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Disability Income Protection Kit: Calculate How Much Coverage You Need

Disability insurance is not a box-checking exercise; it is a cash-flow continuity plan. This guide explains how short-term disability and long-term disability coverage actually fit together, where employer plans leave gaps, why own-occupation definitions can be dramatically more valuable than any-occupation wording, how elimination period and benefit period choices change the economics, how to think about SSDI realistically, and which riders are worth paying for versus which ones mostly inflate premium.

1. Foundation

The most important disability-insurance question is not “What policy can I buy?” It is “How much income disappears if I cannot work, and which part of that gap would hurt my household?” Short-term disability, or STD, typically covers the first weeks or months after a disabling event and is often tied to employer plans or state programs. Long-term disability, or LTD, usually begins after the elimination period ends and can continue for a set number of years, to age 65, or to Social Security normal retirement age depending on the contract. Many employer LTD plans replace around 50% to 60% of base salary, but that headline number can be misleading if bonuses are excluded, benefits are taxable because the employer paid the premium, or the definition of disability narrows after a period of time.

Employer coverage is valuable, but it often leaves meaningful holes. Group LTD may cap the monthly benefit, omit commissions or incentive pay from covered earnings, define disability more narrowly than you assume, or allow future premium or contract changes outside your control. High-income professionals, commission-heavy earners, business owners, and specialized workers often discover that group coverage replaces far less than the lifestyle they actually need to preserve. That is why the first step is a gap analysis: essential monthly spending, nonworking-spouse income if any, existing emergency reserves, expected employer benefits, and the net amount still missing after

taxes. Coverage amount should be built from the gap, not from whatever benefit maximum appears on an HR portal.

Contract wording is where the real value lives. An own-occupation definition generally pays when you cannot perform the material duties of your own occupation, even if you could do some other work. That can matter enormously for surgeons, dentists, pilots, specialized salespeople, executives, and other professionals whose earnings depend on a narrow skill set. Any-occupation definitions are cheaper because they require much more severe impairment before benefits continue. Elimination period is the waiting time before benefits begin; a 90-day period is common, but 30-day, 180-day, and longer choices all change premium and required cash reserves. Benefit period determines how long payments continue. A two-year benefit may be enough for someone with large assets and low fixed obligations, while a to-age-65 benefit matters far more for younger households whose future earnings are still their largest asset. The right design is the one that matches your risk, occupation, and balance sheet, not the one with the most marketable brochure.

2. Step-by-Step System

1

Audit every existing source of disability protection

Start by collecting your benefits summary, any individual policies already in force, state disability benefits if relevant, and your household spending baseline.

Separate STD from LTD and write down who pays the premium, how much salary is covered, whether bonuses or commissions count, the monthly maximum benefit, elimination period, benefit period, and definition of disability. If an employer pays the LTD premium, benefits are often taxable, which means a “60% replacement” promise may land closer to 42% to 50% net depending on your tax situation. You cannot size a gap until you know what already exists and how the benefits would actually arrive.

2

Calculate the income gap your household would actually feel

Use current monthly essentials, not aspirational bare-bones spending. Include housing, utilities, food, insurance premiums, transportation, debt service, childcare, prescriptions, and taxes that would still apply. Then subtract reliable non-disability income sources such as a spouse's take-home pay, rental income you are confident would continue, and existing benefits. What remains is the monthly gap disability coverage must solve. For many households, replacing 60% of gross salary is either too much or not enough depending on taxes and fixed obligations. The useful metric is net spendable cash needed to keep the household stable during a claim.

3

Compare own-occ, modified own-occ, and any-occ wording

Definition drives claim value more than most shoppers realize. A true own-occupation policy can keep paying if you cannot perform your trained occupation even if you later earn money elsewhere. Modified own-occupation usually pays if you are not working in another occupation. Any-occupation standards require you to be unable to perform work for which you are reasonably suited by education, training, or experience, which is a much tougher threshold. The more specialized and higher-paid your role is, the more expensive the earnings loss from a weaker definition becomes. Put differently: a surgeon disabled out of surgery but capable of lower-paid administrative work experiences a radically different outcome under own-occ versus any-occ.

4

Choose elimination and benefit periods to fit your balance sheet

The elimination period is a self-insurance decision. A 30-day waiting period costs more in premium than a 90-day or 180-day period because the insurer starts paying sooner. If you have six months of strong emergency reserves, choosing a longer elimination period may be efficient. If cash reserves are thin, a shorter period can prevent a temporary health event from becoming a financial crisis. Benefit period is a longevity-of-risk decision. A two-year benefit period protects against shorter claims; a five-year or to-age-65 period protects against the far more damaging scenario of a long-lasting loss of earning power. Younger workers and single-income households often need longer periods because they have more future income at risk.

5

Model employer gaps and treat SSDI as support, not salvation

Social Security Disability Insurance can matter, but it is not a substitute for well-designed private coverage. Approval can take time, the definition is strict, and benefits may not fully close a higher-income household's gap. Some LTD policies also offset benefits by SSDI, changing the net value you receive from each source. Your worksheet should therefore include a conservative SSDI assumption rather than a heroic one. Likewise, employer LTD should be tested for caps and tax treatment. A plan that says "60% of salary" but caps at \$5,000 per month may severely underprotect someone earning \$180,000 or someone with large fixed obligations.

6

Buy riders that solve a real risk and skip the rest

The most worthwhile riders often include residual or partial disability coverage, which matters if income drops materially but not to zero; cost-of-living adjustment for long claims; future purchase option for rising earners who want to increase coverage without full medical underwriting later; and non-cancelable or guaranteed renewable contract features that preserve renewal rights and premium predictability. Catastrophic disability riders can also make sense for high earners with large fixed obligations. In contrast, some shoppers overpay for features that sound comforting but do not solve their biggest vulnerability. Evaluate every rider by one question: what specific gap does this close in my case?

3. Key Worksheets & Checklists

These worksheets are built to make disability planning concrete. The right coverage design depends on your actual monthly burn rate, the contract language on the coverage you already have, and how much risk you are able to self-insure during a waiting period.

1. Coverage Design Worksheet

Essential monthly spending	List the after-tax dollars needed to keep the household stable during a claim.
Existing STD coverage	Record waiting period, percentage covered, who pays the premium, and whether benefits are taxable.
Existing LTD coverage	Record replacement percentage, monthly cap, elimination period, benefit period, and disability definition.
Employer gap	Calculate the difference between net benefits and actual monthly needs after taxes and caps.
Own-occ need	State whether your occupation's specialized earnings make a stronger definition worth paying for.
Elimination-period reserve	Match waiting-period choice to emergency savings and available household liquidity.
Benefit-period target	Choose two years, five years, or to-age-65 based on age, dependents, and assets.
SSDI assumption	Use a conservative estimate and note any LTD offsets that reduce net value.
Priority riders	List only riders that solve a specific risk in your occupation or household budget.

2. Execution Checklist

- Gather employer benefit summaries and identify who pays each premium so you can estimate after-tax benefit value correctly.
- Separate STD and LTD because they solve different windows of risk.
- Calculate household needs using current essential spending rather than a fantasy austerity budget.
- Check whether employer coverage caps monthly benefits or excludes commissions, bonuses, or specialty pay.
- Compare own-occ and any-occ wording with your actual occupation in mind, not in abstract.
- Match the elimination period to cash reserves you truly have, not reserves you hope to build later.
- Model SSDI conservatively and note whether private benefits offset against it.
- Choose riders only when they solve an identifiable risk such as partial income loss, inflation, or rising future earnings.

3. Claim-Window Scenario Tracker

Claim Phase	Cash-Flow Question	Decision to Make
Days 1-30	What income continues immediately after disability begins?	Confirm sick leave, PTO, STD, and emergency-fund usage
Days 31-90	Can the household cover the elimination period without borrowing?	Stress-test reserve adequacy and bill priorities
Month 4 onward	When LTD begins, how much of essential spending is still uncovered?	Measure the employer gap and need for individual coverage
Year 1	Would inflation or partial return-to-work create a new gap?	Assess COLA and residual disability rider value
Years 2-5	Does the definition of disability tighten after an initial period?	Review own-occ versus any-occ transition language
Long-duration claim	Would SSDI, LTD, and savings together preserve the plan?	Confirm benefit-period choice and long-run asset protection

4. Common Mistakes

Assuming employer LTD replaces enough income by default

Employer plans are often better than nothing and still meaningfully inadequate once caps, taxes, and excluded compensation are accounted for. The headline replacement percentage can be misleading.

Shopping by premium before checking the disability definition

A cheaper any-occupation contract can be dramatically less valuable to a specialized earner than an own-occ design. Contract wording is not a minor detail.

Choosing an elimination period that your cash reserves cannot survive

Long waiting periods reduce premium, but the savings are pointless if a 90- or 180-day gap would force borrowing, missed bills, or retirement-account raids during a claim.

Treating SSDI as guaranteed or fast enough to cover the gap

Government benefits can help, but approval standards are strict and timing may be slow. Private coverage should be designed to work without assuming SSDI instantly solves the problem.

5. Next Steps

Take your current benefits summary and complete the gap calculation before you shop. Then decide whether the real risk is a short waiting-period problem, a long-duration income problem, or both. If employer coverage leaves a meaningful hole, prioritize contract quality over marketing slogans: definition of disability, benefit cap, tax treatment, elimination period, benefit period, and the few riders that materially improve your outcome. Revisit the worksheet after every major raise, promotion, practice change, or family change, because disability coverage that fit three years ago may now protect the wrong income level. Also note which policies are portable if you leave the employer, because job changes are a common moment when valuable coverage quietly disappears. A good disability plan should let your household keep functioning even if your paycheck cannot.

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