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## Business Reducing Term DI Backs Loans When Firms Change Hands

By [ALLISON BELL](#)

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The oldest baby boomers are starting to sell thousands of dental practices, body repair shops and other capital-intensive businesses to younger buyers.

Insurers and producers want to help the buyers, sellers and lenders protect the transaction financing arrangements against disability risk. One product that could get a lift from the generational shift is business reducing term disability insurance—a product that pays a specified monthly benefit for a length of time tied to the length of a business obligation, such as a loan.

The current economic turmoil could increase clients' interest in the products, says Jennifer Loyall, a Dallas insurance agent who specializes in serving dentists.

Business reducing term “guarantees peace of mind,” Loyall says. “Insurance is something that provides security.”

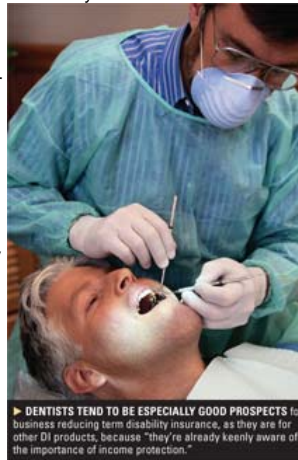
Business reducing term disability, or decreasing term disability, has some similarities to the reducing term life insurance policies often used to back mortgage loans and other loans, according to Berkshire Life Insurance Company of America, Pittsfield, Mass., a unit of Guardian Life Insurance Company of America, New York, that dominates the U.S. business reducing term disability market.

Under the terms of the policies now on the market, the monthly benefits payments never decrease. The product is called “reducing term” insurance because beneficiaries will receive fewer monthly benefits payments, and a smaller overall payout, if an insured becomes disabled later during the policy term rather than earlier.

At Berkshire Life, terms can range from 5 years to 30 years, depending on the length of the obligation.

The maximum monthly benefit depends on the length of the policy term and is higher for policies with shorter terms. At Berkshire Life, the maximum for a policy with a 5-year term is \$22,500, and the maximum for a policy with a 10-year term is \$12,500 per month.

The coverage is cheaper than personal income protection coverage, and the duration of the coverage is longer than the duration of conventional overhead expense insurance, which typically has a term of 24 months or less, according to Susan LeBourdais, a marketing executive at Berkshire Life.



► DENTISTS TEND TO BE ESPECIALLY GOOD PROSPECTS for business reducing term disability insurance, as they are for other DI products, because “they’re already keenly aware of the importance of income protection.”

Many business reducing term buyers also buy overhead expense coverage. If a client has an overhead expense policy with a monthly benefit of \$30,000, adding business reducing term coverage could increase total monthly benefits to \$52,500 for the duration of a 5-year loan, LeBourdais says.

The newer policies are more flexible than the older policies. In the past, Berkshire Life says, it paid a flat, maximum benefit of \$10,000 per month, regardless of the size of the obligation being insured.

In theory, anyone using a loan to buy or build a business or professional practice could use business reducing term to beef up the maximum disability benefit payment. In practice, dentists and other health care providers tend to be especially good prospects for business reducing term, as they are for other disability insurance products, because “they’re already keenly aware of the importance of income protection,” LeBourdais says.

Benefits from some business reducing term policies go straight to the lenders. The insurers who write those policies are somewhat less concerned about the possibility of receiving questionable claims than they would be if the benefits were going to the insured, Loyall says.

Lenders usually want to see that borrowers have life insurance and disability insurance.

Loyall also looks to see if clients have adequate overhead expense insurance, malpractice insurance, and an awareness of the need to talk to other advisors about other planning and insurance needs.

For Loyall, common marketing tools include letters, the Web, and attending events aimed at dentists.

Clients and prospects "need to see you all the time," Loyall says. "It's important to be consistently reinforcing your branding."

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