

What is an “income gap”?

How would your lifestyle be affected if a long-term illness or injury were to prevent you from earning an income?

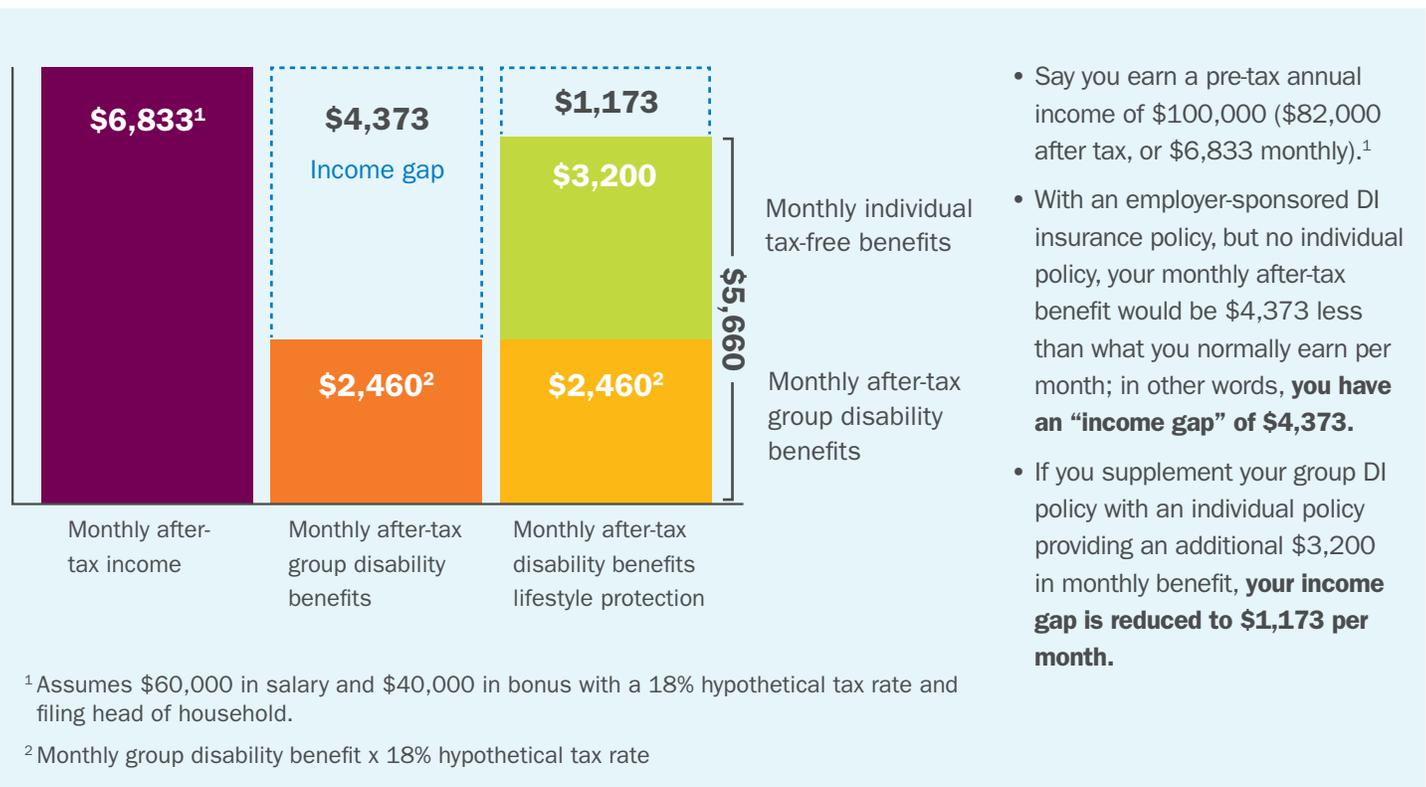
To assume your employer-sponsored group disability income (DI) insurance will meet your financial needs in the case of a long-term illness or injury, could prove unfortunate. A closer look at the details of most employer-sponsored group disability benefits reveals that typically this type of disability insurance:

- Doesn't cover bonuses or incentive compensation
- Only covers 60% of your base income and often has a monthly benefit cap
- Adopts an “any occupation” definition coverage after two years
- Is taxable
- Offsets for Social Security Disability Insurance, state disability insurance, and certain types of income

Left unchecked, this could lead to an “income gap”.

The “income gap” — an example

The hypothetical scenario below shows how supplementing your employer-sponsored DI insurance with an individual DI policy can help you avoid an “income gap,” protect your income and ultimately your lifestyle.



Potential pitfall: Your DI policy definition changes from “own” to “any” occupation

To qualify for benefits from your group disability insurance policy, the disability must meet one of two³ definitions of “total disability”:

- **“Own occupation”** means due to illness or injury you are unable to perform the duties of your regular (your “own”) occupation
- **“Any occupation”** means due to illness or injury you cannot perform duties of any occupation for which you are suited by education, training, or experience (e.g., you are a pharmacist who can no longer stand for long periods, but can work in a general office role)

Generally, **employer-sponsored group DI** policies use an **own occupation** definition **for two years**. After two years, they redefine it as **“any” occupation**, and **your benefits may end**. **With an individual “own occupation” DI policy, the definition doesn’t change and you’d receive benefits for up to the entire benefit period.**

To illustrate, recall the hypothetical scenario from page 1. The chart, right, shows the impact of the group disability benefit ending after two years—with and without individual disability insurance.

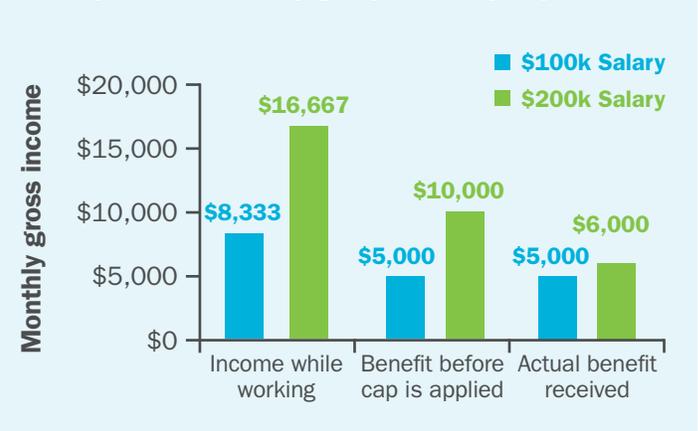
The impact of an “own” to “any” occupation definition change in Years 3+



Potential Pitfall: Your group DI policy has a monthly income cap

Knowing the percentage of your base income covered by your group DI policy is only half of the story. Your benefits may be further limited by a monthly cap that could dramatically impact the amount of benefit you would receive. Assume you have 60% group disability coverage with a \$6,000 monthly cap.⁴ If your base annual income is \$100,000, you would receive a \$5,000 monthly benefit⁵; but if your base annual income is \$200,000, the 60% benefit of \$10,000 is reduced to \$6,000⁶ because of a cap.

The impact of a monthly group disability cap



³ These are the highest-level definitions for the sake of explanation; group disability policy definitions will vary and may include variations, such as, “modified own occupation”, “short-term own occupation”, etc.

⁴ Because each employer chooses the cap amount for the group disability policy they offer, cap amounts will vary, they could be significantly higher than or lower than \$6,000.

⁵ $60\% * \$100,000 = \$60,000 / 12 = \$5,000$

⁶ $60\% * \$200,000 = \$120,000 / 12 = \$10,000$



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