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## Disability Insurance: Saving The Dream

**M**y story today is not about morality or social change, it is not defined by altruism or philanthropy. Instead, my account is self-serving and family centric and affects all of us in daily life. It is about our aspirations and our success and an endeavor to fervently protect both.

It was Saturday afternoon, my birthday had just passed and my spouse and I were interested in a fun outing. In my spare time I enjoy looking at architecture and I am always searching for my dream home/property. Rarely do I find something that

catches my eye in the realm of what I can afford, but in this case I did and with the discovery my imagination was consumed with the range of possibilities for a comfortable life with my family in this grand new home.

The model home was part of a new track bordering a rural picturesque setting. During the tour I was impressed with the sophisticated interior including high ceilings, opulent finishes, expansive windows and the overall design of the floor plan. Every square foot was purposeful and well designed. The yard and views were equally

impressive with a pool and spa overlooking rolling distant hills.

My wife and I agreed, we loved it! The next question was cost. Obviously it would be a stretch, but could we make it work? We were informed that this particular model had recently undergone two price increases which the builder attributed to heightened construction costs and consumer demand. From its original starting price only four months prior the model was nearly 25 percent more expensive. In addition, this particular model was completely sold out and there was no indication as to when the next phase of development would be released.

Our only recourse was to put our name on a long waiting list. Grasping at straws, trying to find some ray of hope, I asked about the availability of the actual model home we fell in love with. The response was a firm unapologetic "No," and to snuff-out any glimmer of possibility the salesman elaborated that this home offered over one million dollars in upgrades and when eventually sold it would fetch a price well beyond its construction cost. Our heads and hearts sank, we drove away that day melancholy as the dream quickly faded.

Later I objectively assessed my experience and how it applied to the macro economy and specifically to my niche of the insurance industry. Whether buying a home, going out to a restaurant or even filling your car with gas, everyone has felt the steadily increasing prices hindering our purchasing power for the things we want while stretching the limits of what we can afford for the things we need. The Consumer Price Index, which tracks the relative pricing for goods and services in the U.S. economy, has increased 7.5 percent over the past 12 months—the highest inflationary period in 40 years. For perspective, if inflation were to maintain at this same level, a \$50,000 vehicle today would cost you nearly \$72,000 in five

years and over \$100,000 in ten years.

You may ask, "How is inflation applicable to disability insurance and what benefit could it provide to help mitigate skyrocketing consumer pricing?" To start, we first need to recognize the importance of disability insurance. The statistic speaks for itself—the average American is three times more likely to suffer a short or long-term disability during their career than die during that same period of time. And the potential loss of earnings through those income accumulation years can be economically devastating to not only the disabled person, but to his or her family members and financial dependents.

More acutely, high-net-worth individuals making over \$250,000 annually stand to lose more in the wake of disablement because they simply have more assets to lose and less financial protection afforded to them proportionate to their income. U.S. disability carriers commonly maintain insurance participation limits with aggregate benefit caps from a range of 30 to 60 percent of income. With the intent of family wealth preservation and lifestyle maintenance, these income protection levels are grossly insufficient.

This is where inflation peeks its ugly head. High-income earners afford themselves an affluent lifestyle consisting of dream homes, expensive cars, and boats and airplanes among other valuable assets. In the event of a disablement preservation of income and assets is paramount. A higher percentage of income replacement can make the difference to meet all financial obligations without liquidating these cultivated assets. Applying additional burden, inflation essentially lowers the percentage of income replacement by reducing monetary value. So, disability and inflation create a compound financial threat that necessitates a sound solution.

Excess personal disability coverage is the answer, which provides a higher percentage of income replacement combined with a Cost of Living Adjustment (COLA) rider. COLA adds to the DI benefit by the same percentage increase of the Consumer Price Index, up to 10 percent annually. As a valuable tool in financially uncertain times, the COLA rider effectively cancels inflation from the equation.

As far as levels of income replacement, agents should strive for 65 to 75 percent of income covered by comprehensive disability plans. Yet, those figures are not possible in the U.S. group and individual markets alone. Specialty disability marketplaces like Lloyd's of London must be tapped to properly accommodate the high-limit disability niche.

Lloyd's and other European-market carriers developed DI programs and products over the last half-century for the American market that have effectively evolved to complement and supplement the limited offerings of our domestic insurers. Although these specialty carriers cannot by law and regulation compete with U.S. insurance companies for dollar-one business in the life and health space, they are permitted to provide excess insurances as well as baseline coverage when domestic carriers fail or decline to do so.

The generally liberal underwriting methodologies and product flexibility of specialty-market carriers afford great business opportunities for those working in the high-limit DI space. As an astute insurance advisor, provide your clients with guidance and the proper knowledge that unforeseen disablement is a sobering reality of millions of Americans every year, and high-limit disability insurance is the ultimate measure in saving the dream they have so tirelessly built. 🌐