

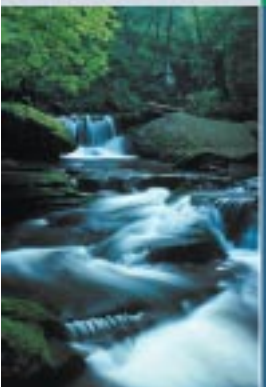
## Coping Financially With a Short-Term Disability



*George is a truck driver. He experienced a seizure and went to see his doctor. Although the doctor said he is all right, state law prohibits him from driving for six months.*

*Susan expected to go back to work six weeks after the birth of her baby, but she experienced severe depression and was unable to return to work for several months.*

*Jack, a self-employed contractor, fell from a ladder and threw out his back. He won't be able to return to work for at least two months, if not longer.*



Short-term disabilities can be financially devastating. The fact is, most Americans carry debt, don't save and don't have the resources to cover their bills if they lose even a few paychecks.

Coping with the stress of money problems on top of a disability can seem overwhelming. That's why it is important to get help and create a plan as soon as possible. The longer you wait, the more difficult things will become. On top of everything else, you don't want to have to deal with calls from creditors!

## Step One: Take Stock

Before you can do anything, you'll need a clear understanding of your expenses and the resources you have to pay them. Create a spending history so you'll get an idea of how much money you'll need. Use checkbook registers, tax records, receipts and anything else you can find to anticipate your expenses. Build in room for unexpected expenses and possibly higher medical bills. (Myvesta can help you create a spending plan with our *Ultimate Spending Plan* tracking book. Learn more online at [Myvesta.org](http://Myvesta.org).)

**Use checkbook registers, tax records, receipts and anything else you can find to anticipate your expenses.**

Now write down all your sources of possible money to pay your bills including savings, home equity, retirement funds, assistance from friends or family, even lines of credit. Develop a list of priorities so you know which you'll try to use first.

## Step Two: Contact Your Creditors

If you know you won't be able to make the usual payments on your bills, contact your creditors immediately. Don't wait! If you fall behind on your bills, creditors will be less cooperative about making payment arrangements.

## Credit Cards

Many creditors will reduce your monthly payments if you approach them with a reasonable plan, a time frame and if you reassure them that they are not getting slighted in favor of other bills. Offer a payment you can afford, and follow up with a letter stating with whom you spoke, the agreement and any other important information. Keep a copy of the letter for your records. Keep in mind that some credit card companies may report your account late if you are making smaller payments, so be sure to ask how your account will be reported to the credit reporting agencies.

## Student Loans

According to attorney Robin Leonard, author of *Take Control of Your Student Loans* (Nolo Press), you may be able to defer payments on your federal student loans if you become disabled and cannot attend school or work for at least 60 days, or your spouse or dependent becomes disabled and you have to stay home to take care of them for at least three months. You may also be able to defer your payments if you are in an approved rehabilitation program for the disabled.

If you experience a short-term disability, contact the holder of your student loan *immediately* to make arrangements. Continue to make regular payments, if at all possible, in the meantime. For more detailed information on deferment of student loans, get *Take Control of Your Student Loan Debt* by Leonard, available on the [Myvesta.org](http://Myvesta.org) Web site.

## Taxes

If you owe the Internal Revenue Service money for taxes but are unable to pay, you can request an installment plan from the IRS. This allows you to pay the IRS over time. If

the IRS approves your request for a repayment plan, it will charge you a \$43 set-up fee, plus interest (9 percent as of October 1<sup>st</sup>, 2000 adjustable quarterly), plus a penalty of ¼ percent per month on the unpaid balance (up to 25 percent). If you decide to go this route, file your tax return on time and attach either a completed Form 9465, Installment Agreement Request, or your own written request for a payment plan, to the front of your return. (Specify the amount you can pay and the day you wish to make your payment each month.)

For more details, see Myvesta's publication "How to Deal With The IRS If You Can't Pay Your Taxes."

### **Auto Loans**

If your car payments are more than you can afford, you may want to try to "trade down" to a less expensive vehicle, or even sell a second car. If you cannot sell your car but cannot keep up with the payments either, talk with the lender to find out if you can temporarily make lower payments or interest-only payments, or refinance the loan for a longer term. (When you get back to work, make extra payments so it won't take forever to pay off!)

If you have no other option, you may want to give the car back to the lender. This is called a "voluntary repossession" and it will be listed on your credit report as a serious, negative mark. However, this is what you may need to do if you can't make the payments and cannot sell the vehicle. If the lender then sells the vehicle for less than you owe, it may get a deficiency judgment forcing you to pay the difference. If the lender "forgives" the deficiency, the IRS may expect you to pay taxes on that amount as if it were income. Talk with the lender about alternatives before you just hand over the keys.

### **Mortgages**

According to the Mortgage Banker's

Association of America ([www.mbaa.org](http://www.mbaa.org)), you may have several options if you cannot pay your mortgage:

- ▶ **Special Forbearance.** Your lender may be able to arrange a repayment plan which would be based upon your financial situation and may even provide for a temporary reduction or suspension of your payments. You may qualify for this if you have recently experienced an involuntary reduction in income or an increase in living expenses. You must have also furnished information to your lender to show that you would be able to meet the requirements of the new payment plan.
- ▶ **Mortgage Modification.** You may be able to lower the interest rate and/or extend the term of your mortgage loan. This will help you catch up by possibly reducing the monthly payments to a more affordable level. You may qualify if you have recovered from a financial problem but your net income is less than it was before the default (failure to pay). However, you must have sufficient income to cover the new payment.
- ▶ **Partial Claim.** If you have an FHA loan, your lender may be able to work with you to obtain an interest-free loan from The U.S. Department of Housing and Urban Development (HUD) to bring your mortgage current. You may qualify if:
  1. your loan is at least four months delinquent and no more than 12 months delinquent;
  2. you are able to begin making full mortgage payments.

When your lender files a Partial Claim, HUD will pay your lender the amount necessary to bring your mortgage current. You must execute a promissory note, and a lien will be placed on your property until the promissory note is paid

in full. The promissory note is interest-free, and will be due if you sell or leave your property, or when your mortgage matures.

- ▶ Pre-foreclosure sale. This will allow you to sell your property and pay off your mortgage loan to avoid foreclosure and damage to your credit rating. You may qualify if:

**The key is to contact your lender immediately if you can't make your payments.**

1. the “as is” appraised value is at least 63 percent of the amount you owe and the sales price is 82 percent of the appraised value,
2. the loan is at least 30 days delinquent prior to the pre-foreclosure sale closing date, and
3. you are able to sell your house within 4 to 6 months (depending on what your lender agrees to).

An additional benefit of this option is the assistance you will receive with the seller—paid closing costs.

- ▶ Deed-in-lieu of foreclosure. As a last resort, you may be able to voluntarily “give back” your property to the lender. This won't save your house, but it will help your chances of getting another mortgage loan in the future. You can qualify if:

1. you are in default and don't qualify for any of the other options,
2. your attempts at selling the house before foreclosure were unsuccessful, and
3. if the loan is an FHA mortgage, you don't have another FHA mortgage in default.

If you have a VA loan, contact your local VA office to find out if it can help you with the loan or help you sell your house if that becomes necessary.

The key is to contact your lender immediately if you can't make your payments. Be prepared to share the financial information you've gathered when analyzing your income and expenses. Don't agree to anything you don't understand, and avoid scams from third party organizations that may try to trick you out of your house by promising help.

- ▶ Utilities. Cut back as much as possible on utilities and long distance calls. If you still can't pay the bills, you may be able to set up a payment arrangement with the utility company until you get back on your feet.

## Step Three: Ask for Help

Don't be afraid to ask for help from your friends and relatives, employer, church or synagogue, or community organizations. You may be surprised how generous people can be if you ask. Even if they can't help, they may be able to refer you to someone who can.

## Government Agencies

Government assistance, such as disability income, food stamps, utility service, help paying for prescription drugs and other aid can be difficult to obtain for a short-term disability. But if your doctor is willing to sign a statement that you cannot work, you may find some help through county or state agencies. Look under Department of Social Services in the government pages of your telephone book.

Federal Social Security disability benefits and Supplemental Security Income (SSI) are generally reserved for long-term disabilities and can be difficult to get unless you have few financial resources. You may want to check out the Web site at [www.ssa.gov](http://www.ssa.gov) or call 1-800-772-1213 to figure out if you will be eligible if your disability becomes long term.

## Employer

Find out if you have accumulated sick, vacation or personal leave time that you can use to keep paychecks coming for as long as possible. Some employer's allow employees to donate unused sick or vacation time to other workers. If you became disabled as the result of an injury on the job, you may be eligible for worker's compensation.

If your employer offers an employee assistance program, talk with someone about other help that may be available. If you're able, you may also want to find out if there is other work that you can do until you have recovered enough to go back to your old job. If not, keep in touch with your employer and let the company know when you plan to return to work. Ideally, you'll want to return to work as soon as you can — but only if you're really ready to handle the job physically.

Do you have disability insurance through your employer? If so, find out quickly what kind of benefit you'll be eligible to receive and how soon you'll be eligible. In most cases, disability insurance only provides about 60 percent of your usual paycheck, so you may still have to work out financial arrangements to cover the difference.

If it looks like you will have difficulty returning to work due to your disability, help may be available through your state vocational rehabilitation department. Services may include job training, employment placement services, physical therapy and/or rehabilitation equipment. Check the government pages of your phone book for assistance.

The Americans With Disabilities Act requires employers with 15 or more employees to make reasonable accommodations for qualified workers with physical or mental impairments

— not temporary injuries. Employers are not required to make accommodations that would create an undue hardship for them.

Applying ADA in the workplace is complicated and is based on interpretations of the law. If you feel you can return to work with your disability, but need some special accommodations, work with your employer. If you believe you are being discriminated against you can talk with an attorney or the Equal Employment Opportunity Commission 1-800-669-4000. Also check out some of the resources at the end of this brochure.

## Community Organizations

Religious organizations, nonprofit groups and even local business groups may be able to help out. Even if they don't provide financial assistance, you may want to ask someone to baby-sit or give rides to your children, prepare meals, clean the house or garden, grocery shop, make your home accessible if you can't get around the way you used to, or even just to give the caregiver a day off. Your local United Way can often put you in touch with helpful organizations.

**Keep in touch with your employer and let the company know when you plan to return to work.**

## Step Four: Cut Expenses

As if you don't have enough to worry about, you'll probably have to tighten your money belt! Review your expenses and try to cut everything that's not absolutely necessary. If you have children, explain the situation and ask them to help too.

Take a hard look at expenses like cable television, magazine subscriptions or newspaper delivery, restaurant meals or take-out, car washes and other optional expenses. Remember, it won't be forever! The less you spend now, though, the better off you'll be when you can return to your regular work and put the challenge behind you.

## Step Five: Increase Income

If you can't return to your usual work, find out if there is other work you can perform. Look in the classified section of your newspaper or call temporary agencies for opportunities. Try to remain open-minded and willing to try something different. Avoid work-at-home "opportunities" that require upfront fees or costs. These are usually scams.

If you can't work, your spouse or an older child may be able to work to help out with expenses.

## Step Six: Tap Your Assets

Think *carefully* about what resources you may be able to use to help you through this time. Don't rush into these options. Consider the *long-term* costs for you and your family's future.

Ask for help from someone who is qualified to advise you if you have to consider one of these options; there may be consequences — or other, more attractive alternatives you could pursue.

### Savings

If you have a savings account, mutual funds or stocks and bonds you can use, it may help a lot! Remember, though, there may be tax consequences of cashing in an investment, so you'll want to be prepared come April 15. You may also be able to borrow against stocks you own instead of selling them and incurring taxes. Ask your financial advisor about a margin loan if you own stocks, or talk with a banker about getting a loan secured by the stock.

### Retirement Plans

Many retirement plans such as 401(k)s and 403(b)s allow employees to borrow against them. Use caution: your long-term financial future will be stake. Borrowing is better than taking money out of your account, because

early withdrawals are expensive. They are taxed as income and the government takes a 10 percent penalty as well.

But there are drawbacks to borrowing: you may well cut down on the amount you have at retirement, and if you are not able to return to work you may be required to pay back the entire loan immediately — or it will be treated as a withdrawal. Check with your employer about loan rules.

If you have IRAs, you can only withdraw money, you can't borrow against them. Again, this is an expensive option that may cost you some financial security in the future, so use retirement funds only as a last resort.

### Insurance

Find out if you have purchased credit life and disability insurance on your credit cards, auto loan or mortgage. While these policies are generally not recommended because of their high price and low benefit, if you've been paying for them you should take advantage! Surprisingly, many people pay for this insurance without realizing it.

If you have whole or universal life insurance, you may be able to borrow against the cash value you've built up. Loans against the cash value in an insurance policy are very easy to get and you don't have to pay them back. But remember, any amount you borrow *decreases the benefit to your heirs* if you should die before you've paid it back or built it back up.

Note: Your insurance policy may carry a waiver of insurance premium that will pay your premium while you are disabled. Be sure to ask!

### Home Equity Loans

If your house is worth more than you currently owe on it, you may be able to take out a home equity loan. A home equity loan should be considered very carefully.

If your disability stretches out longer than you anticipated, if you lose your job or if you face unexpected expenses and you can't pay your bills, you can lose your house! Be especially careful if your home equity loan means you'll owe close to the value of your house. If you are forced to sell to relocate, or find a more suitable or less expensive house, you could be stuck.

In lieu of getting a home equity loan, you may be able to refinance your first mortgage and get cash out to pay off other obligations. In many instances, it is not generally advisable to pay off unsecured debts with a refinanced mortgage or home equity loan, though.

Do *not* fall for the 125 percent loans that are marketed heavily these days, or any loan in which you agree to borrow more than your house is worth.

**Do *not* fall for the 125 percent loans that are marketed heavily these days, or any loan in which you agree to borrow more than your house is worth.**

These loans are very risky and are particularly dangerous if you face an uncertain financial future. You could end up losing your house, owing the lender for the difference and/or owing the IRS taxes if the lender forgives any of the loan balance.

## Step Seven: Keep on Top of Medical Bills

By the time all is said and done, you may have a stack of medical bills to sort through! Try to keep careful track of your medical bills and question anything that doesn't seem correct. If you don't have medical insurance, are responsible for part of covered services or receive services that aren't covered, make payment arrangements with the medical providers as soon as possible.

Don't be afraid to ask how much a procedure will cost and whether it's really necessary. If your medical care provider understands you are concerned about the financial cost, he or

she may help you decide upon a less-expensive course of treatment. The same thing goes for prescriptions: if you will be picking up part or all of the tab, ask about generic drugs or less expensive ones. Your medical provider may also be able to steer you toward community resources that can help with medical costs.

## Health Insurance

Good health insurance can be one of your most valuable assets if you become disabled. Pull out your policy and read it carefully so you'll understand what is covered and what is not. Be sure you comply with requirements, such as getting pre-approval for surgery.

If it looks like you will be unable to return to work, ask your employer how you can keep your health insurance by paying the premiums yourself. Many workers are covered by the federal law called COBRA, which allows you to pay the premiums, plus a small service cost. Although this may be expensive, try to find a way to keep your health insurance intact until you find a new job with insurance. If your spouse or another family member has his or her own health insurance, find out if you can switch to that coverage.

## Additional Resources ...

American Association for Retired Persons (AARP)  
1-800-424-3410 or [www.aarp.org](http://www.aarp.org)

Equal Employment Opportunity Commission (EEOC)  
1-800-669-4000 or [www.eeoc.gov](http://www.eeoc.gov)

Job Accommodation Network  
1-800-526-7234 or [www.jan.wvu.edu](http://www.jan.wvu.edu)

Mothers Against Drunk Driving  
MADD publishes several helpful booklets for those who become disabled in a drunk driving accident. 1-800-438-6233 or [www.madd.org](http://www.madd.org)

National Organization on Disability  
1-202-293-5960 or [www.nod.org](http://www.nod.org)

Social Security Administration  
1-800-772-1213 or [www.ssa.gov](http://www.ssa.gov)

## About Myvesta...

Myvesta<sup>sm</sup> is dedicated to helping people create healthy financial lives. The organization provides a wide range of materials to inspire and inform people so they can break down their barriers to financial and personal success. For more information visit [Myvesta.org](http://Myvesta.org) online.

### Information Guarantee

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