
Protecting Future Incomes: The Importance of Disability Insurance for MBA Students-

Executive Summary

MBA students invest considerable time and resources into their education, aiming for lucrative and fulfilling careers. However, this financial stability can be threatened by unexpected events like disability. This paper discusses why MBA students should prioritize individual disability insurance (IDI) over relying solely on employer-sponsored Group Long Term Disability (GLTD) insurance. By securing personal disability insurance, graduates can safeguard their financial future against life's uncertainties.

Introduction

Disability insurance is a vital aspect of financial planning, especially for MBA students entering competitive job markets. While employer-sponsored GLTD insurance provides some basic coverage, it often falls short in critical areas. This paper emphasizes the necessity for MBA students to obtain personal disability insurance to adequately protect their future earnings.

Limitations of Employer-Sponsored Group Long Term Disability Insurance

1. **Coverage Limitations:** GLTD insurance typically covers only 60% of base salary, excluding bonuses and commissions, and may limit certain benefits to 24 months.
2. **Tax Implications:** Benefits from GLTD policies are usually taxable, reducing the net amount received during a disability.
3. **Loss of Coverage with Job Changes:** GLTD coverage is tied to employment, leaving individuals vulnerable during job transitions. If new coverage is available, there is normally a waiting period before new coverage begins as well as limited coverage for any pre-existing conditions.
4. **Benefit Caps:** Many GLTD policies have a maximum monthly benefit that may not align with the higher incomes expected by MBA graduates.
5. **Insufficient Definitions:** GLTD policies often shift from an "Own Occupation" definition to an "Any Occupation" definition after 24 months, which is based on education, training, or experience. This definition change can limit long term

benefits. For example, if an executive is required to travel, manage daily operations, or be present at company events, but health condition prevents them from doing so, the “Own Occupation” definition will provide benefits. However, when the definition changes to “Any Occupation”, the specific job requirements are no longer considered. The insurance carrier may close the claim if the individual can perform sedentary work, such as tasks on a computer.

6. **Cancellable Coverage:** Employers can modify or cancel group coverage at any time, creating uncertainty for employees.

Advantages of Individual Disability Insurance

1. **Comprehensive Coverage:** IDI policies can be customized to cover a higher percentage of income, including bonuses and commissions. The policy normally includes Future Purchase Options which allows additional coverage as income increases without having to prove evidence of insurability. Benefits are also available to pay off any student loans.
2. **Definition of Disability:** IDI typically offers an “Own Occupation” definition for the entire benefit period, ensuring benefits are paid if the insured is unable to perform their specific job.
3. **Tax-Free Benefits:** Benefits from individual policies are generally tax-free, providing greater financial security.
4. **Portability:** IDI policies are not tied to a specific job, ensuring continuous coverage regardless of employment status.
5. **Higher Benefit Limits:** Individual policies often provide higher benefit limits that better match the income levels of MBA graduates.
6. **Control and Customization:** Policyholders can choose benefit amounts, waiting periods, and additional riders to enhance coverage.
7. **Noncancelable and Guaranteed Renewable Coverage:** This feature ensures that the policy cannot be canceled or have premiums increased, providing long-term security.

Conclusion

For MBA students, protecting future income is crucial. While employer-sponsored GLTD insurance offers some security, it often falls short for the high earning potential of MBA graduates. Individual disability insurance provides a more robust, flexible, and reliable solution, ensuring financial stability in the face of unforeseen disabilities.

Recommendations

1. **Evaluate Current Coverage:** MBA students should assess their GLTD coverage and identify any gaps.
2. **Consult Financial Advisors:** Professional advice can help tailor individual DI policies to specific needs.
3. **Consider Long-Term Financial Goals:** Aligning disability insurance with long-term goals ensures comprehensive protection.

By proactively securing individual disability insurance, MBA students can protect their future incomes and maintain financial stability, regardless of life's uncertainties.