

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.



Magazine: July 2009

[More From This Issue »](#)

Filling In The Gaps

LYNN DUMAIS

Published 7/1/2009

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

[Return To Article](#)



According to MetLife's seventh annual Employee Benefits Trends Study, over half of working Americans earning \$100,000 or more a year are very concerned about the financial impact of a disability affecting their family's principal wage earner.

Almost half are also very concerned about having enough money to pay their bills during a period of sudden income loss. Despite these concerns, approximately one-third of these employees earning \$100,000 or more say they have no disability income insurance coverage.

Why is there such a disconnect between the number of employees who have this coverage and those who are concerned about sudden income loss? Their financial advisor may not be speaking to them about the important protection disability income insurance offers.

While recent economic events may have driven some individuals to re-evaluate their financial safety nets, the need for disability income insurance is not new. An individual's ability to earn an income has been, and will continue to be, his or her most important asset. Disability income insurance is a critical component of their safety net and can help protect against the devastating financial impact of a sudden income loss.

Highly compensated employees can be particularly at risk of significant financial loss should they lose their ability to earn an income. However, these employees, while aware of these risks, may remain underinsured. This presents a valuable opportunity for producers to offer much-needed guidance and educate individuals about their disability income insurance needs.

A solid foundation, with room to grow

The first source these employees may look to for protection is their employer. In the same MetLife study, 45% of employees making \$100,000 or more a year consider their workplace benefits as the foundation of their financial safety net. More than half of employees making \$100,000 or more a year who have disability coverage have it through the workplace.

While this is an excellent start, coverage levels may not be as high as needed for their earning status. With more to protect, high earners need to take a closer look at their coverage to ensure that they have the protection in place to maintain their standard of living and meet their financial obligations.

When reviewing group disability coverage with high-earning clients, producers should be sure to discuss the limitations of this protection. Many traditional long-term disability (LTD) plans only cover up to 60% of an employee's salary, don't cover bonuses and commissions, and have a maximum monthly benefit amount. This can negatively impact the employee — resulting in a lower percentage of income replacement. In

addition, if the employer is paying the premium, any benefits received will be taxable.

The opportunity to educate

Producers can take advantage of this opportunity by helping high-earning employees assess their disability income insurance coverage needs and looking at solutions to fill in the gaps.

According to the MetLife study, 64% of those earning \$100,000 or more report that they are taking steps to determine their disability insurance needs and 69% have spoken to their spouses about disability coverage, but just 33% have talked to an insurance agent. These findings clearly point to an opportunity for producers to educate and guide these individuals.

The first step for producers assisting these employees is to determine how much of their income is currently protected. The MetLife study showed that one in five employees earning \$100,000 or more a year does not know how much of his or her income is protected. And of those who do know, nearly 40% do not feel — or are unsure — that the coverage is adequate. One-third of those who know how much disability income coverage they have reported that they are covered for less than 60% of their salary, which, in the event of a disability, will likely prohibit them from meeting their financial obligations.

Enhancing protection

Providing individual disability income (IDI) insurance, especially when combined with a group long-term disability plan, goes beyond basic disability coverage to offer employees extra income protection.

For highly compensated employees, a supplemental IDI policy — offered in the workplace — can result in a more equitable and appropriate level of disability coverage. A supplemental IDI policy covers total income, not just salary, and the benefits paid will be tax-free if the employee pays the premium with post-tax dollars.

The supplemental IDI policy also offers highly compensated employees additional flexibility — the policy is portable, so if the employee leaves the company, the coverage can follow. This can be especially useful in a volatile market if an individual has to change jobs and disability income insurance coverage is not available from his or her new employer.

In addition, some employers may qualify for a Guaranteed Standard Issue (GSI) program, which will offer their highly compensated employees simplified underwriting, premium discounts and streamlined enrollment.

By educating highly compensated employees about their income protection needs and the peace of mind disability income insurance offers, producers can help protect these high earners against underinsurance and add a critical component to their financial safety nets.

Case in point:

To see how a supplemental IDI policy can enhance a highly compensated employee's group LTD coverage, consider the following example:

"Bob Jones" has a base gross salary of \$100,000 and earns an additional bonus of \$15,000 for the year. Assuming a 28% tax rate, Mr. Jones' net income is \$83,000. If his LTD plan covers his salary only, up to a maximum of \$5,000 a month, his gross LTD benefit would be \$60,000 a year. Because the benefits are paid for by his employer, taxability would reduce the group disability benefit to \$43,000 a year, or 52% of his net income. Mr. Jones also has an IDI policy, which provides him with \$26,000 in benefits over the course of the year that are tax-free because he paid for the policy with post-tax dollars. Working in conjunction with the group LTD coverage he has, Mr. Jones' IDI coverage now brings his total disability income replacement to \$69,000, or 83% of his net income — bringing him closer to his pre-disability net earnings.

By the numbers...

55% of employees earning \$100,000 or more who have disability coverage have it through the workplace.

31% of employees earning \$100,000 or more say they have no disability income

insurance coverage.

51% of working Americans earning \$100,000 or more are very concerned about the financial impact of a disability affecting their family's principal wage earner.

64% of those earning \$100,000 or more are taking steps to determine their disability insurance needs. 69% have spoken to their spouses about disability coverage, but just 33% have talked to an insurance agent.

20% of employees earning \$100,000 or more a year do not know how much of their income is protected, and of those who do know, nearly 40% do not feel — or are unsure — that the coverage is adequate.

35% of those who know how much disability income coverage they have reported that they are covered for less than 60% of their salary.

Lynn Dumais is the product head for MetLife's Individual Disability Income insurance business. She has worked for MetLife for eight years in a number of roles in product management and finance. A copy of MetLife's seventh annual Employee Benefits Trends Study that was referenced in the article, and additional benefits resources, can be found at www.whymetlife.com/trends2009.

Name:	<input type="text"/>
Email (will not be published):	<input type="text"/>
Subject:	<input type="text"/>
Comment:	<input type="text"/>
	
Type the two words: <input type="text"/>	
<input type="button" value="Submit Comment"/>	

The discussion is open...

