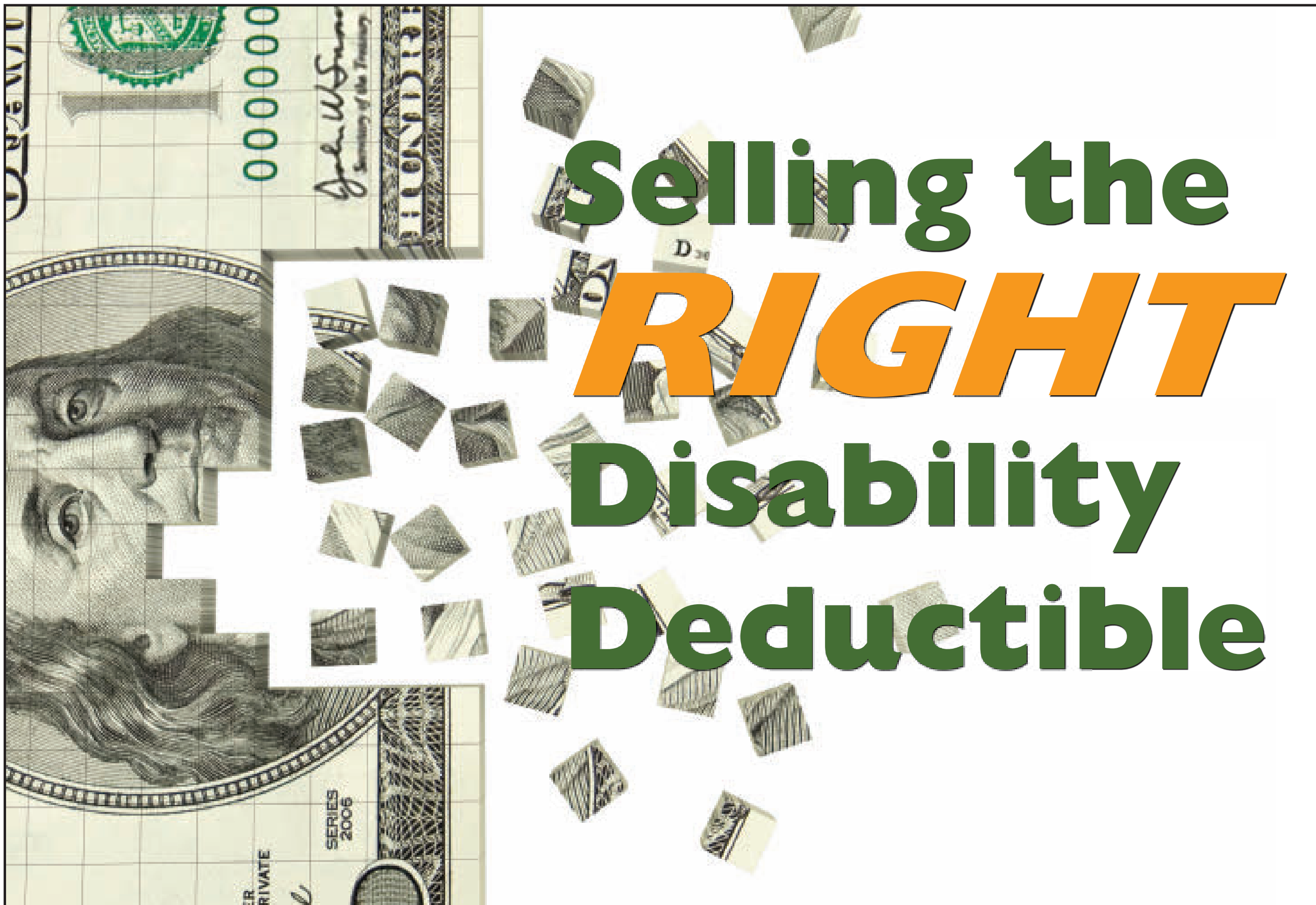

Selling the *RIGHT* Disability Deductible

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Selection of the deductible elimination period for a disability income plan is one of the most significant decisions to be made in creating a disability financial plan. It has a great potential effect for the producer as well as the insured.

We should consider that an elimination period is nothing more than a deductible. If we sell a person a $10,000/month disability income policy with a 90-day elimination period, we have prescribed a $30,000 deductible.

If we assume that a person may never be disabled or that the insured could probably budget for a 90-day period of time, and that money is to be saved by electing a 90-day versus a 30-day elimination period, a serious error in financial planning has occurred.

If this concept is valid, why not rewrite all the person's other insurance policies with a $30,000 deductible? It would certainly save some premium on medical insurance, a homeowner's package and on automobile insurance.

To try to crystal-ball the future and assume that a person will always be in a financial position to go without income cash flow for three months is risky. Disability may happen after the children have enrolled in college or when a business downturn takes place.

We learn from the Disability Financial Planning Course (DFPC) morbidity tables, on which all companies base their rates, that a 30-day elimination period will result in 39.8% of all disabled people still being disabled and qualifying for benefits at the end of the elimination period. This means that 60.2% of all disabled people will

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either have recovered or died within 30 days. The same study applicable to 90 days shows that only 7.8% of all disabled people are still disabled after 90 days, and that 92.2% will have recovered or died.

The producer as a businessperson must be concerned with this. Happy customers are those to whom the producer delivers claim checks. Grumpy customers are those to whom the producer has not delivered claim checks. In the wisdom of one of our nation's most proficient producers to medical doctors for disability income insurance, we are admonished to use the shortest possible elimination period. He reminds us that, even with the 30-day elimination period, it's going to be a minimum of 45-60 days before any cash is received. In the case of a 90-day EP, it is going to be 105-120 days before any cash is received.

He also reminds us that disabled people have time to think and worry. They worry about whether their policy is any good and whether the policy will really pay. They worry about the producer and if he/she has treated them right and if he/she is honest. They worry from the date of disability until the date they receive their first check. This is improper imposition upon people whose minds should be free from worry, because worry is the greatest deterrent to healing.

From the DFPC, a question is asked: "Can people afford the difference in cost between a 90-day and a 30-day deductible waiting period?" It matters not which company's rate book is used for comparisons; it will be shown that savings in premium will run between 24% and 35%. This is not sufficient justification to save a few premium dollars at a time when the person is well, healthy, working and producing income, as compared to taking the risk of being without cash flow for four months when disabled and not producing income.

Lloyd's of London gives a more realistic pricing breakout. The difference between a 30-day and 90-day elimination period, according to its calculations, is 40% to 50%. This makes a little more sense. Our domestic carriers are not that generous, therefore the benefit-to-price ratio is tilted in the favor of the 30-day EP and away from the 90-day EP.

Some companies encourage their producers to sell 90-day EP policies. It is without concern for the consumer or the producer that such encouragement is offered.

At claim time, the producer must be there. The producer must incur the wrath, the suspicion, the concern, the worry and the hatred of the claimant who is not going to get a dime from the insurance company during the first three or four months of disability. The producer is going to face the embarrassment of having customers call to say that they will be returning to work after 90 days of disability resulting from open heart surgery, and they wonder because of the severity of the operation if there is any money due from the policy that had been sold to them. They will quickly add that they have paid a lot of premiums into the policy. They expect a claim to be paid.

Happy claimants give referrals. Disappointed claimants have only bad things to say about the producer who did a poor job. The measure of a good job or a bad job is done at claim time, not at application time. The sweetness of lower premium for a 90-day deductible will be overcome by the bitterness of disappointment in not receiving claim dollars at disability time.

This is not like buying term and investing the difference. What magnificent investment could a person make with $300, $400 or $500 of annual premium savings?

Keeping in mind that an elimination period is like a deductible, what other insurance would people buy with $15,000 deductible?

The following chart may be of some help:

Male, Age 35—Age 65 Benefit Period

Elimination Period	30	60	90	180
Premium per $1,000	$431.20	$382.70	$361.90	$336.40
Total Premium to Age 65	$12,936	$11,481	$10,857	$10,092
Additional Annual Cost Compared to Next Longer EP	$48.50	$20.80	$25.50	N/A
Additional Cost (to age 65) Compared to Next Longer EP	$1,455	$624	$765	N/A
Additional Benefits per Claim Compared to Next Longer EP	$1,000	$1,000	$3,000	N/A

In summary, the best buy for the consumer is the 30-day EP. As many of our clients are paying premium with tax-deductible dollars, the additional premium becomes insignificant. The next time you are in competition, try showing a plan with a shorter elimination period (and more benefits) than your competitor. It will probably make sense to your client. HIU