

PRESENTED BY:

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## **DISABILITY INCOME PROTECTION**

A Comparison For:

**Sample Client**

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# DISABILITY INSURANCE EXPLAINED

## WHAT IS DISABILITY INCOME PROTECTION?

Income protection is insurance to replace your take home income in the event you are unable to work due to injury or sickness. This includes depression, cancer, broken bones and other illnesses that prevent you from performing the duties of your occupation.

## WHY DO I NEED DISABILITY INCOME PROTECTION?

Statistics obtained from the Commissioner's Disability Tables and the Senate Finance Committee show:

- \* Each year 12% of the adult population suffer a long term disability.
- \* 1 out of every 7 workers will suffer a five-year or longer disability before reaching age 65.
- \* At age 32 your chances of suffering a three-month or longer disability is 6 times more likely than death.
- \* At age 35 your chances of suffering a three-month or longer disability is 50%.
- \* At age 45 your chances of suffering a three-month or longer disability is 44%.
- \* On average 7 out of 10 claims for Social Security disability benefits are refused the first time requested.

## AM I CURRENTLY PROTECTED?

Yes, you currently do have some long-term disability insurance as a benefit provided by your employer.

## ARE DISABILITY INSURANCE BENEFITS TAXABLE?

If you pay the premium, the benefits are normally received free of income tax. If the premiums are paid by an employer, the benefits are taxed as ordinary income.

## WHAT ABOUT SOCIAL SECURITY?

Social Security does provide disability income if you meet strict requirements. As mentioned above more than 70% of the applicants who apply fail to get coverage the first time they apply. You can get an estimate of what your benefit might be by visiting the Social Security web site.

- \* Eligibility is based on being unable to perform any gainful occupation.
- \* You are eligible for benefits after you have been disabled for 5 months and if the disability is expected to last 12 months.
- \* 85% of Social Security disability payments are subject to federal income tax if your income exceeds \$34,000 individually or \$44,000 jointly.

## HOW WOULD A DISABILITY AFFECT MY INCOME?

You may not be able to meet your basic monthly living expenses without income protection. Saving for your goals such as retirement, college and wedding funding are the first items sacrificed. Lets look at a basic snapshot of your particular situation.

	<u>Current Income</u>		<u>Income if Unable to Work</u>
Base annual income:	\$ 200,000.00		\$ 120,000.00 Current insurance benefit
Bonus and commission:	\$ 23,000.00		\$0.00 Bonus and commission
Less taxes (32%):	\$ 71,360.00		\$ 38,400.00 Less taxes (32%)
<b>Annual take home:</b>	<b>\$ 151,640.00</b>	vs.	<b>\$ 81,600.00</b>

**Percent reduction of take home income if unable to work= 46%**

# Sample Client

## RECOMMENDED DISABILITY INCOME INSURANCE OPTIONS

	Berkshire / Guardian	Principal	Standard	Union Central
<b>Financial Ratings (as of September 1, 2010)</b>				
<b>A.M. Best</b>	A++ (1)	A+ (2)	A (3)	A (3)
<b>Standard &amp; Poor's</b>	AA+ (2)	A (6)	AA- (4)	A+ (5)
<b>Moody's</b>	Aa2 (3)	Aa3 (4)	A1 (5)	N/A
<b>Fitch Ratings</b>	AA+ (2)	AA- (4)	A+ (5)	A+ (5)
<b>TheStreet.com</b>	B (5)	A- (3)	B+ (4)	B- (6)
<b>Comdex</b>	98	91	88	86
<b>Surplus &amp; AVR %</b>	12.70%	7.90%	12.40%	5.80%
<b>Policy Information and Features</b>				
<b>Non-Cancelable</b>	Yes	Yes	Yes	Yes
<b>Guaranteed Renewable</b>	Yes	Yes	Yes	Yes
<b>Definition of Total Disability</b>	Own occupation (includes medical and dental specialties)	Transitional own occupation	Own occupation	Own occupation
<b>Residual Disability Benefit</b>	Yes - after 15% loss of earnings	Yes - after 20% loss of earnings	Yes - after 20% loss of earnings	Yes - after 20% loss of earnings
<b>Recovery Benefit</b>	<b>Yes - to age 65</b>	<b>Yes - to age 65</b>	Yes - 6-months paid as a lump sum	<b>Yes - to age 65</b>
<b>Mental and/or Nervous Disorder Limitation</b>	<b>No</b>	<b>No</b>	Yes - 2 years unless hospitalized.	Yes - 2 years unless hospitalized.
<b>Bonus Features</b>	Enhanced residual benefits, enhanced waiver of premium benefit, five-year waiver of elimination period following a claim	N/A	N/A	N/A
<b>Policy Design</b>				
<b>Elimination Period</b>	90 days	90 days	90 days	90 days
<b>Base Monthly Disability</b>	\$3,300.00	\$3,125.00	\$3,400.00	\$2,900.00
<b>Social Insurance Rider</b>	\$0.00	\$0.00	\$0.00	\$0.00
<b>Retirement Contribution Rider</b>	\$0.00	\$0.00	\$0.00	\$0.00
<b>Total Disability Benefit</b>	\$3,300.00	\$3,125.00	\$3,400.00	\$2,900.00
<b>Maximum Benefit Period</b>	To age 65	To age 65	To age 67	To age 65
<b>Maximum Benefit Payments (without cost of living adjustments)</b>	<b>\$663,300</b>	<b>\$628,125</b>	<b>\$765,000</b>	\$582,900
<b>Cost of Living Adjustments</b>	Yes - tied to CPI, compound with 4-year delay (3% max per year)	<b>Yes - tied to CPI, compound (3% max per year)</b>	<b>Yes - tied to CPI, compound (3% max per year)</b>	<b>Yes - tied to CPI, compound (6% max per year)</b>
<b>Future Insurability Options</b>	Yes - \$4,800 thru age 55	Amount varies thru age 55 (every three years unless group coverage is lost)	Yes - \$4,000 thru age 50	Yes - \$5,000 thru age 50
<b>Catastrophic Disability</b>	Yes - \$4,500 per month	Yes - \$4,500 per month	Yes - \$4,500 per month	Yes - \$4,500 per month
<b>Annual Premiums</b>				
<b>Annual Premium</b>	\$4,460.00	\$5,542.00	\$4,896.00	\$5,634.00
<b>Cost Per Benefit Dollar</b>	<b>\$1.49</b>	\$1.65	\$1.46	\$1.68
<b>Graded Annual Premium</b>	Year 1 \$3,128 Year 10 \$4,785	N/A	N/A	N/A
<b>Monthly Premiums</b>				
<b>Monthly Premium</b>	\$371.00	\$461.83	\$408.00	\$469.50

**Bold text indicates a significant policy advantage**

## DEFINITIONS OF DISABILITY EXPLAINED

If you can't perform your own occupation and you choose not to work in a different occupation, the full benefit will be paid under all definitions of disability offered by Advisor Insurance Resource®. However, if you choose to earn an income while disabled your monthly benefit may be reduced based on the definition of disability as illustrated below.

### OWN OCCUPATION

Under an own occupation policy the monthly benefit is paid **IN FULL** if you are unable to perform the substantial duties of your occupation. The residual disability benefit will only apply if you choose to work in the same occupation you were engaged in prior to the disability and you have a loss of some or duties and earnings while disabled.

#### Example 1 - Working in a different occupation

You were a dentist prior to disability and now work as a realtor (note your new occupation income does not affect the monthly benefit from the disability insurance policy).

Income Before Disability		% Loss of Earnings		Group Insurance Monthly Benefit	Monthly Benefit Before New Income		New Monthly Benefit		Total Income
Disability	New Income	Earnings	%	Benefit	Income	Benefit	Benefit	Total Income	
\$ 16,666.67	\$ 12,500.00	25%		\$ -	\$ 3,400.00	\$ 3,400.00	\$ 3,400.00	\$ 15,900.00	
\$ 16,666.67	\$ 8,333.33	50%		\$ -	\$ 3,400.00	\$ 3,400.00	\$ 3,400.00	\$ 11,733.33	
\$ 16,666.67	\$ 4,166.67	75%		\$ -	\$ 3,400.00	\$ 3,400.00	\$ 3,400.00	\$ 7,566.67	
\$ 16,666.67	\$ -	100%		\$ 10,000.00	\$ 3,400.00	\$ 3,400.00	\$ 3,400.00	\$ 13,400.00	

#### Example 2 - Working in your own occupation

You were a dentist prior to disability and now work as a dentist part-time performing less duties than before (note your income does affect the monthly benefit from the disability insurance policy).

Income Before Disability		% Loss of Earnings		Group Insurance Monthly Benefit	Monthly Benefit Before New Income		New Monthly Benefit		Total Income
Disability	New Income	Earnings	%	Benefit	Income	Benefit	Benefit	Total Income	
\$ 16,666.67	\$ 12,500.00	25%		\$ -	\$ 3,400.00	\$ 3,400.00	\$ 850.00	\$ 13,350.00	
\$ 16,666.67	\$ 8,333.33	50%		\$ -	\$ 3,400.00	\$ 1,700.00	\$ 1,700.00	\$ 10,033.33	
\$ 16,666.67	\$ 4,166.67	75%		\$ -	\$ 3,400.00	\$ 2,550.00	\$ 2,550.00	\$ 6,716.67	
\$ 16,666.67	\$ -	100%		\$ 10,000.00	\$ 3,400.00	\$ 3,400.00	\$ 3,400.00	\$ 13,400.00	

### TRANSITIONAL OWN OCCUPATION

Under a transitional own occupation policy the monthly benefit is paid **IN FULL** if you are unable to perform the substantial duties of your occupation unless earned income from **any** occupation plus disability benefits received from all sources are greater than your pre-disability earnings. If you choose to earn an income while disabled your monthly benefit may be reduced based on the definition of disability as illustrated below.

#### Example 3 - Working in any occupation

You were a dentist prior to disability and now work as a realtor or a part-time dentist (note your occupation does not affect the treatment of the monthly benefit from the disability insurance policy as in an own occupation policy).

Income Before Disability		% Loss of Earnings		Group Insurance Monthly Benefit	Monthly Benefit Before New Income		New Monthly Benefit		Total Income
Disability	New Income	Earnings	%	Benefit	Income	Benefit	Benefit	Total Income	
\$ 16,666.67	\$ 12,500.00	25%		\$ -	\$ 3,400.00	\$ 3,400.00	\$ 3,400.00	\$ 15,900.00	
\$ 16,666.67	\$ 8,333.33	50%		\$ -	\$ 3,400.00	\$ 3,400.00	\$ 3,400.00	\$ 11,733.33	
\$ 16,666.67	\$ 4,166.67	75%		\$ -	\$ 3,400.00	\$ 3,400.00	\$ 3,400.00	\$ 7,566.67	
\$ 16,666.67	\$ -	100%		\$ 10,000.00	\$ 3,400.00	\$ 3,400.00	\$ 3,400.00	\$ 13,400.00	

### MODIFIED OWN OCCUPATION

Under a modified own occupation policy the monthly benefit is paid **IN FULL** if you are unable to perform the substantial duties of your occupation unless you have any earned income from **any** occupation. If you choose to earn an income while disabled your monthly benefit may be reduced based on the definition of disability as illustrated below.

#### Example 4 - Working in any occupation

You were a dentist prior to disability and now work as a realtor or a part-time dentist (note your occupation does not affect the treatment of the monthly benefit from the disability insurance policy as in an own occupation policy).

Income Before Disability		% Loss of Earnings		Group Insurance Monthly Benefit	Monthly Benefit Before New Income		New Monthly Benefit		Total Income
Disability	New Income	Earnings	%	Benefit	Income	Benefit	Benefit	Total Income	
\$ 16,666.67	\$ 12,500.00	25%		\$ -	\$ 3,400.00	\$ 3,400.00	\$ 850.00	\$ 13,350.00	
\$ 16,666.67	\$ 8,333.33	50%		\$ -	\$ 3,400.00	\$ 1,700.00	\$ 1,700.00	\$ 10,033.33	
\$ 16,666.67	\$ 4,166.67	75%		\$ -	\$ 3,400.00	\$ 2,550.00	\$ 2,550.00	\$ 6,716.67	
\$ 16,666.67	\$ -	100%		\$ 10,000.00	\$ 3,400.00	\$ 3,400.00	\$ 3,400.00	\$ 13,400.00	

Group insurance projections are based on owning a modified own occupation group insurance plan with no residual recovery benefits.

# DISABILITY INSURANCE GLOSSARY OF TERMS

## Financial Ratings

<b>A.M. Best</b>	Credit ratings and credit risk analysis.
<b>Standard &amp; Poor's</b>	Credit ratings and credit risk analysis.
<b>Moody's</b>	Credit ratings and credit risk analysis.
<b>Fitch Ratings</b>	Credit ratings and credit risk analysis.
<b>TheStreet.com</b>	Credit ratings and credit risk analysis.
<b>Comdex</b>	Composite of two or more ratings shown as a percentile against a company's peers. (A.M. Best, Standard & Poor's, Moody's, and Fitch).

## Policy Information and Features

<b>Non-Cancelable</b>	A non-cancelable insurance policy is one which the insurance company does not have a right to modify the provisions of a contract, including its price. If an insurance policy is cancelable, the insurance company has the right to modify the contract's price but only for an entire class of insured.
<b>Guaranteed Renewable</b>	A guaranteed renewable insurance policy is one which the insurance company must continue coverage as long as the premium is paid under the terms of the contract. If an insurance policy is not guaranteed renewable, the insurance company has the right to cancel coverage if they choose.
<b>Definition of Total Disability</b>	The definition of total disability outlines the terms in which the insurance company considers an insured totally disabled in order to receive full benefits as outlined in the policy.
<b>Residual Disability Benefit</b>	The residual disability benefit allows an insured to receive partial payment of the policy's maximum benefit amount if working. Most insurance policies require a loss of at least 20% of pre-disability earnings to qualify for residual disability benefits. You must have a loss of either time or duties to qualify for residual disability benefits.
<b>Recovery Benefit</b>	The recovery benefit allows an insured to receive some or all of the policy's maximum benefit amount if working full-time and still suffering a 20% or greater loss in income. This benefit is most beneficial to occupations which do not provide full income immediately upon returning to work full-time.
<b>Mental and/or Nervous Disorder Limitation</b>	A mental and/or nervous disorder limitation is a policy provision that limits the amount of time an insurance policy will pay disability benefits for a claim related to a mental or nervous condition. Many insurance policies limit benefits for such claims to two years unless the insured is institutionalized. These claims include depression and anxiety.

## Policy Design

<b>Elimination Period</b>	The amount of time an insured must remain disabled prior to receiving disability benefits under the terms of the contract.
<b>Base Monthly Disability Limit</b>	Base monthly disability limit is the amount of benefit the contract will pay if an insured qualifies for total disability benefits under the terms of the contract, regardless of other insurance.
<b>Social Insurance Rider</b>	A social insurance rider may be added to a disability insurance policy to provide additional benefits to an insured in the event social options such as Social Security do not provide disability benefits. Because this transfers risk away from the insurance company, this coverage is often less expensive than base coverage.
<b>Total Disability Benefit</b>	The total disability benefit is the combined total of both base monthly disability and social insurance rider (if any).
<b>Maximum Benefit Period</b>	This is the maximum amount of time the insurance contract will pay disability benefits to an insured under any circumstance.
<b>Maximum Benefit Payments (without cost of living adjustments)</b>	This is the maximum amount of the total payments the insurance contract will pay if a total disability began immediately after the policy's purchase and lasted through the maximum benefit period. This number is not adjusted to reflect cost of living adjustments if included within the policy.
<b>Cost of Living Adjustments</b>	Cost of living adjustments allow for increases in disability benefits paid under the terms of the contract to keep pace with the long-term effects of inflation. Most disability insurance contracts tie cost of living adjustments to the Consumer Price Index.
<b>Future Insurability Options</b>	Future insurability options allow an insured to increase benefits provided under the contract without medical qualification. These benefits may be either automatic or elected at the discretion of the insured. The only requirement to exercise these options is proof that the insured qualifies for the additional coverage based on earnings, and that these options are exercised prior to their expiration.
<b>Catastrophic Disability Benefit</b>	Catastrophic disability benefits are in addition to other coverage's and are designed to pay the increased expenses an insured may incur for care in the event they were disabled so severely they were unable to perform two activities of daily living. These activities include items such as bathing, transferring, toileting, eating, etc.

## Annual Premiums

<b>Annual Premium</b>	Annual premiums shown are level premiums and paid on an annual basis.
<b>Graded Annual Premium</b>	Graded annual premiums shown increase each year and are paid on an annual basis.

## Monthly Premiums

<b>Monthly Premium</b>	Monthly premium shown are level premiums and paid on a monthly basis.
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