The DIS Crash Course

Policy Definitions, Provisions & Riders: Deciphered, Demystified, Decoded.

All You'll Ever Need to Know to Outsell Your Competition!

If you find yourself struggling with the plethora of disability terms, don't worry! You're not alone. The insurance industry is fraught with language that makes the savviest legal eagles take pause. Luckily, there's D.I. Dan — decipherer of all things DI ... Protector of all smart, working people ... Educator of all agents who have dreamed of earning more and working less.

Today, we asked D.I. Dan to share his vast knowledge, breaking it down to the layperson's level. You'll never again have to worry about a scary, hard-to-answer DI question. It's all here ... simpler than you ever thought possible!

Own Occ.
Any Occ.
Modified Occ.
Can YOU talk the OCC?

Non-Cancelable.
Guaranteed Renewable
Conditionally Renewable
It's all the same, right?

Elimination Period
Benefit Period
Waiting Period
Confused ... Period?

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disability insurance services dis

What are the common terms I need to know?

Three basic plan design terms that you'll see on applications are EP (Elimination Period), BP (Benefit Period) and Benefit Amount. Here's what they are:

- **Elimination Period (EP):** Also known as the "waiting period," this is the period of disability that must elapse before benefits commence. For example, if Sam has a policy with a 90-day EP and is disabled on January 1, he will be eligible for benefits 90 days later — roughly April 1. Typical EPs are 60, 90 or 180 days. Choose an EP that is appropriate for your client. Ask the client how long he/she could realistically sustain his/her lifestyle without the insured's income. Or better yet, ask the client how long of a vacation he/she could take before having to get back to work to pay the bills. Keep in mind policies with shorter EPs are more expensive than those with longer EPs.

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D.I. Dan's TIP

Make sure that the EP can be satisfied by either partial (residual) or total disability. Some policies state that the EP can only be satisfied by total disability. Some policies also require that the days of disability be consecutive. Policies that allow accumulative days of disability are preferable.

- **Benefit Period (BP):** The benefit period is the length of time that benefits will continue from the date they begin. Typical BPs are two years, five years, or to age 67. The most desirable BP is to age 67. It is also the most expensive.
- **Benefit Amount:** The benefit amount is typically 60 percent of gross pay (or 83 percent of net pay, assuming a 28 percent tax bracket), up to a limit of $15,000 per month. However, if you have a client who requires more than 15,000 per month, don't despair — just call us! We're usually able to obtain coverage for up to 65 percent of even the highest incomes.

D.I. Dan's TIP

If your client objects to the price of the policy, ask what he/she feels is an appropriate daily budget. You may be able to meet the client's budget by adjusting the BP or EP. Having some coverage — even that with a longer EP or a shorter BP — is much, much better than no coverage at all.

What is a "disabling definition" and why is it important?

The disabling definition is the most important, central part of the DI policy. Think of it as the heart — without the heart, nothing else works. Make sure you understand the disabling definition of every policy you quote. Not all definitions are created equal. Here's how they work, in order of desirability:

• Most desirable: Own-Occupation Definition (sometimes referenced as True Own-Occ)

Common policy language: "You are unable to perform the substantial and material duties of Your Regular Occupation; and you are under the regular care of a Physician appropriate for your Injury or Sickness."

What it means: The insurance company will consider your client's occupation to be the occupation he/she is engaged in at the time he/she became disabled. It will pay benefits even if your client returns to work in another occupation.

Example: If surgeon Dr. Brown develops a tremor that prevents him from practice as a surgeon, he can collect disability benefits even if he returns to work as a family practice physician. So, for example, as a surgeon he earned $300,000 per year. He had a DI benefit of $180,000 per year. While collecting DI benefits of $180,000 per year, he can earn an income of $150,000 per year (or any other amount) as a family practice physician. Not bad, huh?

Make sure you understand the disabling definition of every policy you quote. Not all definitions are created equal.

D.I. Dan's TIP

Whenever possible, use policies that contain the Own-Occupation definition. Make sure your clients know the difference. While most DIS policies use the Own-Occupation definition, your competitors' policies probably don't. And, contrary to popular belief, policies with the Own-Occupation definition cost little more than other policies.

• Second most desirable (and most commonly used): Modified Own-Occ definition

Common policy language: "You are unable to perform the substantial and material duties of Your Regular Occupation; and you are not engaged in any other gainful occupation; and you are under the regular care of a Physician appropriate for Your Injury or Sickness."

Using the same example: Once Dr. Brown returns to work as a family practice physician, he can no longer collect full disability benefits. His disability benefit will be based on a percentage of lost or reduced income. In this case, his annual benefits of $180,000 would be reduced to $90,000 due to having a 50 percent loss of income. Remember, his income is now $150,000 instead of his pre-disability income of $300,000.

D.I. Dan's TIP

The Modified Own-Occ definition still provides solid protection. However, you should strive to get the Own-Occupation definition, if it's available and appropriate for your client's occupation. Some carriers offer this definition as a benefit rider. (See "Riders" in pages to follow for details.)

● **Least Desirable: Any Occupation definition (otherwise known as Gainful-Occ)**

Common policy definition: "Because of Injury or Sickness you are unable to perform the material and substantial duties of Your Occupation, or Any Occupation for which you are deemed reasonably qualified by education, training or experience."

Using the same example: The insurance company determines what type of work is suitable for Dr. Brown. If Dr. Brown were deemed suitable for other work due to his prior education, training or experience, he would not be eligible for any DI benefit. Would the insurance company expect him to flip burgers? Probably not. But, why take the chance?

D.I. Dan's
TIP

These definitions are most commonly found in Group Long-Term Disability policies, or in add-on policies that come as part of a multi-line coverage bundle. If your client already has a client sponsored plan, check the definition. If it's Any Occupation, make sure to educate your client of the risk involved and offer supplementary protection. Never offer these types of policies on a stand-alone basis.

What provisions are of most benefit to my clients?

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There are four types of "Renewal" provisions:

1. **Non-Cancelable and Guaranteed Renewable (most desirable):** This provision guarantees that after a policy is placed in-force, there will be no changes to the premium or to the policy benefits through age 65 — regardless of the insured's working status, health or income level. This is THE iron clad, no-changes policy that you want your clients to have.
2. **Guaranteed Renewable (okay):** The insurance carrier cannot change the premium or the benefit for an individual, but it can make a change to the premium for an entire group of policyholders, categorized by state, underwriting class or policy year. The change would need to be approved by insurance regulators before going into effect. Use guaranteed renewable policies to bring down the cost if your client objects to the price of the better, non-cancelable and guaranteed renewable policy.
3. **Conditionally Renewable (less desirable):** This provision is found in group and association plans. It states that the policy is renewable only if the insured continues to meet certain conditions outlined in the policy. The most common condition for renewal is maintaining full-time employment (group) or membership (association). The carrier may increase the premium at the anniversary date or at prescribed age bands, such as five-year increments.
4. **Optionally Renewable and/or Cancelable (least desirable):** These provisions allow the insurance carrier to change the terms or cancel the policy at an individual level. This type of policy should be used only if nothing else is available. It provides immediate protection — but no guarantees.

D.I. Dan's
TIP

Whenever possible, use policies that are <u>non-cancelable and guaranteed renewable</u>. This is a confusing issue for most clients so make sure they understand the difference!

"What if" Provisions

- **There are seven types of "what if" provisions. Almost all non-cancelable and guaranteed renewable policies issued today will automatically include these provisions.**

1. **The Presumptive Clause:** What if there's permanent loss? This provision says that the policy will waive the elimination period and begin paying benefits from the first day of Presumptive Total Disability. The insured is presumed to be totally disabled if he/she suffers the permanent loss of (a) the sight of both eyes; (b) the use of both hands; both feet or one hand and one foot; (c) speech; or (d) hearing in both ears.

D.I. Dan's
TIP

Remember, strokes are a leading cause of disablement. Tell your client that if he/she suffers a stroke that causes loss of use of a hand and foot, he/she will be "presumed" totally disabled; the EP will be waived and benefits will commence. The Presumptive Clause will help the client see a need for coverage when discussed in context of real world maladies.

2. **The Recurrent Disability Clause:** What if there's a recurrence? This clause defines how the carrier will respond to recurrent bouts with the same disabling illness or injury. For example, if Joe Montego claims disability for cancer, gets treatment and then returns to work, and then seven months later suffers a disabling cancer relapse, how will the waiting period and benefit period be handled? Many policies state that if the same disability recurs within six months following cessation of benefits, the recurrence will be treated as a continuation, and the elimination period and benefit period do not start over. Some policies allow for a waiver of the elimination period in the event that any disability occurs within one year of the first. Make sure that both you and your client fully understand how your policy handles this issue.
3. **The Concurrent Disability Clause:** What if there are multiple causes of disability? This provision says that benefits will be paid for one disabling condition at a time. Even if there are multiple causes of disability, the policy will treat the culmination of causes as one disabling claim.
4. **Waiver of Premium Clause:** What if the insured can't afford to pay the premium while disabled? This clause waives any premium due after 90 days of disability. Some companies refund the premium paid within the first 90 days. So, when Joe Montego is disabled by cancer on January 1, he should continue to pay his premium that is due by the first of each month. Once Montego's disability exceeds 90 days, the insurance carrier will refund any premium paid during the EP. However, if Montego's premium was paid on an annual, semi-annual or quarterly schedule and was not due during the first 90 days, he would not be eligible for a refund. He also would not have to pay his premium if it came due after the first 90 days, assuming that he remained disabled.
5. **Rehabilitation Benefit:** What if the insured needs occupational or physical rehabilitation? Many policies now contain a very valuable rehab benefit that helps workers return to suitable occupations as soon as possible. This may include retraining, counseling and physical rehabilitation. The benefit is paid in addition to monthly disability benefits.

D.I. Dan's
TIP

Look for policies that allow the rehabilitation benefit to commence during a period of residual or partial claim. This is the latest development in the rehab provision. Why should your client be denied a paid rehab program if he/she were able to work part time?

6. **Transplant / Cosmetic Surgery Benefit:** What if the insured suffers disability resulting from complications with an organ transplant or cosmetic surgery? This clause pays regular sickness benefits in the event of organ transplant or cosmetic surgery related disabilities.

D.I. Dan's TIP

With the advance of medical technology today, we see a greater portion of the population electing to undergo such procedures. Many agents fail to explain that this provision will act as the client's "safety net" in the event of a mishap. During the presentation, relate news stories about procedures that didn't work out as expected.

7. **Survivor Benefit:** What if an insured dies while collecting disability benefits? This provision pays the benefit to a named survivor in the event of the insured's death. Survivor benefits are typically payable for a period of three months after the insured's death — only if the insured received total disability benefits under the policy.

D.I. Dan's TIP

Check to see that your client's policy includes the survivor benefit. Very often this benefit can be quite large and helpful when addressing the burial and final expenses of the deceased.

How can I "dress" my policies for success?

Think of benefit riders as designer wardrobes for your policies. These are the clothes that will really set your offering apart from that of your competition and allow you to tailor your offering to the unique needs of each client. Never go to an appointment without some carefully chosen riders in your back pocket. Here are nine of my favorites ...

Think of benefit riders as designer wardrobes for your policies. These are the clothes that will really set your offering apart from that of your competition and allow you to tailor your offering to the unique needs of each client. Never go to an appointment without some carefully chosen riders in your back pocket.

1. **Own-Occupation Definition:** Same as the Own-Occupation disabling definition discussed earlier, this rider pays benefits even if the insured is gainfully employed in another occupation. This rider is often only available for middle management through executive classes as well as traditional professionals.
2. **Residual Benefits:** This rider is essential because in many cases, insureds can work part time, but not full time. The Residual Benefits rider pays a percentage of monthly earnings if the insured suffers a loss of income of 20 percent or more. This eliminates the "all or nothing" benefit structure and can help facilitate a friendlier, more gradual return-to-work experience. For example, if Shirley Smith was making $50,000 annually, was disabled and then returned to work part time earning $25,000, she would have a 50 percent loss of earnings and would continue to receive a 50 percent disability benefit.
3. **Future Purchase Option / Future Increase Option:** This option (otherwise known as guaranteed insurability) allows insureds through age 51 to purchase additional coverage — regardless of health — without the need for a medical exam or blood tests. Some policies allow insureds to turn back the clock, allowing additional benefits to be purchased at the policy's original rates.

D.I. Dan's TIP

Make sure to periodically review your DI clients' coverage levels. Their incomes will most likely increase over time, so use the Future Purchase Option to keep their coverage levels adequate.

4. **Supplemental Social Insurance Benefit (SSIB):** If an insured does not qualify for Social Security benefits, this rider increases the monthly disability benefit by up to $2,000.

D.I. Dan's
TIP

Here's a way to provide the client more coverage per dollar. Consider using this rider on the blue-collar client where premiums are higher or when budgetary constraints become an issue. The SSIB rider will provide the dollar amount benefit at less cost than the base benefit as the carriers share the risk with the Social Security Administration. Simply put, if the Social Security Administration does not pay a benefit, the carrier will.

5. **Cost of Living Adjustment (COLA):** This option applies to those who are disabled for more than one year. It automatically increases the amount of coverage each year to keep up with inflation. Some policies increase by a fixed amount each year while others are indexed to inflation. COLA is of particular importance to young clients with longer life expectancies. For example, a COLA is much more important to Ryan Stevens who was permanently disabled at age 26 than it is to Mel Walker who was disabled at age 56.
6. **Automatic Increase Rider (AIR):** This rider increases the monthly benefit for the first five years to keep pace with inflation. The AIR will only increase the benefit while not on claim where the COLA rider requires the client to be on claim in order for the benefits to increase.
7. **Return of Premium:** In some states, carriers offer a Return of Premium option, with which an insured with favorable claims experience becomes eligible for a refund of part of the premium paid. Some companies refund money periodically throughout the policy period, while others refund at age 65.
8. **CATastrophic:** This rider pays an additional benefit if the insured is receiving total disability benefits and is unable to perform at least two activities of daily living (ADLs); has a severe cognitive impairments; or is presumptively totally disabled.
9. **Non-Disabling Injuries:** If the client suffers injuries requiring medical treatment prescribed by a physician or dentist, the carrier will pay the expense of such treatment up to one half of the monthly benefit amount (or stated benefit amount). No EP is required.

What do I need to know about exclusions and limitations?

In a nutshell, you need to know that exclusions and limitations exist and you need to inform your clients of them. Exclusions and limitations vary by policy. The most common exclusions and limitations are Mental & Nervous, Alcohol & Drug (MNAD) claims; claims caused by crime; and claims caused by war. Typically, policies do not exclude MNAD claims, but they do limit the Benefit Period to two years.

Crash Course Conclusion

CONGRATULATIONS! You've just finished D.I. Dan's Disability Crash Course. Now, let's test your learning. Take the brief quiz below to see if you're ready to OUTSELL your competition. And, if anything at all is still a little fuzzy, please don't hesitate to learn more about disability insurance by visiting our Web site at www.diservices.com. We wish you phenomenal selling success!

Crash Course Quiz

1. **What is the most desirable disabling definition?**
    a. Own-Occupation Definition
    b. Modified Occupation Definition
    c. Any Occupation Definition

2. **What does EP mean?**
    a. End Period
    b. Elimination Period
    c. Evacuation Period

3. **What is the least desirable renewal provision?**
    a. Conditionally Renewable
    b. Guaranteed Renewable
    c. Optionally Renewable

4. **Which feature will waive the waiting period in the event of permanent disability?**
    a. The Waiver of Premium Clause
    b. The Presumption Clause
    c. COLA

5. **What rider pays partial benefits if the insured returns to work part time?**
    a. COLA
    b. Residual Benefits
    c. AIR