



OWN-OCCUPATION DISABILITY INSURANCE FOR TEXAS BUSINESS OWNERS

Why group long-term disability insurance falls short for high-income business owners – and how own-occupation and BOE coverage work together to close the gap.

Palmer Wealth Group™

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Consider a scenario that plays out regularly in planning conversations with Texas business owners. An executive earning \$600,000 per year has a group disability insurance policy through her employer – one that promises to replace 60% of her income if she becomes disabled. Run the actual numbers: after applying the plan's \$10,000 monthly benefit cap and accounting for the federal taxes due because her employer pays the premiums, her effective monthly replacement falls to roughly 16% of take-home pay.

Most business owners in this position have never run that calculation.

For business owners and professionals earning above \$250,000, the math on group disability coverage breaks down quickly. The problem is not intent. It is structure. And for Texas business owners operating without a statutory workers' compensation backstop, that structural gap deserves serious attention.

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WHY GROUP LONG-TERM DISABILITY INSURANCE FAILS HIGH- INCOME BUSINESS OWNERS

Group long-term disability (LTD) insurance was designed for average workers at average income levels. Many employers also offer short-term disability (STD) coverage for the first three to six months of a

disabling event, but neither program addresses the income replacement gap that emerges for high earners over extended claims.

According to benchmarking data covering approximately 120,000 group plans, 95% of group LTD policies cap the monthly benefit amount at \$15,000 or less, and 89% replace only 60% of base salary. NFP's 2025 U.S. Executive Compensation and Benefits Trend Report found that only 26% of employers offer supplemental executive disability coverage. According to Mercer, 75% to 80% of group LTD plans exclude variable compensation — including bonuses, commissions, and K-1 distributions — from covered earnings entirely.

Our team encounters this pattern in related contexts. In [our analysis of how entity structures create dangerous insurance gaps](#), we found that coverage appearing adequate in a benefits summary often tells a different story when tested against total compensation and actual financial obligations.

THE MONTHLY BENEFIT CAP THAT UNDOES THE 60% PROMISE

A group disability insurance policy replacing 60% of income up to a \$10,000 monthly benefit amount produces very different outcomes across income levels. The following figures are illustrative hypotheticals, not projections for any specific individual's circumstances.

A \$200,000 earner receives a benefit close to the 60% promise. A \$500,000 earner receiving the same \$10,000 cap receives approximately 24% of base salary. A \$1,000,000 earner receives roughly 12%. The gap widens when variable income is excluded. For a business owner whose economic income includes profit distributions or performance bonuses, the effective replacement rate can fall well below 20% of actual take-home pay.

THE TAX PROBLEM THAT CUTS THE BENEFIT A SECOND TIME

Most group disability insurance policies are employer-paid or funded through pre-tax payroll deductions in a cafeteria plan. Under IRS Publication 525, when an employer pays disability premiums — or when premiums are paid with pre-tax dollars — the resulting disability benefits are taxable income to the recipient. Consult a qualified tax advisor to evaluate how this rule applies to your specific situation.

Approximately 70% of group LTD plans are employer-funded, per the benchmarking data cited above. That means the majority of group LTD disability benefits are reduced by the recipient's federal income tax rate, typically 32% to 37% for the high earners already taking the largest hit from the benefit cap.

IRS Publication 525 confirms that when an individual pays disability insurance premiums with personal after-tax dollars, disability benefits are received tax-free. A \$10,000 monthly group benefit may net \$6,500 after federal taxes. The same benefit amount from an individually owned insurance policy nets the full \$10,000.

THE DISABILITY RISK TEXAS BUSINESS OWNERS CONSISTENTLY UNDERESTIMATE

Many business owners carry an implicit assumption that disability is uncommon. The actuarial data does not support that assumption.

According to the Social Security Administration's Office of the Chief Actuary (Actuarial Note 2025.6, September 2025), approximately 24% of 20-year-old workers will experience a disabling event before reaching normal retirement age – roughly one in four. The risk increases through the 40s and 50s, precisely the years when most of our clients are at peak earning capacity.

[As we documented in our analysis of the entrepreneur's blind spot](#), the focus on building the business creates a persistent underweighting of the personal risks that could stop it.

WHAT THE PROBABILITY DATA ACTUALLY SHOWS

Industry research from the Council for Disability Awareness has historically placed the average long-term disability claim at roughly 31 months. This figure traces to 2016 data and should be treated as a directional benchmark, though carrier claims experience corroborates the general range of two and a half to three years.

For context, the average Social Security Disability Insurance (SSDI) benefit was \$1,633.76 per month as of February 2026, per the SSA Monthly Statistical Snapshot. For a business owner earning \$500,000 annually, that figure represents less than 4% of pre-disability income. SSDI is not a meaningful income backstop for high earners.

WHY ILLNESS — NOT INJURY — IS THE GREATER THREAT

The default mental model for disability tends toward physical accident. The claims data tells a different story.

According to the Council for Disability Awareness, republished by Guardian Life Insurance, approximately 90% of long-term disability claims arise from illness, not injury. Musculoskeletal disorders account for roughly 29% of claims. Cancer accounts for approximately 15%. Cardiovascular disease and mental health conditions each represent around 9%.

“APPROXIMATELY 90% OF LONG-TERM DISABILITY CLAIMS ARISE FROM ILLNESS, NOT INJURY.”

The Bureau of Labor Statistics reported that fewer than 1% of U.S. workers missed work in 2024 due to occupational illness or injury. Workers' compensation addresses a fraction of the actual disability risk facing most professionals.

Texas amplifies this exposure. According to the Texas Department of Insurance, Texas is the only state where private-sector employers may opt out of workers' compensation entirely. In a non-subscriber business, there is no statutory income replacement for job-related disability either.

OWN-OCCUPATION DISABILITY INSURANCE: WHY THE POLICY DEFINITION IS EVERYTHING

Understanding what a disability insurance policy will pay requires understanding how it defines disability. For high-skill professionals, the policy definition is the single most consequential contractual feature of any disability coverage.

TRUE OWN-OCCUPATION VS. MODIFIED VS. ANY-OCCUPATION — A PLAIN-LANGUAGE COMPARISON

Under a **true own-occupation** definition, a disability insurance policy pays full disability benefits if you cannot perform the material and substantial duties of your specific occupation — even if you choose to work in a different field and earn income there. A surgeon whose condition ends surgical practice can collect full disability benefits while consulting or teaching.

Under a **modified own-occupation** definition, full disability benefits require that you not be working in any gainful occupation. If you earn income in a different role, the benefit amount may be reduced or denied.

Under an **any-occupation** definition, a policy pays only if you meet the threshold for total disability — meaning you cannot work in any occupation suited to your education and experience. This is the most restrictive standard and the definition most group LTD plans apply after the initial benefit period.

For specialist physicians, dentists, attorneys, and other high-skill professionals in the Dallas-Fort Worth area, this distinction can determine whether a legitimate claim is paid in full or denied.

Note that approximately 40% of disability income insurance applications are declined, rated at higher premiums, or accepted with exclusions, per Council for Disability Awareness data. Apply for coverage before health history creates underwriting barriers.

THE 24-MONTH CONVERSION PROBLEM IN MOST GROUP PLANS

Group LTD plans frequently include own-occupation language — but only for the first 24 months of a claim. After that period, the insurance policy converts to an any-occupation standard. According to the group plan benchmarking data, 81% of group LTD plans apply this conversion. Verify the definition language in your certificate of coverage, not your benefits summary.

WHEN HIGH-LIMIT INDIVIDUAL DISABILITY INSURANCE CLOSES THE GAP

Individual disability income insurance policies are underwritten separately from any group plan and can be sized to reflect actual total compensation, including variable income where documentation supports it. They follow the owner personally, regardless of changes in employment or business structure – a portability feature with meaningful value for business owners whose income sources shift over time.

For executives at large companies, a Guaranteed Standard Issue (GSI) policy – employer-arranged individual coverage underwritten without a medical exam – can be an efficient complement to group coverage.

BUSINESS OVERHEAD EXPENSE INSURANCE — THE MISSING LAYER FOR TEXAS OWNER-OPERATORS

Disability income insurance protects the owner's income. It does not protect the business. Rent, non-owner payroll, equipment leases, and insurance premiums do not pause during a disability.

[As we addressed in our analysis of corporate cash strategy for Texas business owners](#), operational continuity under disruption requires advance planning, not improvisation.

Business Overhead Expense (BOE) insurance reimburses a practice's fixed operating costs during a qualifying disability period. It is a distinct insurance policy form from disability income insurance and is designed to work alongside it.

WHAT BOE COVERS — AND THE EXPENSES IT DOESN'T REPLACE

A BOE insurance policy reimburses actual covered expenses up to the monthly benefit amount. Covered expenses typically include rent, non-owner employee payroll, utilities, equipment leases, malpractice and E&O premiums, professional dues, accounting and legal fees, and loan interest on existing obligations.

BOE does not replace the owner's personal income or disability benefits. It also typically excludes the cost of hiring a replacement practitioner, new capital investment, and inventory. Benefit periods are generally 12 to 24 months. BOE premiums are generally deductible as a business expense. Consult a qualified tax advisor to verify treatment for your entity type.

HOW BOE AND INDIVIDUAL DI WORK TOGETHER AS A SYSTEM

Disability income insurance replaces the owner's personal income. BOE reimburses fixed overhead. Together, they address both the personal and operational dimensions of a disability event for an owner-operated practice.

[For physicians and professional service providers, disability premiums and retirement contributions such as cash balance plans often compete for the same marginal dollar](#) — a tradeoff worth addressing deliberately within a comprehensive financial plan.

Disability income insurance premiums for most professionals and business owners typically range from approximately 1% to 3% of insured income, per carrier research and industry guidance. Actual premiums vary by occupation class, age, gender, health history, and policy design. These are planning benchmarks, not quotes, and individual underwriting results will vary.

A FOUR-STAGE COVERAGE FRAMEWORK FOR TEXAS BUSINESS OWNERS

There is no universal formula for disability coverage. The right structure depends on income level, entity type, fixed obligations, and how central the owner is to the business's continued operations. The framework below is a planning guide, not a recommendation for any specific situation.

At Palmer Wealth Group™, disability income protection reviews are conducted as part of the comprehensive planning engagement we coordinate through our Integrated Wealth Alliance — working alongside licensed insurance specialists to evaluate existing coverage, close identified gaps, and ensure each layer of protection aligns with the client's full financial picture.

The disability benefit amount target endorsed by LIMRA, Guardian Life, MassMutual, and the American Academy of Family Physicians is 60% to 80% of pre-disability gross income on a net-of-taxes basis. Because individually owned disability benefits are generally tax-free, a 60% gross benefit frequently replicates 80% or more of after-tax take-home pay. Mercer and NFP guidance recommends sizing combined coverage — group plus individual — to reach 60% to 70% of total compensation including variable income.

STAGE 1 AND 2 — AUDIT FIRST, THEN LAYER

Stage 1 is a group plan audit. Pull the full certificate of coverage and confirm: the monthly benefit amount; whether covered earnings include bonus and variable compensation; the own-occupation period before conversion to any-occupation; who pays premiums and whether disability benefits will therefore be taxable; and whether the insurance policy is portable if employment or ownership structure changes.

Calculate the actual after-tax replacement ratio against total compensation. If it falls below 50%, proceed to Stage 2.

Stage 2, coordinated through the Integrated Wealth Alliance with a licensed disability insurance specialist, is the addition of an individually owned, true own-occupation disability income insurance policy. Size the benefit amount to bring combined coverage to 60% to 70% of total compensation. Pay premiums with personal after-tax dollars. Confirm the benefit period extends to at least age 65 and that the insurance policy is non-cancellable and guaranteed-renewable — meaning the insurer generally cannot change terms or premiums as long as premiums are paid, subject to specific policy contract terms.

STAGE 3 AND 4 — BOE COVERAGE AND THE SELF-INSURANCE QUESTION

Stage 3 applies to owner-operators. Map actual monthly fixed overhead and match a BOE insurance policy to that figure. Choose a 12- or 24-month benefit period based on the time realistically needed to recover, transition leadership, or arrange a sale.

Stage 4 is ongoing reassessment: every three years and at major liquidity events. Two conditions generally support reducing disability income insurance coverage: liquid investable assets approaching 20 to 25 times annual fixed obligations, combined with a planned work cessation within five years. Two conditions generally support increasing coverage: variable income has grown above 40% of total earnings and is excluded from the group plan, or a new fixed obligation has created a significant multi-year income dependency.

The self-insurance question is a planning judgment. A 42-year-old owner with active obligations and 20 working years ahead is in a fundamentally different position than a 58-year-old approaching a planned exit — even with similar balance sheets.

FREQUENTLY ASKED QUESTIONS

Q: DOES MY GROUP LONG-TERM DISABILITY PLAN COVER MY BONUS AND EXECUTIVE COMPENSATION?

In most cases, no. According to Mercer research, 75% to 80% of group long-term disability plans define covered earnings as base salary only. Bonus compensation, K-1 distributions, commissions, equity vesting, and profit-sharing are typically excluded from the benefit amount calculation entirely. For a business owner whose total compensation includes significant variable income, this exclusion can reduce the effective income replacement to a fraction of actual take-home pay. To determine what your specific plan covers, pull the full certificate of coverage — not the benefits summary, which often does not disclose these exclusions prominently.

Q: WHAT IS THE PROBABILITY OF BECOMING DISABLED BEFORE RETIREMENT?

Higher than most people assume. According to the Social Security Administration's Office of the Chief Actuary (SSA Actuarial Note 2025.6, September 2025), approximately 24% of 20-year-old workers will experience a disabling event before reaching normal retirement age — roughly one in four. The risk increases meaningfully through the 40s and 50s, the peak earning years for most business owners and professionals. Equally important: approximately 90% of long-term disability claims arise from illness, not injury, per the Council for Disability Awareness. Conditions such as cancer, cardiovascular disease, and musculoskeletal disorders are far more common causes than workplace accidents.

Q: ARE LONG-TERM DISABILITY BENEFITS TAXABLE INCOME?

It depends on who paid the premiums. Under IRS Publication 525, disability benefits from employer-paid coverage — or from coverage funded through pre-tax payroll deductions in a cafeteria plan — are taxable income to the recipient. Approximately 70% of group long-term disability plans are employer-funded, per industry benchmarking data, which means most group LTD disability benefits are subject to federal

income tax upon payment. Disability benefits received from a policy where the individual paid premiums with personal after-tax dollars are generally tax-free. Individually owned disability income insurance policies, when structured with after-tax premiums, typically produce tax-free benefits. Consult a qualified tax advisor to evaluate how this applies to your specific situation.

Q: WHAT IS THE DIFFERENCE BETWEEN OWN-OCCUPATION AND ANY-OCCUPATION DISABILITY INSURANCE?

A true own-occupation disability insurance policy pays full disability benefits if you cannot perform the specific duties of your own profession – even if you remain capable of working in a different field and earning income there. An any-occupation policy applies the total disability standard: it pays only if you cannot work in any occupation suited to your education and experience. A modified own-occupation definition falls between the two, paying full benefits only if you are not working in any gainful occupation. Most group long-term disability plans begin with own-occupation language and convert to an any-occupation standard after 24 months, a contractual shift that materially reduces protection for high-skill professionals.

Q: DOES WORKERS’ COMPENSATION COVER LONG-TERM DISABILITY FOR TEXAS BUSINESS OWNERS?

Only in limited circumstances, and often not at all for Texas business owners. Workers’ compensation covers illness and injury arising directly from the job. The Bureau of Labor Statistics reported that fewer than 1% of U.S. workers missed work in 2024 due to occupational illness or injury – meaning most disability events would not qualify regardless of state. Texas adds further exposure: it is the only state where private-sector employers may legally opt out of workers’ compensation entirely, per the Texas Department of Insurance. Business owners at non-subscriber companies may have no workers’ compensation coverage at all, making individual disability income insurance the primary private remedy available.

ABOUT PALMER WEALTH GROUP™

Palmer Wealth Group™ is a Dallas/Fort Worth, Texas-based boutique wealth management practice operating as a Integrated Wealth Alliance for business owners, corporate executives, professional practice owners, and multi-generational families navigating the financial complexities that accompany significant wealth. Led by Luke A. Palmer, CFP®, AAMS®, CRPS®, AWMA®, the practice delivers comprehensive, integrated wealth management for clients who demand more than conventional advisory models can provide. Learn more at palmerwealthgroup.com.

IMPORTANT DISCLOSURES

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Commonwealth Financial Network® and Palmer Wealth Group™ do not provide legal or tax advice. You should consult a legal or tax professional regarding your individual situation.

Disability insurance products referenced in this article are subject to underwriting approval and individual policy terms and conditions. Coverage amounts, premium rates, and benefit definitions vary by carrier and individual circumstances.

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