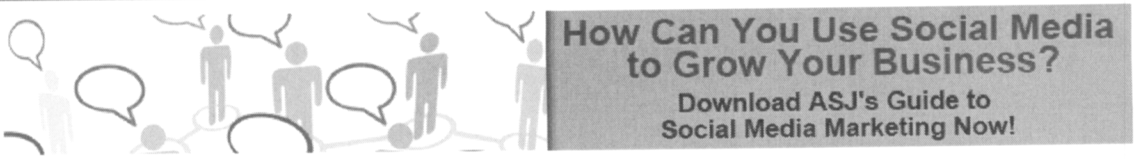

asj AGENT'S SALES JOURNAL

Rethinking Ways to Prescribe Disability Insurance

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Published 2/28/2011 » More From This Issue RSS Feed | Subscribe | Article Reprints

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Financial planning begins with income planning, and an income plan must start by providing some form of guarantee that a source of income will always be available in the event of a disability during a person's working career. Disability insurance protects the one thing that allows all other wealth creation – income.

There are some key issues for professional insurance agents to consider when evaluating the needs of their clients. However, we tend to dwell on numbers and occupational classifications from field underwriting guides. Perhaps there are more appropriate ways to approach your clients' needs.

Think income percentage, not benefit amount

In the event of a disability, most people will need to replace between 65 and 75 percent of their income just to stay afloat, *regardless of their income level*. Such third-party sources as the U.S. Labor Department show us that most people are within six weeks of personal bankruptcy. Higher income earners are not immune to this problem, as they tend to buy larger and more expensive homes, automobiles, furnishings, etc. As income rises, so does the desire to own more expensive items, so the percentage of required income doesn't change.

A person earning $100,000 a year will most likely need a monthly disability benefit of $5,416 to $6,250 (65 and 75 percent of prior income, respectively). A person earning $500,000 a year will need the same percentage of income replacement, but with the monthly benefit adjusted to between $27,083 and $31,250 (65 and 75 percent of prior income, respectively).

Don't get caught up in the dollar amount of the monthly benefit, for you will often miss the forest for the trees. Thinking in terms of the percentage of required income replacement eliminates these barriers and forces you to think about the total risk exposure. But what happens when the carrier's limits are too low for your client's real needs? Certain disability insurance companies do indeed offer higher limits than others. It will be important for you to get to know which carriers these are, so that you can offer a sound disability financial plan.

Think creatively, not by the book

Sometimes, producers encounter a case that may at first appear to be uninsurable. As a professional insurance agent, it is our duty to explore options – not to say, "I cannot help you at all."

Special occupations, such as oil rig workers, firefighters, pilots, athletes, and entertainers may seem uninsurable, but there are indeed insurance companies that will consider covering these types of workers.

What about age? Many producers may assume that disability insurance sales must stop at age 60. However, certain markets may, under certain circumstances, write people much older than 60.

What about health issues? Many producers believe that an impaired risk for disability insurance is too difficult to handle. Yet there are markets that can work with numerous impaired risk plans.

Think about the business, not just the individual

Far too often we assume disability insurance means only one thing – individual, non-cancelable personal disability insurance. An analysis of most businesses finds that risk exposures due to disability of key persons, owners, or employees, may pose serious threats to the life of a business.

Many businesses with partners, or with more than one corporate owner, have some type of buy-sell agreement. However, many of these buy-sell agreements address death and not disability. A business may need to insure the buy-sell against a disability of one of the owners or partners for up to tens of millions of dollars.

Through their property and casualty broker, most businesses have business interruption insurance that says, "business expenses shall be paid if you are unable to open your doors for business due to fire, theft, vandalism, etc." But what if the business' doors cannot open because your client – the business owner – cannot physically function because of a disability? Business overhead expense coverage is designed to cover business expenses while the owner is disabled.

Think special, not just normal

Many producers slow down when they discover that their prospect has a situation that is "obviously" uninsurable. Do you know how many people are heading toward the Middle East to rebuild Iraq and develop numerous other infrastructures? Thousands. Many are employed by regular businesses here in the United States, and have a chance to participate in post-war rebuilding.

How about "normal" situations? All businesses need buy-sell, business overhead expense, and key person coverage, as noted above – but what about insuring a severance agreement? Businesses that offer such agreements must also make sure that the departing employee has full benefits. The problem is that disability plans have a clause that requires a person to be "actively at work." The minute an employee leaves the company, they are no longer working and thus do not have any disability insurance coverage. A severance agreement disability insurance plan can cover these large gaps in contract provisions.

Try rethinking your disability insurance sales approach by using these simple ideas, and it should be far less confusing, serve your clients better, and end up more profitable for you.

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