THE AMERICAN COLLEGE
STATE FARM® CENTER FOR WOMEN & FINANCIAL SERVICES

Women and the Risk of Disability

Insights from a Landmark Study by The State Farm® Center for Women and Financial Services at The American College

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Lisa Schneider
Research Director
Mathew Greenwald & Associates

Mary Quist-Newins, CFP®, CLU®, ChFC®
Director
State Farm® Center for Women and Financial Services

Acknowledgements

About The American College and The State Farm® Center for Women and Financial Services

The American College is the nation's largest non-profit educational institution devoted to financial services. Holding the highest level of academic accreditation, The College has served as a valued business partner to banks, brokerage firms, insurance companies and others for over 85 years. The American College's faculty represents some of the financial services industry's foremost thought leaders. For more information, visit TheAmericanCollege.edu.

In 2007, State Farm® endowed a Chair in Women and Financial Services at The American College. This faculty appointment was the first and only academic chair in the country devoted exclusively to the study of women and their financial concerns. State Farm Insurance® made another generous donation to The College, enabling the creation of a new Center for Women and Financial Services in 2011. As the first academic center of its kind, this focal point of research, education and knowledge serves as the nation's leading authority on the economic issues and opportunities of American women, both as consumers and providers of financial products and services. Through leading edge research, financial education and awareness building, The Center's mission is to promote the advancement of women in the financial services industry and to advocate for the economic security of American women.

About the Authors

Professor Mary Quist-Newins, ChFC®, CLU®, CFP®, has the distinction of being the Director of the State Farm® Center for Women and Financial Services and holding the research chair. During her 20-year career in financial services, Quist-Newins has achieved success as both a field producer and a corporate leader. *Treasury & Risk* recognized her significant contributions to the financial services industry by naming her to the magazine's elite list of "25 Outstanding Leaders in Finance Who Happen to be Women" in November 2008. In 2010, Quist-Newins authored the comprehensive academic textbook, *Women and Money, Matters of Trust*. In 2011, she was honored by Women in Insurance and Financial Services (WIFS) as the "Woman of the Year" for her commitment to increasing awareness of the financial services issues affecting women.

In addition to holding a Master's in Business Administration from the Garvin School of International Management, Quist-Newins has earned the prestigious Chartered Life Underwriter®, Chartered Financial Consultant® and Certified Financial Planner® advanced designations. She received her BA from the University of Washington.

Lisa Schneider, Research Director for Greenwald & Associates, has been conducting research regarding the financial services industry for nearly 10 years, and has managed a number of high profile studies designed for public release for some of the nation's leading insurance and investment companies. Lisa has designed studies, questionnaires and written reports on topics ranging from agent feedback on term life features to young consumers' desire to use social media to engage with investment companies and retirement plan providers. Lisa is also a trained focus group moderator and one of Greenwald's top executive interviewers, having conducted hundreds of interviews with financial advisors, insurance agents, benefits brokers, HR decision-makers, industry thought leaders, and consumers. Greenwald implemented this study on behalf of The State Farm® Center for Women and Financial Services at The American College. For more information about Mathew Greenwald & Associates, call (202) 686-0300 or visit GreenwaldResearch.com.

Contents

Study Overview: *Women and the Risk of Disability*

The lack of protection against the economic consequences of a disabling illness or injury is arguably one of the biggest gaps in Americans' financial planning portfolios. The risk of becoming disabled is high—far greater than most imagine. Indeed, the Social Security Administration has estimated that a quarter of the people currently age 20 will be forced to stop working for a considerable period of time before they reach retirement age.[i] Yet, just 26 percent of American households own disability income insurance according to LIMRA research.[ii]

This protection gap is especially significant for women who are both more likely than men to become disabled and less likely to own insurance coverage. It is the higher exposure of women to disability risks that led The State Farm® Center for Women and Financial Services at The American College to conduct a landmark study of 1,600 women and 800 men between the ages of 25 and 64 with a total household income of at least $35,000. The research firm of Mathew Greenwald & Associates implemented the survey. Respondents were asked about:

- Their concerns about and awareness of disability risks,
- Their perceptions of the consequences of experiencing a disability and steps they have taken to prepare,
- Their understanding of disability insurance,
- Their household disability insurance coverage.

This report presents:

1. Background information on the risk of disability
2. Key findings from The American College's research, and
3. Implications of this study for financial advisors.

Background Information on the Risk of Disability: Incidence and Causes

The Incidence of Disability

The most valuable asset, by far, that most working Americans possess is their ability to earn an income. To take one fairly typical example, a person with an annual income of $50,000, who works for 40 years, is projected to make more than $2 million in future earnings—without adjustment for inflation or increases in pay. Most workers are willing to insure property assets worth far less than their ability to continue to work. However, on a pure financial vulnerability basis, no asset is in more need of protection than the continuation of earned income.

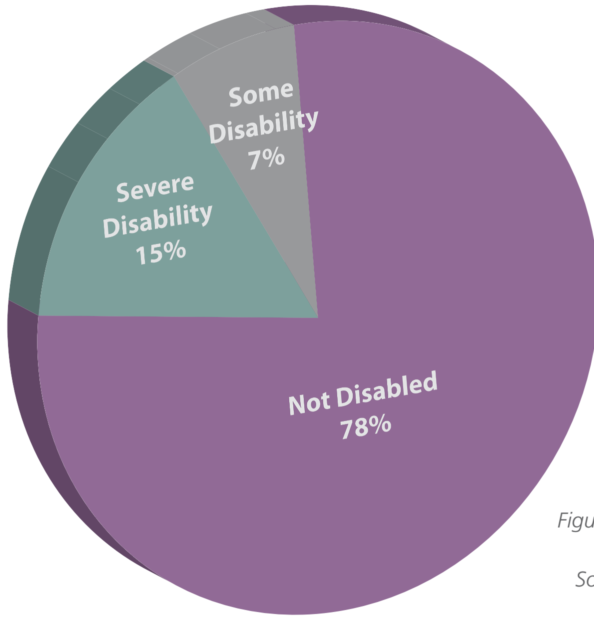

Figure 1a: Disabilities of Adults Ages 21 and Older. Source: US Census Bureau.

There are, of course, three risks that workers face that can put an abrupt halt to earnings from employment: losing a job and not being able to get another one (unemployment), suffering a disabling illness or accident, and premature death. Universal unemployment insurance protects against the risk of job loss, and life insurance is widely used to protect against the financial consequences of premature death. However, disability insurance to protect one's income from illness or injury is not widely used, despite the fact that the risk of disability is considerably higher than the risk of premature death. As perspective, 47.5 million adults reported a disability in 2005, according to the U.S. Census Bureau. Census data further reflects that among traditional working-age adults (21–65) in 2005, over 27 million said they were disabled, including nearly 19 million with severe disabilities (see Figures 1a and 1b).[iii] In contrast, only 2.4 million deaths of adults ages 25 and over were reported in 2010.[iv]

Disability Incidence: 47.5 Million Adult Americans in 2005

Disability	Adults Ages 21+ (205,357,000)	Adult Ages 21–64 (170,349,000)	Adult Ages 65+ (35,028,000)
With some disability	7%	6%	11%
With severe disability	15%	11%	37%
Not disabled	78%	84%	52%

Source: US Census Bureau - 2005 Statistics, Americans With Disabilities, Issued December 2008, Current Population Reports, Matthew Brault. Note: Incidence percentages among disability subgroups are rounded.

Figure 1b: Disability Incidence: 47.5 Million Adult Americans in 2005.

It is especially worth noting that among all age groups, adult women experience higher incidences of disability than do adult men and the gender gap grows as the years progress. For example, the Centers for Disease Control reported that among adults 18 to 44 years old, 11.5 percent of females reported having a disability in 2005 versus 10.3 percent of men—a 1.2 percentage point disparity. For older adults between 45 and 64 years of age, over one in four women (25.9 percent) indicated that they experienced a disabling condition while just over one in five men (21.8 percent) said the same.[v]

The Leading Causes of Disability

It is essential to understand the leading causes of disability in order to fully appreciate their prevalence. Many people falsely assume that disabilities are most often caused by work-related accidents and that men are more likely to become disabled than women. These misguided notions can lead many to believe that they can protect themselves from becoming disabled by avoiding accidents at work. They can also lead to the belief that people not involved in physical labor face a lower risk. Work-related accidents, however, cause less than five percent of all disabilities. This means that avoiding accidents does little to reduce one's risk.

The main cause of disability, according to the Centers for Disease Control, is arthritis, followed by back and spine problems. Together these conditions are responsible for more than one out of every three disabilities. Since it estimated that women are twice as likely as are men to suffer from arthritis,[vi] it is especially important that they are aware of this contributing factor. The leading causes of disability are detailed in the Figure 2 below.

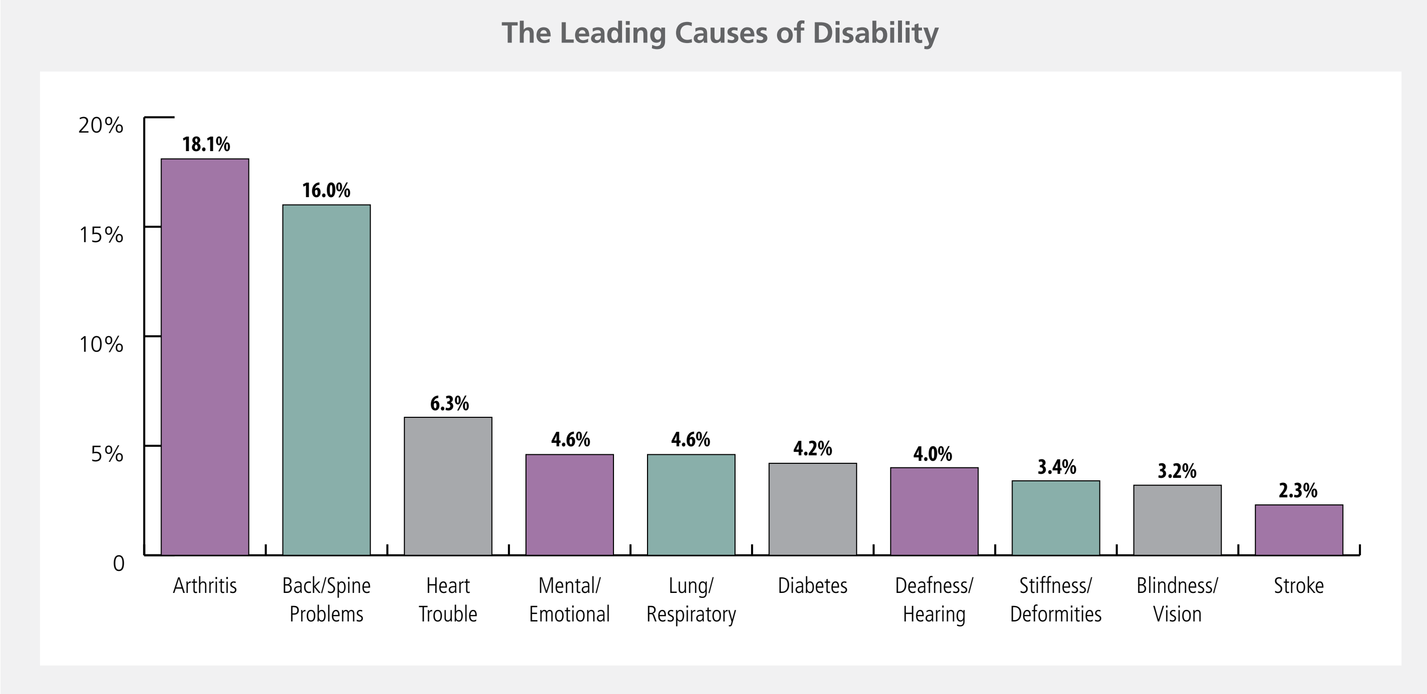

Figure 2: Leading Causes of Disability. Source: Centers for Disease Control, 47.5 Million U.S. Adults Report a Disability; Arthritis Remains Most Common Cause, 2005. http://www.cdc.gov/Features/dsAdultDisabilityCauses

Results of The American College Research Study

The survey conducted by The State Farm® Center for Women and Financial Services at The American College reveals an astounding lack of awareness and deep misperceptions about both disability risks and disability insurance. As a result, there is low appreciation of, and preparation for, the life shattering consequences that a disabling illness or accident can bring about.

Study findings presented in this report are intended to shed light on these perceptual gaps and by so doing, help both consumers and financial professionals more effectively deal with this widespread and frequently devastating financial risk.

Perceived Likelihood of Becoming Disabled

Lack of Concern

One of the most troubling findings is the broad lack of concern among study respondents that a disability could happen to them. Despite its relatively common occurrence, more than half of female (51 percent) and almost three in five of male (57 percent) respondents believe that their own chance of becoming disabled is less than five percent. Just 15 percent of all study participants (both women and men) express high levels of concern about the possibility of being disabled for a year. The majority, nearly six in ten respondents, are simply not concerned that they will develop a disability and become unable to work.

Lack of Awareness

In order to be concerned, one must first be aware of a threat. However, when compared to other financial risks, disability is a hidden hazard. We witness cars crashing, houses burning and lives passing—but those who are disabled are frequently out of the public eye. Perhaps this is why the research revealed an astounding lack of awareness about disabling conditions.

The overwhelming majority of survey respondents—86 percent—failed a basic six-question quiz on disability risks (see Figure 3 below).

Risk of Disability Quiz Results

Question	Correct	Incorrect	Not Sure	Correct Answers by Gender	
	Total (n=2400)			Women (n=1600)	Men (n=800)
When a person files for Social Security disability benefits, their initial claim is almost always accepted. (False)	73%	7%	20%	77%*	70%
The average LTD claim lasts about 1 year or less. (False)	42%	34%	24%	42%	43%
Most disabilities occur at work. (False)	41%	39%	20%	36%	44%*
About what percentage of today's 20-year-olds do you think will suffer a disability before they retire? (About 26%)	35%	65%	N/A	36%	33%
Men are more likely than women to become disabled for 3 months or longer. (False)	20%	58%	22%	18%	22%
What is the leading cause of disability in the US? (Arthritis)	3%	97%	N/A	2%	3%

**Indicates result significantly higher than opposite gender.*

Figure 3: Risk of Disability Quiz Results.

Lack of Awareness (Continued from Previous Page)

Most astonishing is that a mere three percent of our respondents know that arthritis is the leading cause of disability. Thirty-nine percent falsely believe that most disabilities occur at work, with 20 percent unsure and just 41 percent correctly knowing that most disabilities do not occur at work.

Fifty-eight percent incorrectly answer that men are more likely than women to become disabled, with another 22 percent unsure and only 20 percent knowing the correct answer. Of particular concern is that women are less likely to identify these facts than are men, putting them in even greater jeopardy.

The Perceived Impact of a Disability

Ability to Meet Expenses

Most study respondents recognize that a disability that prevents them from working would have devastating financial consequences. Only nine percent of men and 13 percent of women are extremely or very confident they would be able to maintain their current lifestyle in the event they became disabled. More significantly, just 25 percent of women and 35 percent of men are extremely or very confident that they would have enough money for the most basic expenses, such as food, clothing or shelter. An even smaller minority—only 17 percent of women and 25 percent of men—are extremely confident that they would be able to afford the medical care they needed.

The research indicates that most workers' level of financial vulnerability, should a disability occur, is significant. However, it should also be stated that the levels of confidence asserted are only guesses: two-thirds of both women and men have not calculated how much their household would need each month if they were unable to work due to a disability. It is likely that if the calculations had taken place, confidence levels would be even lower.

Ability to Perform Household Tasks

Beyond the economic impact, majorities of both genders do not believe they have a support system to give care and/or do key household tasks should they become disabled. As illustrated in the table to the right, only 26 percent of women and 31 percent of men expressed confidence that a spouse, family member or friend would be able to provide the care giving they may need. Similarly, just 26 percent of female respondents and 23 percent of males felt highly confident that a family member or friend would be able to take over their household duties.

If a disabled person could not get a family member or friend to help with care giving or housekeeping, they would have to pay someone to do these tasks. But only seven percent of women and 11 percent of men are extremely or very confident that they would be able to afford to pay someone to perform these duties if a disability prevented them from doing these tasks themselves.

On almost all of these issues, women are significantly less confident than are men (as noted in Figure 4 on the next page). Our findings about women's greater levels of concern about disability further reinforce the importance of education and planning.

There is one other important factor. While 39 percent of men are extremely or very confident they could get their job back if they become disabled, only 25 percent of women share the sentiment. For many, the loss of income could extend long past one's recovery from a disability.

These results paint a dire picture of the expected impact a disability could have on most working Americans. Findings suggest that for the great majority of Americans, a disability would leave them unable to cover even basic expenses and perform essential household tasks. Clearly, these are consequences that most would very much like to avoid.

Confidence in Ability to Manage Key Tasks if Disabled

Question	Percent Extremely/Very Confident	
	Women (n=1600)	Men (n=800)
Your job would still be there for you when you were better.	28%	39%*
A spouse, family member or friend would be able to provide the care giving that you need.	26%	31%
A family member or friend would be able to take over your household duties.	26%	23%
Your family would have enough money to cover basic expenses, such as food, clothing and shelter.	25%	35%*
You will be able to afford the medical care you need.	17%	25%*
Your family would have enough money to maintain your current lifestyle.	9%	13%*
You would be able to pay someone to do your household tasks if you were unable.	7%	11%*

**Indicates result significantly higher than opposite gender.*

Figure 4: Confidence in Ability to Manage Key Tasks if Disabled.

Perceived Severity of Financial Impact

In light of the inability to afford essential goods and services, it is not surprising that respondents overwhelmingly acknowledged that the financial shock of a disability would be catastrophic to their family. Concern levels for females were substantially higher than those for males, as illustrated in the table below.

For example, when asked to rate—on a seven point scale with "one" meaning totally devastating and "seven" meaning totally manageable—the impact of a disability on their households' financial situation, over half of the female respondents say it would be a "1," "2," or "3" meaning the impact would be totally devastating or close to it. Further, the proportion of male respondents who say the impact would be a "1" (total devastation) is nine percent. By comparison, 18 percent of our female respondents feel the same way (twice as high).

Despite the significant contributions that both working and non-working women make to their households, respondents are more concerned about the consequences of the male spouse being disabled. Only 32 percent of married men say the impact of their wife's disability would be totally devastating or close to it, while 61 percent of married women feel it would be totally devastating or close to it if their husband became disabled.

This increased concern for both household members may make women more receptive to conversations about putting a protection plan in place. Clearly, the financial impact of a disability goes beyond the disabled worker and affects the entire household.

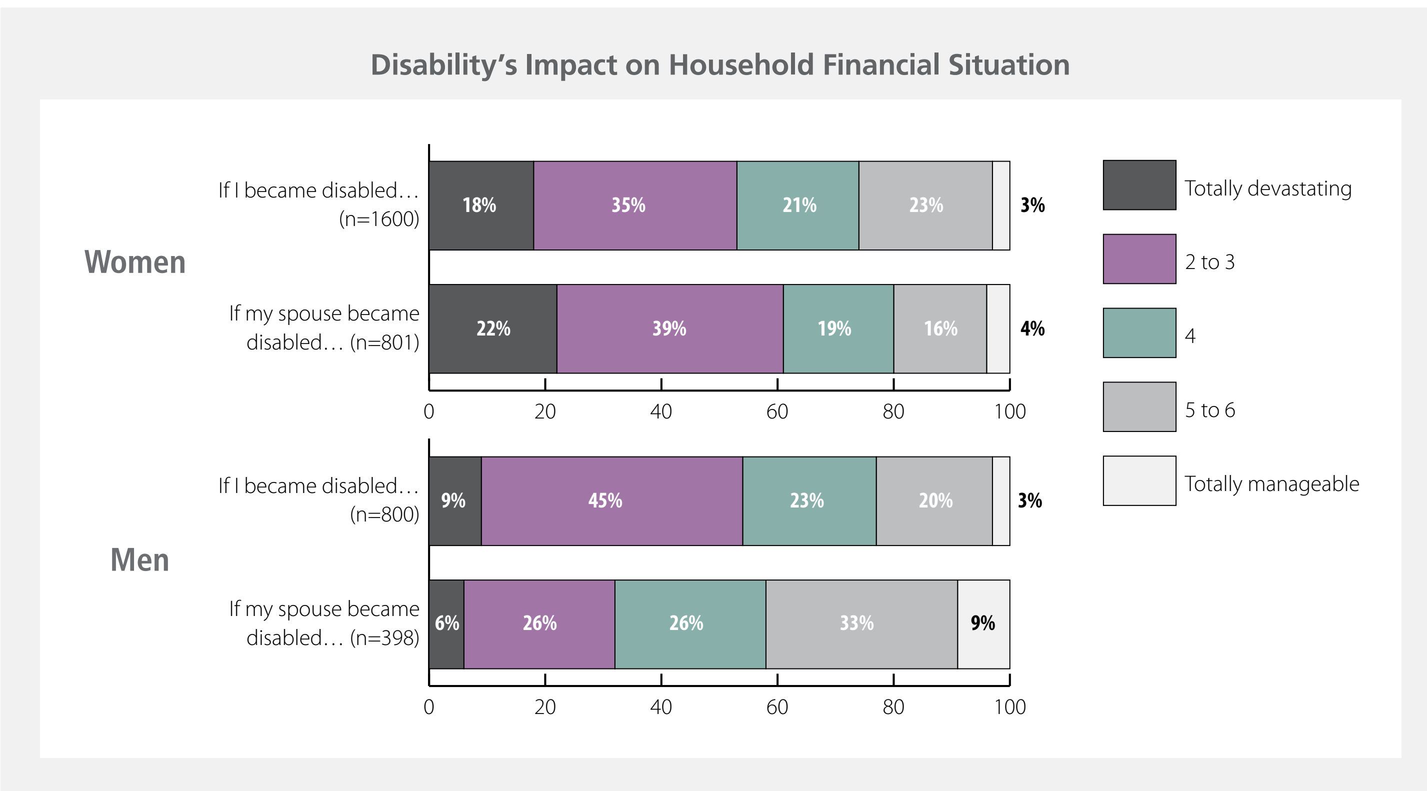

Figure 5: Disability's Impact on Household Financial Situation.

Discussions with Financial Professionals

Financial advisors should clearly discuss disability risks, preparedness and insurance with both spouses to fully understand the potential impact a disability would have on a family. However, among respondents who work with a financial advisor (less than one in three), only 37 percent of women and 52 percent of men have ever spoken to their advisor about what would happen if they became disabled and unable to work. The disparity between the proportion of men and women who spoke to their financial advisor is revealing (see Figure 6 below). It suggests that advisors may be more likely to raise the issue of disability with male clients than with female clients. This is all the more troubling in light of the higher risks women face and the elevated levels of concern they have.

Talking About Disability with a Financial Advisor

Questions (Among those working with a financial advisor)	Total (n=747)	Women (n=486)	Men (n=261)
Have you ever spoken with a financial advisor about what would happen if ***you*** become disabled or seriously ill and were unable to work? (Percentage saying yes)	45%	37%	52%*
Questions (Among those working with a financial advisor and married)	**Total (n=747)**	**Women (n=486)**	**Men (n=261)**
Have you ever spoken with a financial advisor about what would happen if ***your spouse*** became disabled or seriously ill and was unable to work? (Percentage saying yes)	42%	40%	45%

**Indicates result significantly higher than opposite gender.*

Figure 6: Talking About Disability with a Financial Advisor.

Disability Insurance

Lack of Research into Insurance

Considering the profound financial consequences associated with a disability, there is a remarkable lack of interest in disability insurance. The survey found that only one in twenty women (five percent) and one in eight men (12 percent) have done "careful research" on disability insurance. Three in five women (61 percent) and almost half of men (46 percent) have not done any research on this type of coverage.

Rates and Reasons for Insurance Ownership

About half of all respondents indicate they have this coverage through work, but a mere six percent of women and eight percent of men have purchased this coverage individually. For those fortunate enough to have at least some insurance in place, less than half (48 percent of women and 45 percent of men) state that they are knowledgeable about the specifics of their policies.

Given the broad recognition of the disastrous financial consequences a disability can bring about, most participants sense that they do not have enough protection. More than half (52 percent) who have coverage on themselves state it is less than they should have. The chart on the next page (Figure 7) reflects the perceived adequacy of disability coverage relative to life insurance among all respondents.

Motivations for Purchasing Disability Insurance

We asked the respondents with disability insurance why they bought coverage. Four reasons are frequently cited:

- "To make sure you and your family can stay in your home." (Cited by 75 percent of women and 65 percent of men.) "For peace of mind." Cited by 68 percent of women and 55 percent of men.) "To ensure you and your family could maintain your standard of living." (Cited by 64 percent of women and 52 percent of men.)
- "To pay for medical care or equipment you may need if you become disabled," (Cited by 54 percent of women and 45 percent of men.)

The fact that being able to stay in the home is the most cited as a major reason is telling. It shows how concerned people are about losing their homes and reveals a potential motivator for financial professionals looking to convince their clients about the importance of disability insurance. Disability income coverage can help provide assurance that even if a person cannot work for a while, insurance can be purchased that will allow them to continue to make mortgage payments. It is of course, very difficult to cope with a disabling illness, but it would be made much more difficult if people could no longer meet mortgage payments. On average, the survey respondents felt that their cash reserves would run out after five months if they became disabled, putting their home and family in jeopardy.

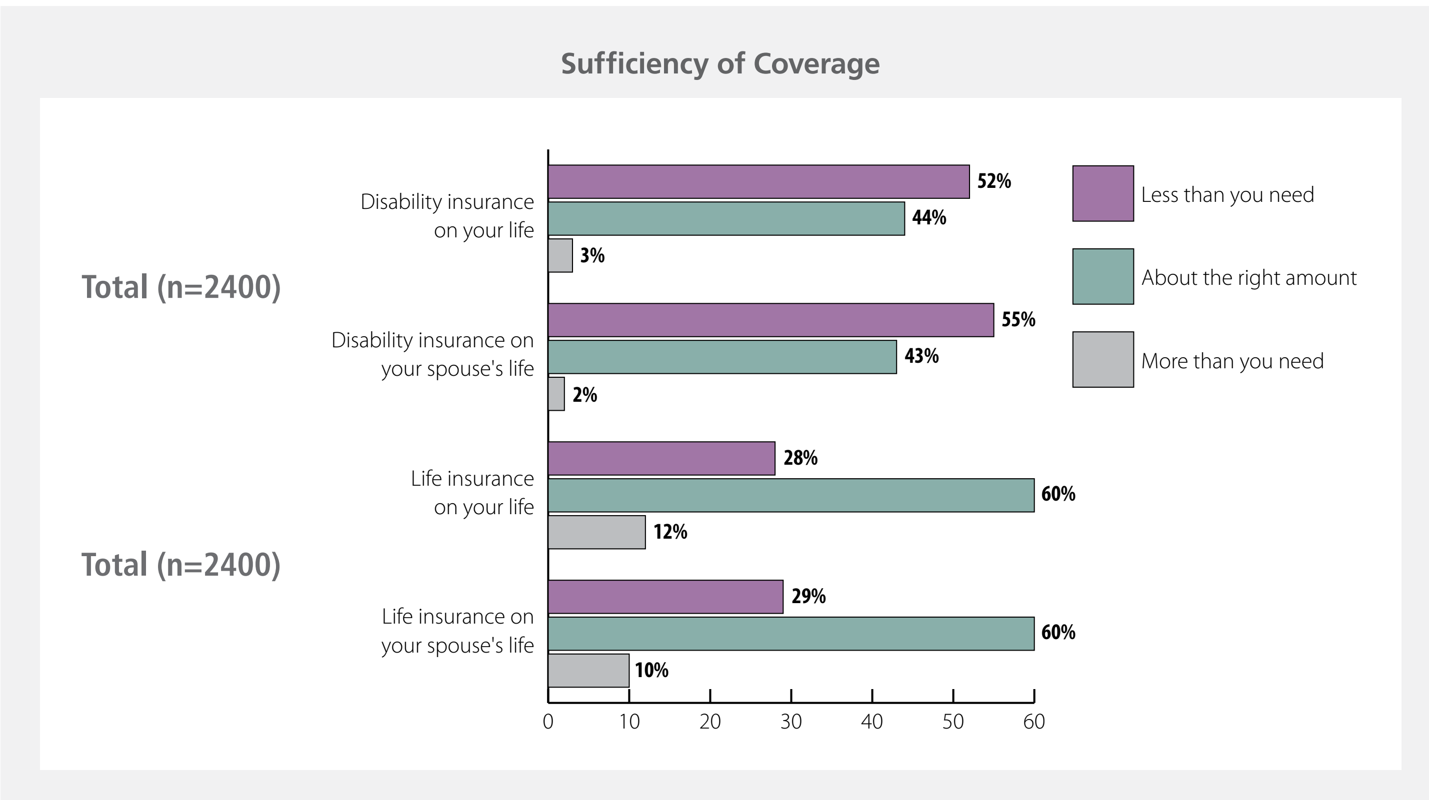

Figure 7: Sufficiency of Coverage.

Summary & Implications for Financial Professionals

In sum, *what people don't know* ***can*** *hurt them*. There are major knowledge gaps and misperceptions about the very real risks of disability leading to lack of preparation and unintentional assumption of risk. The leading misconception is the alarming under-estimation of the likelihood of a person becoming disabled, exacerbated by a widespread belief that most disabilities are caused by work-related accidents.

This survey uncovers a number of serious shortcomings in the way Americans (and many financial advisors) address the possibility of a disability and its financial consequences. Far too few have thought through how much supplemental income they would need if they became disabled. Those with coverage often know they do not have enough, and at the same time, fail to understand what they do have. It is particularly disappointing to learn that those with financial advisors have not discussed the risk of disability, how to assess the risk or begun to develop a plan to deal with it.

While our research provides insights on why there has not been enough consideration of this issue, it also provides guidance on the first step needed to correct it. Although working women (and working men) are well aware of the devastating financial impact a disability can cause, they vastly underestimate the likelihood that they themselves may become disabled. As such, heightened awareness of disability risks and their prevalence is the beginning point.

It is critical that financial advisors educate their clients, especially those that are female, on the high incidence of becoming disabled and causes of disability. Of equal importance is analyzing sources and uses of cash so they can make the proper assessments of how to handle the financial consequences of this risk. The study findings suggest six steps financial advisors should take.

1. Have a conversation with clients, especially female clients, about the risk of disability and different alternatives for protecting financially against its occurrence. When working with married couples, be sure to include both husbands and wives in the discussion.
2. Educate clients on the incidence and causes of disability to help them realize its prevalence and that they are at risk. It can be helpful to ask if anyone in their family has experienced a disabling illness or accident.
3. Help clients understand the full economic impact a disability would have on their lives. How will basic and discretionary expenses change? Advisors need to work with clients to assess what lifestyle adjustments could be made and which ones are essential. Will clients be able to fund accumulation goals like retirement and children's education? What are replacement costs for in-home tasks that are mostly done by women, especially mothers? These are frequently far more expensive than many people imagine.
4. Compare income sources versus anticipated expenses in event of a disability. What income streams can clients predictably rely on? These might include earnings by the healthy spouse, existing disability insurance, investment returns, savings, and family support. If clients are fortunate enough to have employer-sponsored insurance, many will strongly benefit from review of this coverage since this survey indicates that most people with insurance do not really understand their coverage and cannot evaluate it.

Summary & Implications for Financial Professionals

5. After examining potential sources of income, advisors should help clients determine how much of any shortfall they wish to address with insurance and what other strategies they are willing to consider. The survey indicates that a key motivator for disability insurance is assuring the ability to stay in the home. If clients express resistance to the idea of disability insurance, it might be useful to suggest coverage that would just pay for their mortgage, taxes and insurance after their cash reserves are projected to run out.
6. If clients are interested in disability insurance, advisors should investigate alternative carriers and run alternate illustrations. Educate clients on their respective pros/cons when making recommendations and set expectations concerning the underwriting process.

American women today play a crucial financial role in their households. This survey indicates that although many are highly concerned about the consequences of disability, neither they nor their financial advisors are addressing the issue. Financial advisors should be providing these clients with the information they need to make informed decisions. Most have not done realistic assessments of their needs, and study findings suggest they will be surprised by the extreme gap that a proper analysis reveals.

If asked why purchase an insurance that may never be used, advisors should remind clients that we often use insurance to protect ourselves against far less likely things—car accidents, losing a wedding ring, house fires, and even premature death. Why not protect our greatest asset, the thing we are, in fact, more likely to lose—our income?

Methodology

This survey was conducted by independent market research firm Mathew Greenwald & Associates on behalf of The American College's State Farm® Center for Women and Financial Services. Information was gathered through 15-minute online interviews with a total of 1,600 employed women and 800 employed men ages 25 to 64 with total household income of at least $35,000. Interviewing took place November 8 to 18, 2011. The data are weighted by age, gender, marital status, presence of children, and education to reflect the total employed population ages 25 to 64 with household income of at least $35,000. If this study were a random survey of 2,400 employed individuals, it would have a margin of error (at the 95% confidence level) of plus or minus 2 percentage points.

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