

LIFE INSURANCE SELLING

Field-tested solutions for today's strategic producers

boring.

Let us help you bore your clients
with valuable life concepts.

[Click here](#) for your electronic life idea book.



Web Exclusives

[Read More Web Exclusives »](#)

Constructing A Disability Insurance Plan

LARRY SCHNEIDER

Published 7/21/2009

[Magazine Subscription](#) | [Article Reprints](#)

[Return To Article](#)

This is the second article in an eight-part series, which discusses the importance of income insurance protection.



When constructing a proposal, what are the important features one should consider? Well before answering that question, the financial planner or agent should have met with the client (of course) and completed a questionnaire which provided insights as to what the client's needs were/are. For an example, at one end of the spectrum, if your client is independently wealthy, then obviously there is no need, and even if there were, their financials might hinder the ability to get coverage.

In any event, fact-gathering should include, but not be limited to the following areas, which can impact the quote and possible issuance of a policy: Name, degree, DOB, health issues/dates etc., occupation/duties/travel, self-employed (and if so, how long?), work sector (private/government), salary/bonuses (and their consistency), or in the case of self-employed people their net profit for the last two years, other income (even if passive/unearned), other coverage/premiums, smoking or non-smoking. All of the preceding can affect not only the rates, but also the issuance of a policy with/without exclusions or even a decline!

Once this basic information has been gathered and you have qualified the prospect by informing them that coverage could cost between 1%-4%, depending on their age, sex, duties, etc., then a request for a quote can be created by yourself or by forwarding it to your carrier of choice. The specs should state the following components, which are the basis for constructing a disability insurance plan:

NOTE: Not all options and benefit periods, etc., will be offered to all occupations.

Essentials

Elimination period: Unless there are special circumstances, such as a wrap-around situation, usually the 90-day elimination period is the most practical and most economical. The longer the period, the lower the cost. Be sure to tell your client that this is the period of time for which *no* benefits will be paid and when the period has been satisfied, benefit *start* from that day forward and are not paid retroactively (there are some exceptions besides the recurrent clause).

Benefit period: This represents how long the claimant will be paid and the longer the period is, the higher the cost. Typical benefit periods can range from one year to age 67, or with some carriers, the benefit period can be payable for lifetime.

Benefit amount: With individual policies (not to be confused with group), the amount that can be issued is based on income and not a percentage of income. The percentage can thereafter be articulated by having the agent calculate the amount against income. The higher the income, the lower the percentage. Amounts can be broken down by base and or Social Security integration. If all in base, the cost will be higher in view of the fact there are no offsets from the Social

Security Death Index.

Premium structure: Can be level, step rate, graded and the like, with each type having a special function in the plan design. For example, graded/step begins with a lower premium when compared to level and is useful for the medical professional which has a high debt to income ratio. These either convert or can be converted to a level premium later on at a higher cost than if the insured began with a level premium.

Common optional benefits

Residual: This option allows the claimant to get paid a portion of the benefit amount when not totally disabled, based on a calculation of income lost expressed as a percentage against pre-disability income. It can be especially useful after a period of total disability, when one returns to work with reduced hours/income. In some cases, this condition can last longer than a total disability! Some carriers refer to this as proportionate/partial.

Cost of Living Adjustment (COLA): This benefit increases the benefit amount beginning in the second year of a claim so that the buying power of the benefit amount is *not* eroded by inflation. At the end of a claim, the additional amounts created by the option can be “purchased” so that if/when the insured is disabled again, the claim will resume with last amount paid. COLA percentages can be either 3-6, simple or compound .

Automatic Increase (AIR): Essentially works the same as the above, but offers the insured additional amounts while working and at a cost, so that once again, the buying power of the initial issued amount hasn't eroded.

Future Increase (FIO): This option allows the underinsured to get additional coverage without again having to provide medical insurability. All one has to do is provide financial insurability. This is in the form of tax returns and information on other coverage in force.

Other optional benefits (*and these are but a few, depending on the carrier*)

Catastrophic: This option will pay an additional benefit amount beyond the highest benefit amount issued, based on Activities of Daily Living (ADLs), as opposed to the definition of total disability, which governs the benefit amount.

Retirement: Covers an additional amount relative to pre-tax dollars, which go into a retirement account and is payable to the claimant, usually at age 65.

Return of Premium (ROP): Returns all premiums, less claims paid at age 65, or some portion thereof, on a sliding schedule, if policy is cancelled prior to 65.

Retroactive: Benefit amount is paid retroactively back to the first day of disability, once the elimination period has been satisfied.

Larry Schneider is a disability specialist with over 35 years experience and is the owner of Disability Insurance Resource Center. He is also an expert witness consultant for disability insurance claims which have been inappropriately denied and a national resource for hard to place prospects, as well as a brokerage for standard cases. One of the author's divisions has developed a Sales and Marketing Turnkey System, made up of eight manuals and other sales aids, each devoted to one segment of the sales cycle (prospecting, rebuttals, etc.). You can contact him at (800)551-6211, by e-mail at info@di-resource-center.com, or by visiting his Web site at www.di-resource-center.com.

Name:


Email (will not be published):

Subject:

Comment:

seeings construction



Type the two words: 

[Submit Comment](#)



WHAT IS THE SIGN OF A GOOD DECISION?
It's realizing strength and stability are key to growth.
For your clients and your career. [Learn More](#)

MassMutual
FINANCIAL GROUP[®]
We'll help you get there.[®] [Disclosures](#)

CRN201106-122059