be answering "yes" to one of these questions. A 2017 NPR/Marist poll found that today, one in five jobs in America is held by a worker under contract. And in the next ten years, it is estimated that contractors and freelancers could comprise half of the American workforce.

This can be profitable work, but it often lacks the financial safety nets available to many employees. "We are seeing the rise of the contract workers taking hold in America. People are hired to work on projects for a fixed period. They bounce from job to job, never earning the title of employee. And this fuels great unpredictability," says NPR's chief business editor Pallavi Gogoi.

Among the benefits that contract workers lack, perhaps the toughest to obtain and maintain is disability insurance.

All workers, even the self-employed, are eligible for benefits from Social Security Disability Insurance (SSDI). But qualifying is difficult, and the payments are minimal, at least for high earners. Nolo.com reports that most SSDI recipients receive between $700 and $1,700 per month (the average for 2018 is $1,197), with a maximum monthly benefit of $2,788. For a consultant or professional earning $150,000/yr., that's not much income protection.

Employer-sponsored group disability insurance, even if it's available to a freelance worker during the contract period, is usually not portable; i.e., the worker can't take the coverage to the next job.

In two-income households, a spouse whose employer provides health insurance may be able to add his/her independent contractor husband/wife to the coverage, and maybe add a modest amount of group life insurance. But disability insurance?

No way.

If you are one of the 20% currently working independently, the best type of disability insurance is a personally-owned individual policy, particularly for protection against incidents of long-term disability (generally defined as those lasting longer than 3 or 6 months). And to find the best policy, you need to know some terms unique to disability insurance.

"Non-Cancelable, Guaranteed Renewable" - Language That Protects the Insurance That Protects Your Income

A starting point for getting the best income protection is understanding a policy's definition of disability. Unlike life insurance, in which death is easy to define, disability insurance policies have a variety of definitions for disability. These definitions

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Pub 6357 (05/18)
2018-57837 Exp 4/2020

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are critical in determining how and when benefits are paid. Especially for highly-compensated workers with unique skills, an own-occupation definition of disability is usually a must.

Once you have decided on the definition and benefit period that matches your situation, the next issue is knowing the terms under which you can keep the coverage. This means understanding the policy's renewability clause.

There are three basic types of renewability clauses for disability insurance: renewable at the option of the insurer, guaranteed renewable, and non-cancelable guaranteed renewable.

Renewable at the option of the insurer allows the insurance company to change rates or contract terms, and even cancel coverage. Many group and association disability insurance programs are renewable at the option of the insurance company. If claims are too high or other factors make the insurance unprofitable, the company can terminate the plan.

With a guaranteed renewable policy, the insurance company is obligated to accept premiums and provide benefits according to the terms of the contract, but retains the right to raise premiums. This format allows you to keep the coverage as long as premiums are paid, but with the risk that rising premiums may eventually make the coverage unaffordable.

A **non-cancelable guaranteed renewable** clause means the insurance company cannot change the premium or the contract terms; only the insured can make changes to, or cancel the contract (by electing to decrease coverage or stop paying premiums). The "non-can" clause is the prevailing format for most individual disability policies, and from a consumer's perspective, "non-can" disability has the strongest renewability clause.

The renewability clause affects pricing. All things being equal, non-can policies usually have the highest initial premiums. However, in the long run, having a non-cancelable guaranteed renewable clause is often *less* costly – and more stable.

With a non-cancelable guaranteed renewable policy, you not only have certainty about future premiums and benefits, but you also have some protection against the devaluation of premiums already paid. Suppose 10 years ago you bought a non-cancelable guaranteed renewable policy, paying $300/mo. for a $5,000 monthly disability benefit. Today, the value of the $5,000 benefit is diminished by inflation, but so is the true cost of the premium; i.e., the premium-to-benefit ratio has stayed the same.

In contrast, if you selected a disability contract that's only guaranteed renewable, it's possible that premiums will increase while the benefit remains the same. Between inflation and premium increases, you are paying more to get less.

Contract workers who value their income enough to own personal disability insurance also want to know the coverage can be portable and remain affordable. The non-can provision is a key feature in building an independent financial safety net. Does your work status merit a disability insurance review?