



DISABILITY INCOME INSURANCE

# Insure the Goose

Disability income insurance must be a part of every plan.

By Thomas John Wolff, CLU, ChFC

The headline read, "Man Critically Hurt in Hunting Accident." As I read on I discovered that "the man" was my client. He had climbed a tree to get a better view, slipped and fallen to the ground. The tragic result was paralysis from the waist down. His vocation was farming.

Several days later I visited my friend and client. We both knew he would never be able to farm again. He asked about his insurance, and I explained that all of his life insurance had a waiver of premium. In the event he could no longer earn a living, no further premiums would be required, and the policies would continue to accumulate cash values. "That's good," he said, "but what about replacing my income?"

I had to tell him he had no coverage. He asked why I had never suggested it. There was no appropriate answer. All I could do was say I was sorry for failing to do so.

My friend passed away recently. He had, however, lived many years after the accident, restricted to a wheelchair. His wife is a terrific person who drove a school bus to keep the family together and provide the basic necessities.

This event was a career-changing experience. Never again would I fail to point out the need for disability income (DI) insurance.

### Disability failure

In recent years, because of unfavorable underwriting results, it has become increasingly difficult to obtain appropriate DI coverage in adequate amounts for our clients. I am not an actuary, underwriter or company CEO. However, our industry has prided itself on insuring catastrophic risks that people cannot self-insure. Clearly long-term disability falls in this category. I commend those companies that are endeavoring to determine how to underwrite this risk profitably.

Unfortunately, the companies are not the only ones at fault. My experience suggests that planners are also to blame. Too many have forgotten that the foundation of any financial plan is the protection cornerstone, which includes the risks created by death, disability, lawsuits and property loss.

**THE FOUNDATION OF ANY FINANCIAL PLAN IS THE PROTECTION CORNERSTONE, WHICH INCLUDES THE RISKS CREATED BY DEATH, DISABILITY, LAWSUITS AND PROPERTY LOSS.**

What are the chances of at least one 90-day disability before age 65?

Present Age	Probability
25	35%
35	31%
45	27%
55	23%

### The greatest asset

It is ironic that clients have no difficulty understanding the need to insure their property while they ignore the risks created by death or disability. This is why it is critical that we, as professional planners, possess the skills to help people understand that the greatest asset we have is our ability to go to work and earn an income. I have used the following presentation to help people realize the need to purchase DI insurance:

"Let's talk about the problems of being disabled. Today you're healthy, you're working and you're earning. Those earnings support your lifestyle. An accident or illness can strike at anytime. If the event disables you, you won't be working and you won't be earning. This will happen before age 45 to 27 percent of people your age. (See the Table.)

"The question is: How can we replace lost earnings? There are only three ways: The first is by invading our savings and investments. But even if we have set aside 10 percent of our income each year, one year of disability could wipe out 10 years of savings.

"The second option is to borrow. But without income will anyone lend us money? And even if they do, the loan plus the interest will have to be repaid.

"A third option is to insure the loss. This is accomplished by the purchase of a disability income policy which ensures a continuing flow of tax-free income at the precise moment we need it most."

I follow this presentation with a DI need analysis. The analysis compares existing income sources to the need for continuing income. I also point out that benefits from employer-paid coverage may be taxable when received, and that 56 percent of all Social Security disability claims are rejected.

As part of my close I ask, "If you had a goose that was laying golden eggs, would you insure the goose or the eggs?" Unfortunately most people insure the eggs. Perhaps it's time for us to insure the goose!

*Thomas John Wolff, CLU, ChFC, served as 1979-1980 president of NALU (NAIFA). A member of MDRT since 1958, he is a recipient of the John Newton Russell Award. He is a member of Hartford AIFA (Conn.). His address is PO Box H, Vernon CT 06066.*

© Advisor Today 2010. All rights reserved.