The New Era of Disability Financial Planning

by W. Harold Petersen, RHU®

> Implications of the industry's strengthened ability to satisfy clients' Disability Insurance needs

The days of one disability policy to serve the needs of all people have come to an end. We have entered a new era of disability financial planning. This long-sought capability has become a reality because of new underwriting attitudes, new product designs and new, flexible and substantial issue amounts.

Underwriters should still have a good feeling and a good description regarding the risk they are considering.

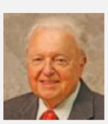
Neglect of the Disability Insurance (DI) needs of people has been due to the unrealistic and punitive underwriting attitudes of the disability insurers in the past. Product design passed from one generation to the next with the same antiquated beliefs plaguing the industry. As a result, little modernization of products and practices has been brought forward to enable one to do an adequate and professional job of disability insurance planning, until now.

NEW ERA UNDERWRITING: SIMPLE, FAST AND EASY

Multilife underwriting includes fast, simple and easy underwriting for those folks who are part of a multilife group. Features such as Guaranteed Issue or Guaranteed To Issue are now available. Members of a cluster of persons being insured simultaneously all benefit from "happy underwriting." Numbers from five or more, or a percentage of all the eligible employees in a group, are insured with only a minimum of underwriting. Faster, easier, simpler without the concerns of rejection or modification is the value of these new collective underwriting programs.

Discounted premiums add to the allure of the cases being applied for on a multilife basis. These advantages leave only the risk of being underinsured or being engaged in what may be an unacceptable occupation to certain insurers. That problem is frequently handled by another insurer offering a supplemental plan that is recognized as being acceptable to the insurers who offered the base amount of coverage. This supplementation enables high-income earners to build a true Disability Financial Plan covering up to 65 percent or more of a person's earned income whether it be from salary, commissions or bonuses, or any combination thereof. The Council for Disability Awareness (CDA) studies reveal that a person is only adequately insured if the total benefits of his/her plans amount to 65 percent of normal earned income cash flow.

High Limit Supplemental Disability Plans have been reservedly offered for more than 30 years. This means they are tested, they are sound and are accepted as a necessary adjunct to underwriters of many disability plans wherein that insurer's issue limits are inadequate to fill the needs of the consumer. Such plans do not discourage other insurers whether it be an individual or a group plan, because the supplement completes the 65 percent objective of providing an adequate income amount.



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Questions of financial concern are viewed more favorably than in the past as underwriters have settled into the world of disability financial planning and recognize business use of disability insurance underwriting.

THE ART AND SCIENCE OF DISABILITY INSURANCE UNDERWRITING

Underwriting need not be a barrier to profitable DI sales. Underwriters should still have a good feeling and a good description regarding the risk they are considering. A 40-year-old person who becomes disabled, and remains disabled, will at the rate of $20,000 per month by age 65 be a potential risk of $6 million. New era underwriting develops big-risk situations.

The underwriter must know the applicant's occupation. The underwriter's guides will place the applicant in a category. If he is a doctor, lawyer, tuna boat captain, executive, salesperson or veterinarian, he will be put into the category agreed to by the chief underwriter and the reinsurer. But there may be variations in each category.

If he is a veterinarian, the underwriter must determine and classify him as to his practice: Is it small animals only or large and dangerous animals? If he captains a tuna boat, is he an owner of the boat or the employee of a firm that owns the boat? Tell the underwriters about the firm. Is this a seasoned firm or a new venture for a person who has heard that tuna fishing can be very profitable? These are examples of risks that may defy the simple categories for veterinarians or tuna boat captains. Find out and send with the application a supplemental information letter. How much experience has this person had? Who was his former employer? Did the veterinarian's elephant client become ill and die? Did the boat captain's previous boat sink unattended, or was it involved in a maritime accident?

The applicant's character is very important in underwriting. Take the case of the doctor. Does he perform surgery? What kind? Has his license ever been suspended? If so, why? These kinds of questions will evolve from the case.

Underwriting the most complex cases, specifically insuring people, is not mysterious, should not be difficult and can even be fun. DI has come into the sunlight, and joyously companies are operating profitably. Purveyors need no longer shun writing these needed coverages. It is with joy that Dr. Huebner's observations of nearly a century ago are now possible. Living Death and Dead Death insurance belong in the same stable and should be used with equal enthusiasm, which has never before been possible.

Troublesome pre-existing illnesses, such as cancer, heart trouble and nervous conditions, are easily taken in stride. Cancer is only excluded for the first five years following recovery. Heart trouble may take a rating instead of an elimination waiver. Mental nervous conditions and drug or alcohol history can often be handled by rating or modification. Such conditions used to be exclusions. Now pre-existing conditions are considered for issue.

Before fatigue and discouragement set in, think of this communication as if you are writing a letter to a friendly underwriter whose interest is in making this application into a good case. This is your team. Together you will complete this case and deliver a blissful product—a guaranteed income cash flow should the client become disabled.

The art and science of Disability Insurance is different from Life Insurance. These interesting differences account for much of the disdain some purveyors have for DI. They are uncomfortable with ignoring the disability needs of their prospects and clients, but, due to past negative experiences, they have chosen not to get immersed in DI and stick to the simplicity of life underwriting.

In the modern world of disability insurance we have to consider group and individual plans, employer contributions and disability financial planning.

In individual plans the underwriter will want to know what other forms of insurance are in force, what other passive income the applicant might have or is eligible for at some future date. With this information the underwriter can program around passive income, such as military reserve pay and previously earned pensions. He or she can program around group insurance, whether paid for by the employer or not, and give credit to the coverage subject to taxes. Again, the goal is to deliver at least 65 percent of normal income cash flow.

We now enjoy many business coverages to augment personal needs, which can go as high as $500,000 per month: overhead expense for any number of owners in a firm up to $100,000 per month or more, buy/sell funding up to $100 million, high-limit plans, venture capital indemnity, key person, kidnap and ransom coverages, pension funding, pilot/air crew, marine occupations, athletes and entertainers are quickly underwritten in the new era of disability financial planning.

Purveyors are wise to write a supplemental letter to be submitted with the application to help the underwriter move quickly on his/her decision to accept, reject or offer modified coverage. Here are examples of what should be in the supplemental letter to get quick and usually favorable results.

Example letter to the underwriter:

1. **We have three owners seeking high-limit coverage to give them coverage equal to 65 percent of their earned income. Refer to the following illustration:**

A. Gross Income Sources	**Gross Income**
Salary (Monthly)	$50,000
Bonus (Monthly Average)	$50,000
Commissions (Monthly Average)	$5,000
Gross TOTAL Earned Income	$105,000
65% of Gross Income	$68,250

B. Disability In Force		
Group (premium paid by Employer)	$10,000 Less Taxes	To insure 65% of total, he needs $68,250
Individual DI (to be paid by Employee)	$15,000 Free of Taxes	Less Net $20,000 coverage __________
TOTAL Group Net	$5,000	
Individual	$15,000	
	$20,000	

2. **These three are owners of a successful business, which they founded five years ago. Starting at $200,000 in year one, their earnings increased to $400,000 in year two, $700,000 in year three, $900,000 in year four, and $1.26 million in year five.**
3. **The business is valued by third-party sources at $15 million. They wish to fund a buy/sell agreement in the event of death or long-term disability of an owner in these amounts:**
   - **Partner A - $5 million**
   - **Partner B - $5 million**
   - **Partner C - $5 million**

Each partner has $3.5 million of cross-purchase life insurance with a guaranteed increase of $1 million. They plan to carry a $500,000 note payable over 10 years at 4 percent interest for the balance of the buy-out obligation.

They seek disability insurance on a lump sum basis to fund their contracted buy-out agreement. Note that they have $1 million DI buy/sell in force on a monthly payout basis of 60 months at $16,666. Because Partner C is age 60 his benefits amount will start reducing by 20 percent per year, so they will want to supplement this reduction or replace the plan entirely. With $350,000 lump sum to supplement the $1 million already in force they will still use the $500,000 note payable over 10 years at 4 percent interest to handle the balance of the payout.

4. **Key person indemnity. They want to have a monthly indemnity benefit plan on each partner in the amount of their salary and bonuses beginning on the 61st day and paying for up to 12 subsequent months. This indemnity will be valuable in the event of the disability being one from which a partner will not recover, and will result in a buy-out claim.**