

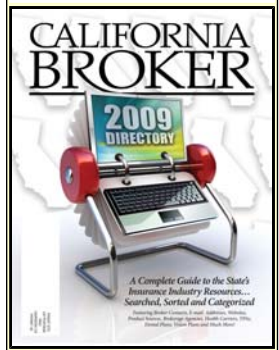
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Selling Individual Disability With the Proper Contractual Wording And Options

by Art Fries

It can be a wake-up call to compare what you know about disability selling to what you thought you knew in past years. I sold individual disability insurance (non-can) successfully to attorneys for many years. I thought I understood policy provisions better than most. It wasn't until I began giving advice to disability claimants, some 13 years ago and during the ensuing years, that I really could say I got it. I have given advice on more than 600 disability claims; I've done thousands of policy audits; and I've secured more than \$1 billion current and future benefits on behalf of disability claimants. I see which policy benefits are truly important. I also see which options are cost effective for your client to include in their policies. This article will discuss various policy wording scenarios and worthwhile options that broaden the coverage in disability contracts when available:

- 1) "Non-Can" – It provides guaranteed cost until 65 in addition to guaranteed wording and renewability. You can never be criticized for providing too many guarantees. Existing clients with non-can contracts can really appreciate what they thought were higher premiums, at the time, since value can never be underestimated. These higher premiums didn't look so high as claim experience worsened in the industry.
- 2) Benefit Period – Offer the longest benefit period available. Lifetime payout is just about gone from the marketplace. But it should still be a priority in selecting a carrier. The additional premium will be insignificant considering the additional number of years that benefits will be paid. The next consideration is a benefit period to age 65 or age 67.
- 3) Definition of Disability – This is the most important priority. The ideal is being unable to perform the substantial and material duties of your occupation for the entire payout period. California court precedent includes additional wording "in the usual and customary way with the same degree of continuity." A change in wording after two years is very restrictive and allows the insurance company to re-visit the claim with the opportunity to terminate.

For many professionals and others, a "to age 65" payout with a two-year "your occupation" definition is simply a two-year payout. Additional wording, such as "and not working in another occupation," at least gives the client a choice to work or not. But it can also be quite limiting, especially for a person who cannot work at their occupation but can work and earn significant income in another occupation. An example is a dentist or surgeon with the "essential tremor" whose hands shake and whose condition is worsened by stress. This professional can often still work in any number of occupations, but not in their specialty. If you have an agency relationship with your company, but you also broker business with other companies, I suggest that you provide the broadest contract in terms of wording and provisions/options.

Don't offer an inferior contract when broader contracts are available in the marketplace. Doing so can be the basis for a malpractice claim against you for improper advice. The risk can be higher if you hold yourself out as a financial planner. Any work in another occupation will be the basis of the claim being terminated if additional wording that states "and not working in another occupation" and you do not have residual (partial) coverage. If you have this coverage, it will probably become a partial claim if you have a typical 20% loss of earnings in the new occupation compared to the prior occupation. But that's not a 100% certainty. You will have to check with the insurance carrier to get an opinion on how they would handle that scenario.

- 4) It seems that all carriers now have a fraud clause. The two-year incontestability clause becomes worthless since the insurance company can deny benefits or rescind the contract even if the claim occurs 25 years after the contract was written. Some

states might put a waiver on a condition that still concerns them and consider the claim if it is not related to that condition. Other states will not put on a waiver and deny/rescind even if the claim has nothing to do with the pre-existing condition. This means that you have to ask all the questions on the application with a key emphasis on medical questions (Part II). Even if your client is to be examined, ask all the medical questions and carefully record the answers with complete facts. Don't be afraid to dig deep here since a less-than-complete application can come back to bite you.

5) Guaranteed Insurability Option (GIO/GPIO) – Always add this option if it is available to the client. It enables them to purchase more insurance regardless of their future health. The larger the monthly benefit, the better it is. Only earnings will determine how much the client can buy. Define earnings when you ask about salary or draw, bonus, pension/profit sharing/SEP IRA, etc. For salespeople such as you, it would be commissions, but could also include fees.

6) Waiting Period (Deductible) – Most companies now write a 90-day wait or longer. Ninety days is cost effective in today's premium environment. Anything longer is a bad buy. I've seen some contracts with a one-year waiting period. Even if you have salary continuation for one year, there is no justification because you give up too much in the way of benefits for little in premium savings.

7) Automatic Increases – If these are available, always include them. No evidence of future medical or financial evidence is required during the increase period. Some contracts require you to re-qualify (medical and financial) every five years.

8) Residual (Partial) Disability – Include it in most cases when you have a choice. Don't include it if the client's occupation or profession can't be handled on a part-time basis. Partial disability would be a necessity for a dentist. Make sure the contract does not have a limitation that states that you must be totally disabled to collect on a partial claim. Some companies call this a "qualification period." Always request that this period be zero even if you have to pay an additional premium, which is very low. You will be a target for a malpractice claim if you don't understand the importance of this clause in the contract.

9) COLA – Always include it if it's available. There is a one-year waiting period before benefits are paid. The monthly increase can be as low as the consumer price index (CPI) without any maximum or minimum. It could have a minimum of 3% or 4% with a maximum of 4%, 5%, 6%, or 8%. The increase could be simple interest or compound interest. It could also take into account the CPI or not be tied to the CPI. If various COLAs are available, check out the costs to see which is the most cost effective. Some of the older contracts with an 8% minimum compound interest (not related to the CPI) and a payout for life with a "your occupation" definition provide absolutely outstanding future potential payout figures. The carriers often priced them too low. It appears that those days are gone and rightfully so. The COLA benefit levels off at age 65 in almost all contracts if benefits are payable for life. But I've seen an exception with COLA increasing beyond age 65 on rare occasions.

10) Social Security (State Disability or Workers' Compensation) option – It provides an additional benefit if none of the above benefits is paid in the event that you don't have these benefits or do not qualify for them. This is an excellent way to secure additional monthly benefits if income prevents your client from purchasing as much disability as they need. But don't buy \$9,000 month base coverage plus \$1,000 month Social Security option just to save a few bucks. Purchasing a \$10,000 a month base plan is a better way to go based on issue and participation limits if it's available.

Always give your client a proposal that includes all of the options available for which an additional premium is required. Provide a "your occupation" definition for the longest period. If you can provide a lifetime benefit, consider the fact that one company provides a lifetime benefit in certain classes and in certain states if the insured is sick or before age 45. There is a sliding scale downward from age 65 and thereafter depending on when the disability started (between age 46 and 64). The next choice is a benefit paid to age 65 or age 67. Don't eliminate any benefit unless your client demands it and then cover yourself in writing with a letter to the client or have them sign a statement related to the options they are not accepting.

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