

Introduction

This document summaries details in relation to the assumptions used in calculating the extra disability expenses individuals are likely to incur if they were to become Totally and Permanently Disabled. (TPD) This figure is used in the calculation of the estimated TPD sum insured by the calculator.

What are 'extra disability expenses'?

Extra disability expenses is an estimate of the expected additional expense a TPD claimant may have such as additional expenses that may be needed:

1. in treating the cause of the disability;
2. to alleviate the complications of the disability; and
3. to improve the claimant's quality of life.

The amount required is uncertain and will depend on the type and severity of the disability. Hence the calculator has used an actuarial estimate.

Additional Disability Assumption

The assumption currently used is 29% of equivalised household income, that is the yearly cost of being disabled is estimated by taking total household income multiplied by 29%. This amount is then summed over each year into the future until retirement age and displayed as a single figure by the calculator.

This assumption is sourced from a paper by Mr Peter Saunders of the Social Policy Research Centre ("SPRC"); *The costs of disability and the incidence of poverty August 2006*

It is important to note that 29% of equivalised household income represents the cost of the average disability and does not take into account the severity of the disability.

In using this figure, this may mean that, on average, half the members who suffer a disability will have too much additional disability cover, whilst the other half will not have enough. This is irrespective of whether or not the condition of the members is severe enough to meet TPD definition.

As each client that uses the calculator has different needs in relation to insurance, the calculator allows the percentage for extra expenses associated with a disability to be changed in the "Assumptions" section of the Calculator.