



DISABILITY INCOME INSURANCE

Speak No DI, Hear No DI, See No DI

Most advisors don't sell disability income insurance—and leave a lucrative market untapped.

By Richard Weikart, CLU, ChFC

The need for disability income (DI) insurance is widely recognized. Financial writers as diverse as Jane Bryant Quinn and Ric Edelman, and popular publications such as *Money Magazine* and *Smart Money*, all stress the importance of planning in case there is a period of disability. And yet, even with increasing public awareness about this issue, DI insurance remains seriously undersold.

The DI product is often misunderstood, even feared, by new and experienced advisors alike. Some of their concerns come from the product's history; others are based on myth. But the simple truth is DI insurance can and should be sold.

EVEN THOSE COVERED BY EMPLOYER PLANS MAY NEED THE HELP OF A QUALIFIED PROFESSIONAL TO HELP THEM SORT THROUGH AND UNDERSTAND THEIR BENEFITS.

DI's rocky history

The last decade has seen enormous changes in the DI insurance industry in the United States. The '80s were marked by aggressive competition among carriers, each trying to capture upscale business with major benefits, long benefit periods and liberal definitions of disability.

The results were costly, and in the early '90s companies began to adjust their contracts and practices to reflect the high price of their claims experience. Most common was a movement away from the liberal "own occupation" definition of disability.

The last 10 years have also seen a reduction in the number of companies offering DI insurance coverage and the number of consolidations among major underwriters. But as the new century dawned, other companies were

unveiling new products and aggressively pursuing disability business.

Still, these changes do not account for the fact that DI coverage remains woefully inadequate. Even in the heyday of the mid '80s, the need for DI protection was often ignored by producers.

The unmet need

The need for DI coverage is undisputable, and the client pool is almost unlimited, especially as many advisors seem unwilling to pursue disability sales.

According to a recent study by the Consumer Federation of America (CFA) and the American Council of Life Insurance (ACLI), as many as 82 percent of American workers either have no long-term disability coverage or believe the coverage they have is inadequate to meet their financial security needs. Only a small percentage seek individual coverage. Instead, American workers see disability protection as a work-related benefit. Sales of new DI insurance reached over \$2 billion in premiums in 2000, with most of the premiums coming from group coverage.

THE GREATEST REASON MOST ADVISORS DON'T SELL MORE DISABILITY INCOME COVERAGE IS THEY DON'T ASK.

Most people receive their DI insurance protection through their employers. Forty-three percent of people working in companies with more than 100 employees have some level of long-term disability insurance. Conversely, only 22 percent of those in businesses with fewer than 100 workers are covered.

The same CFA/ACLI survey found that workers do not understand their disability benefits as well as they understand other work-sponsored benefits such as their health or life insurance or retirement benefits. In fact, 43 percent of workers do not know what their basic long-term disability (LTD) benefit is.

In a series of focus groups conducted across the country in preparation for the rollout of its new DI insurance products, Northwestern Mutual concluded that consumers wanted and needed assurance that their incomes would be continued if they were unable to work, according to Meridee Maynard, CPA, PFS, CFP, CLU, ChFC, Northwestern Mutual's vice president of DI insurance.

Need for advice

Even those covered by employer plans need reassurance and may require the help of a qualified professional to help them sort through and understand their benefits. All too often those benefits fall short of the real need.

Covered employees need to understand the difference between short- and long-term disability coverage. Employers often provide sick leave or short-term disability programs that provide protection for a few days up to as much as a year, but do little or nothing to protect against a long-term disability of more than a year.

They also need to understand how much of their income will be replaced by an employer-sponsored, long-term plan. For mid-level and higher-paid employees, the amount available is often significantly less than their total earnings. This is especially true for employees who receive overtime earnings or bonuses, as LTD group benefits are generally computed as a percentage of base salary.

LTD benefits are also often capped, leaving higher-echelon employees underinsured. For example, the LTD formula may provide an income replacement of 60 percent of the employee's base income up to \$5,000 a month to age 65. A 60 percent replacement formula would replace \$60,000 for an employee with a base salary of \$100,000. The same benefit formula, however, with a \$5,000 a month cap, replaces only \$60,000 for an employee earning \$250,000 in salary and bonuses. This is less than 25 percent of the worker's income.

DISABILITY INCOME INSURANCE NOT ONLY INSURES THE LOSS OF INCOME, IT ALSO INSURES THE FOUNDATION CLIENTS WORKED SO HARD TO BUILD.

Where will money come from?

Aside from not fully understanding the benefits they have at work, many workers have a misconception about where to get help if they suffer a disability. Some assume that Social Security, which provides benefits for disabled workers, will meet their needs; others think Workers' Compensation will. Still others are depending on their savings or the help of family and friends to get them through.

Social Security does provide benefits for permanently disabled workers who qualify, but qualification is difficult. To be eligible, a worker must be fully insured—that means having 40 quarters of employment under Social Security. They also must meet Social Security's restrictive definition of disability—a worker must be unable to be engaged in any gainful employment as the result of a disability that will last at least a year or end in death. Of 1.3 million applications received in 2000, over 50 percent were denied. And the benefits provided are often far below the amount of income that would be needed to support the disabled worker's lifestyle.

Workers' Compensation is equally as problematic. Its major shortcomings are twofold: it covers only work-related injuries and illnesses, and the benefits it provides are limited and vary from state to state. Nearly 60 percent of the disabling injuries suffered by workers in 1998 occurred off the job, and most of the benefits paid out were woefully short of what the worker needed.

SELL THE BENEFITS, NOT THE POLICY FEATURES.

Savings and family are rarely viable solutions to the disability problem. Americans are among the worst savers in the world, but even a dedicated saver will have difficulty weathering a long-term disability. A worker who has saved 10 percent of his or her income annually will see 10 years of savings disappear for each year of disability. DI insurance protects against this loss. As Maynard puts it, "Disability insurance not only insures the loss of income: it

insures the foundation they've worked so hard to build." And how many prospects and clients have enough excess disposable income to support a disabled sibling or neighbor without making significant adjustments to their own lifestyle?

Why the reluctance?

Why are advisors reluctant to tap this market? There are many reasons, but a few common themes emerge. Many blame difficult underwriting, and to be sure, the underwriting of DI coverage is comprehensive. When the exposure is considered, it has to be.

Brian Lauber, CLU, ChFC, distribution vice president for Principal Financial's disability products, acknowledges that tough underwriting is often blamed. "A \$5,000 monthly benefit starting at age 45 and paid until age 65 is \$1.2 million in benefits," says Lauber. "If a producer puts it in the perspective of a \$1.2 million life policy a client is applying for, the underwriting wouldn't seem so stringent."

Northwestern's Maynard agrees that underwriting is thorough because, unlike life insurance, there may be multiple claims and the total amount at risk in a disability policy is unknown.

Both Maynard and Lauber see advisor training and consumer education as key elements in overcoming the fear of underwriting. Advisors have to be trained to understand the product and they need to educate their prospects about the need for protection and how it works.

W. Harold Petersen, RHU, president of Petersen International Underwriters in Valencia, Calif., agrees that the lack of training is a problem. Companies, he says, "have stopped teaching advisors the words to use to educate consumers." Unless they understand the product, they will not be comfortable discussing it.

Maynard agrees. She sees the most important part of selling DI insurance as "educating the consumer" because the product is more difficult to understand and has more variations than life insurance. Advisors need to set the right expectations with the customer.

Another problem is the reduced number of companies offering disability coverage. For some this may be a hurdle, but at worst, it is a minor one. Companies that have decided to discontinue their own product have formed marketing relationships with provider companies or allow captive advisors to market other contracts. Independent advisors have an increasing array of products to sell.

Another stumbling block to DI insurance sales: some advisors are afraid that the complications of a disability discussion may jeopardize a life sale. In reality, failure to discuss disability may jeopardize the entire advisor-client relationship, leaving the door open to an advisor who is willing to discuss disability needs. According to Peterson, producers should use DI insurance sales as a way to open the door for life sales, leading with the need for disability coverage.

These concerns, like the objections raised by prospects in a selling situation, have some validity, but should not be used as an excuse for avoiding discussions with prospects about their disability needs.

Untapped markets

The greatest reason, however, why most advisors don't sell more disability coverage is they don't ask.

And because advisors don't ask, both individual and group DI insurance markets remain open. And yet, discussing DI coverage should be a natural for advisors comfortable with selling life insurance. As Peterson points out, the sale of both is based on Solomon Huebner's concept of two types of death—living death and death death—and the capitalized value of future income—human life value.

It is also a critical part of providing positive advisor-customer relations, according to Curt Penrod, a spokesperson for State Farm. "Our advisors certainly know the value of protecting assets, and one of the greatest assets is a person's ability to earn."

The benefits to advisors who embrace DI insurance sales are obvious. At the top of the list are commissions that are generally competitive with life commissions. Additionally, DI insurance policies are what Lauber calls persistent products—they stay in force and generate renewal commissions.

Less obvious, but perhaps even more important, is the fact that providing DI protection may round out the full service an advisor can provide to a client, closing the door to competition. Including disability income

insurance with the other product mix allows an advisor to adopt a holistic approach to insurance sales. This means building long-term relationships with clients rather than seeking a single sale.

Peterson points out that the sale of DI insurance opens target markets because the underwriting focuses on occupational classifications. As advisors enhance the knowledge they need to underwrite an occupational classification, they are developing the expertise needed to work with other prospects in that occupation. Horizontal prospecting is a natural outcome of disability sales; so are referrals. Ask prospects for the names of the people they work with—and the people they work for.

Getting started

If lack of training is a reason more advisors don't sell DI insurance coverage, the problem is easily overcome. The sales approach is similar to that used for life insurance—help the prospect see the need, then show how your product meets the need. Sell the benefits, not the policy features. Talk about what the benefits buy, not how much they cost.

Start by making a discussion of DI protection part of every interview you have. Make it a critical part of developing the advisor-client relationship.

When you deliver a life policy with waiver of premium, try this approach. When you review the policy with the client, save the explanation of the waiver of premium until last. When you've explained the waiver and how it works, ask your client, "Do you have that feature on your mortgage?" Of course, the answer is no. You can reply, "The waiver of premium feature protects the investment you've made in your life insurance. How would you like that same feature for your mortgage?"

When you close a homeowner's or auto policy sale, say, "Now that we've taken care of your home, I'd like to talk to you about your most valuable asset."

Tapping businesses

If you are already active in the business market, have you discussed disability protection with your business clients? If a group policy is already in place, you should review its limits and develop carve-out proposals for the owners and executives. If group coverage is not in place, propose a group plan.

An advantage of working through businesses is that each interview creates a number of sales opportunities. Business owners who are not interested in providing group coverage may see the importance of individual coverage for themselves. They may also see the advantage of offering their employees access through a voluntary program, making the entire workforce your prospects. You benefit by being able to see a number of prospects in a favorable environment. And with a well-planned presentation, you can explain the basic elements of the coverage in a group meeting, using private interviews to focus on individual needs.

Disability News You Can Use

Every 2 seconds ... someone is injured in an accident.

Every 4 seconds ... someone is injured in an accident at home.

Every 5 seconds ... a worker is injured off the job.

Every 5 seconds ... someone is injured in a traffic accident.

Data from Northwestern Mutual

DI as an employee benefit

Building on the preconceived idea that DI protection is a work-related benefit, you can develop both business and individual clients. Business clients, recognizing the value of DI insurance as an employee benefit, can be approached for group sales or they can be used as an open door for voluntary group list billing or payroll deduction programs. This is an approach used extensively by Tim Moran, LUTCF, of the UCL Financial Group in Memphis. Moran's disability sales make up 25 percent to 30 percent of his total volume.

"People get phone calls at home all the time," he says, "but with a payroll deduction program, I get to see them one-on-one all in a day or two. And the employer gets the credit for sponsoring the program."

Lauber also sees the tendency toward voluntary instead of employer-paid programs. And he sees the continued opportunity

for traditional carve-out programs, filling the gap that often exists between group coverage and the income needs of employees with high incomes.

If you work primarily in the personal market, a DI insurance approach may open the door to the business market. Do reviews with existing clients covered by employer-sponsored groups to make sure their coverage

is adequate. If it isn't, and a gap exists between a group policy's cap and the amount the client needs, you can fill the need with a personal policy.

If no group coverage exists, both the client and the employer are prospects. You can use the client's need as an opportunity to approach the employer about creating the opportunity to install either a voluntary or group plan.

You have to ask

Whether the approach is in the workplace or at home, with new prospects or existing clients, the basics are the same. The sale doesn't just happen. An advisor has to ask.

Maynard suggests this approach: Ask your prospects to write down six things—not people—that are very important to them. Usually the list will include health and income, along with personal assets. Ask them to pick two of the six. Most people will pick health and income. Ask if they have insured their health. Almost everyone understands how important it is to have health insurance. Then ask if they have insured their income.

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