

— SOURCE —
BROKERAGE, INC.

DISABILITY INCOME:



**Keeping Your Financial Plan
on the Road to Success**

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Why Do You Need Disability Income Protection?

Comparative Insurance Usages In A Given Year



1 in 1,300



1 in 70



Life

1 in 109



DI

1 in 8

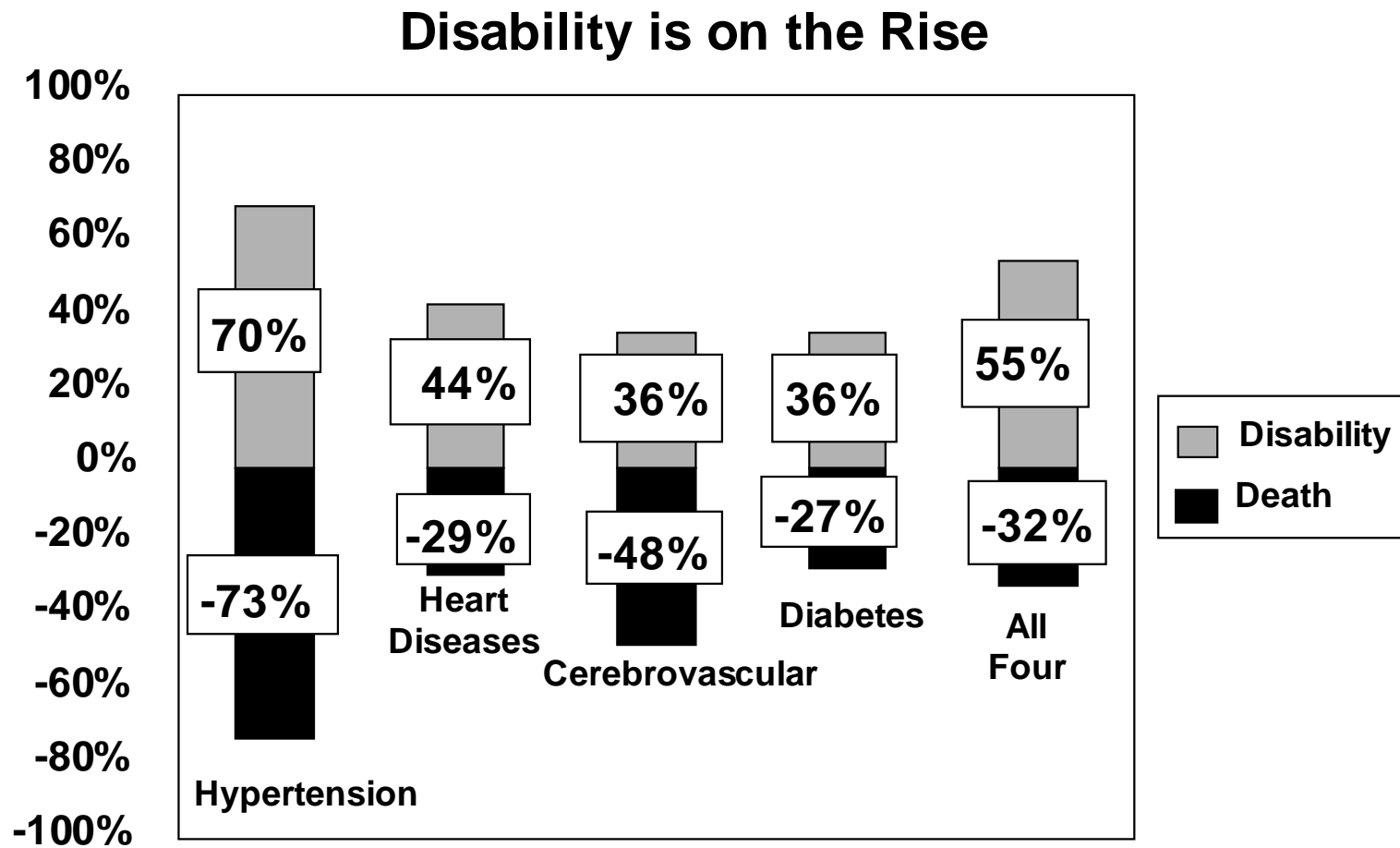
Sources:

Transactions. Society of Actuaries

Commissioners Disability Table

Death – National Center for Health Statistics

Fire & Motor Vehicle – Accident Facts. National Safety Council



Source: National Center for Health Statistics - 1999

The Growing Need for Protection

The risk of disability is higher today. While Americans have enjoyed a significant decrease in mortality rates, morbidity rates for middle-aged and older people have risen for both fatal and non-fatal diseases.

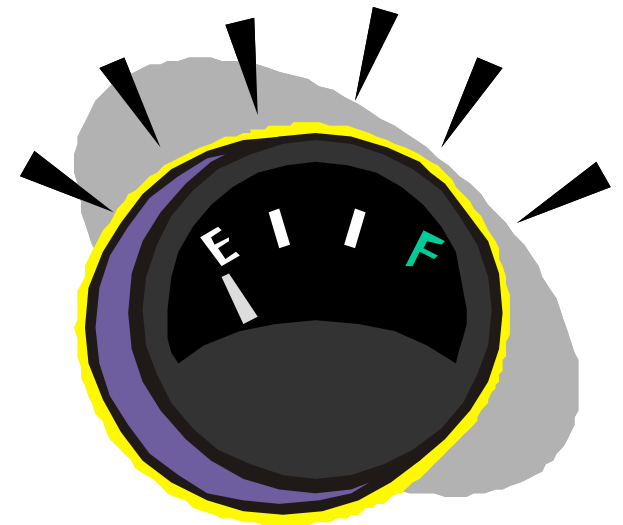
Reasons include:

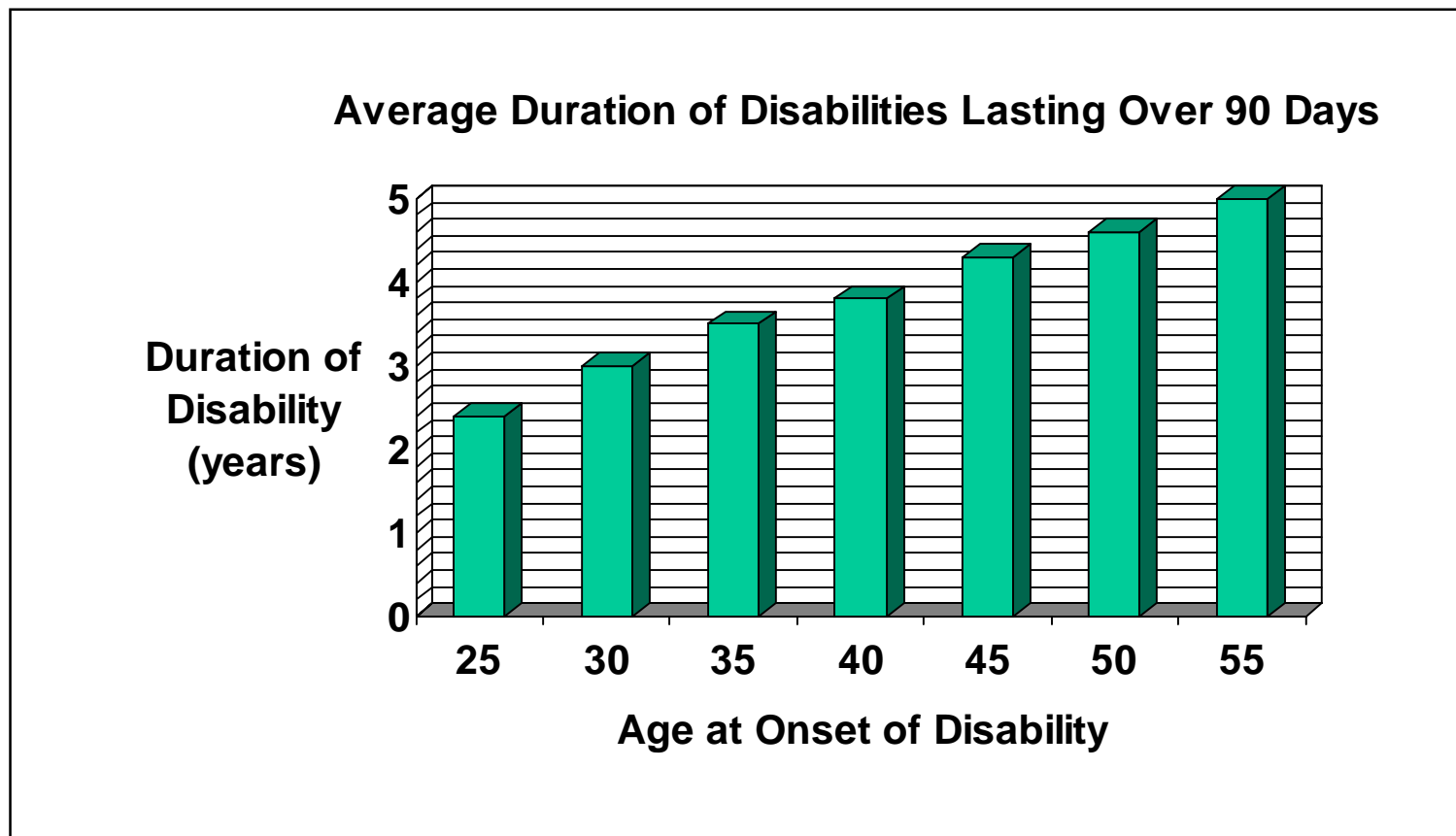
- Better diagnosis and treatment of disease
- Increased use of health services
- Lower mortality rates

People are living longer, and as a result, they may risk greater exposure to fatal and non-fatal diseases. People suffering from long-term disability may now survive longer; however, they are more susceptible to illness as years go by.

Can Your Savings Outlast a Disability?

Are you prepared to change your lifestyle? For most people, the ability to earn an income is their greatest financial resource. If you become disabled and can't work, do you know how long you could pay your monthly expenses with existing savings?

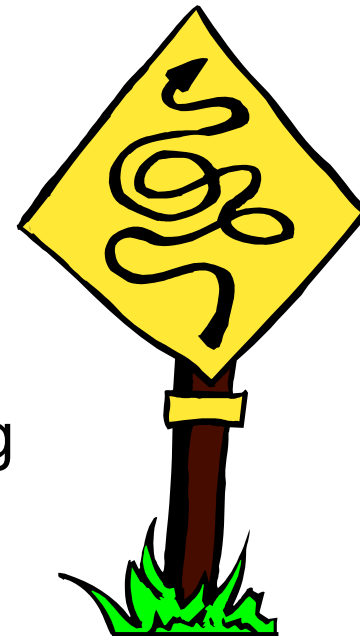




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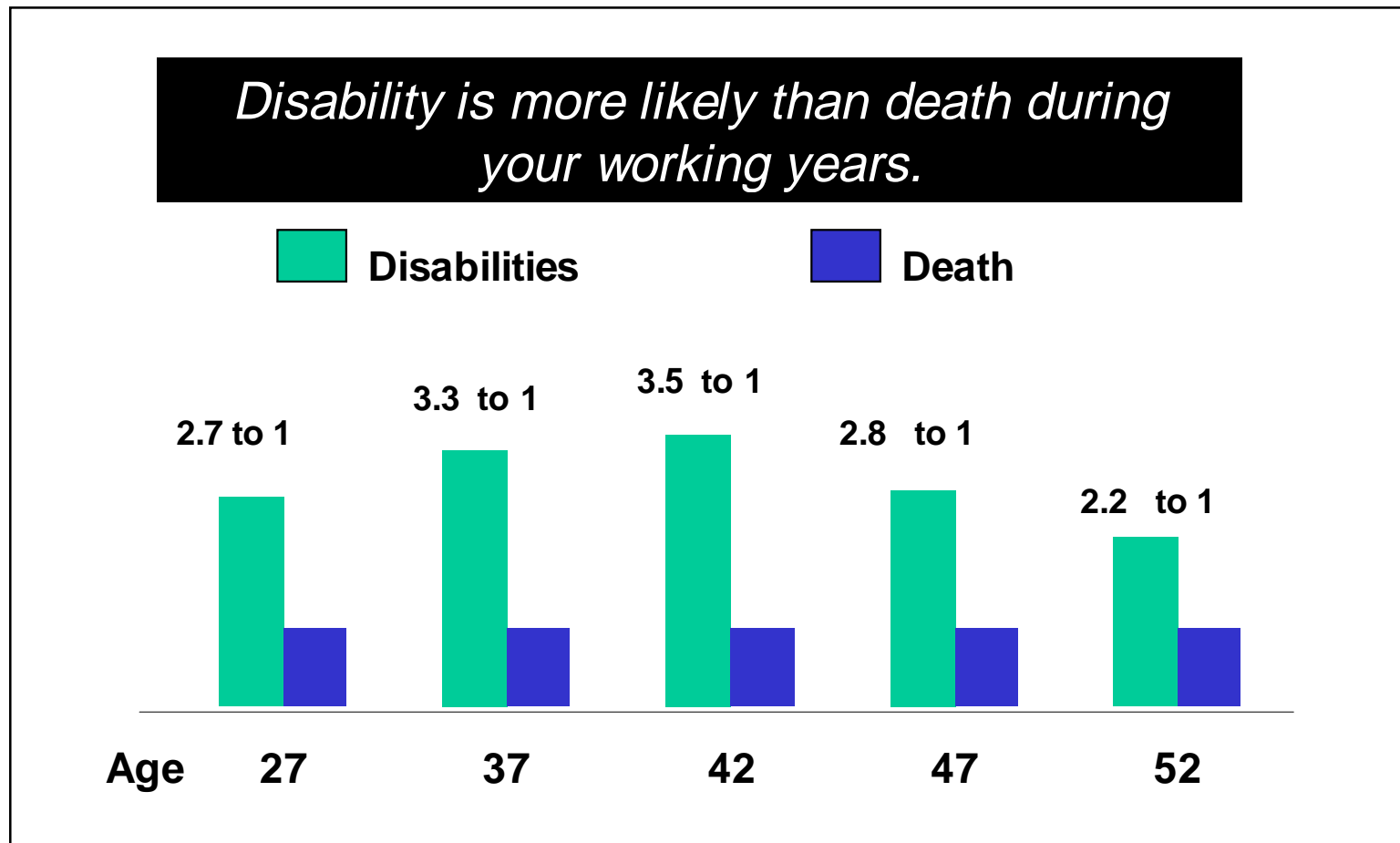
What's Your Risk of Becoming Disabled Versus Dying During Your Working Years?

Chances are you own some amount of life insurance. But have you ever thought about disability insurance? The probability of becoming disabled versus that of dying during your working years is significantly higher.



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Why Do You Need Disability Income Protection?



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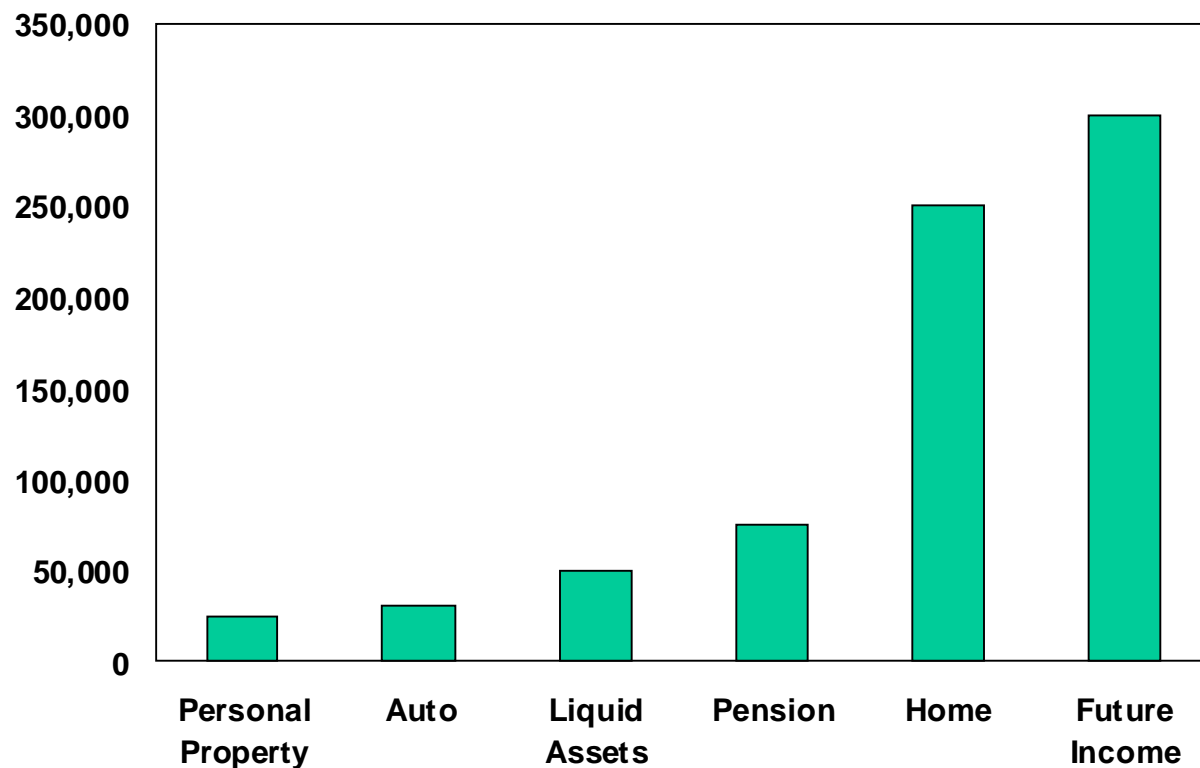
**A Disability Income
Protection Plan can make all
the difference.**



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What is Your Most Valuable Asset?

(Gross values, assume no debt)
35-year-old, 30 years to age 65
Average income \$100,000



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Protect Your Most Valuable Asset

Average Income to Age 65

Current Age	\$25,000	\$35,000	\$50,000	\$60,000	\$100,000	\$125,000	\$150,000
30	875,000	1,225,000	1,750,000	2,100,000	3,500,000	4,375,000	5,250,000
35	750,000	1,050,000	1,500,000	1,800,000	3,000,000	3,750,000	4,500,000
40	625,000	875,000	1,250,000	1,500,000	2,500,000	3,125,000	3,750,000
45	500,000	700,000	1,000,000	1,200,000	2,000,000	2,500,000	3,000,000
50	375,000	525,000	750,000	900,000	1,500,000	1,875,000	2,250,000
55	250,000	350,000	500,000	600,000	1,000,000	1,250,000	1,500,000
60	125,000	175,000	250,000	300,000	500,000	625,000	750,000

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Setting the Course to Your Financial Security



You have worked hard to get where you are today.
But to achieve your long-term financial goals, you
need to plan ahead.

Let's look down the road and see where your current
earning potential is leading you.

Disability: A Roadblock to Your Financial Success

Unfortunately, staying on the course to financial success isn't always easy — you may encounter roadblocks along the way that impede your progress.

One of the major roadblocks to financial security is disability. A long-term disability can lead to financial disaster by eliminating your most valuable asset — your ability to earn an income. After all, your earning power is the foundation upon which all your other financial plans are built.



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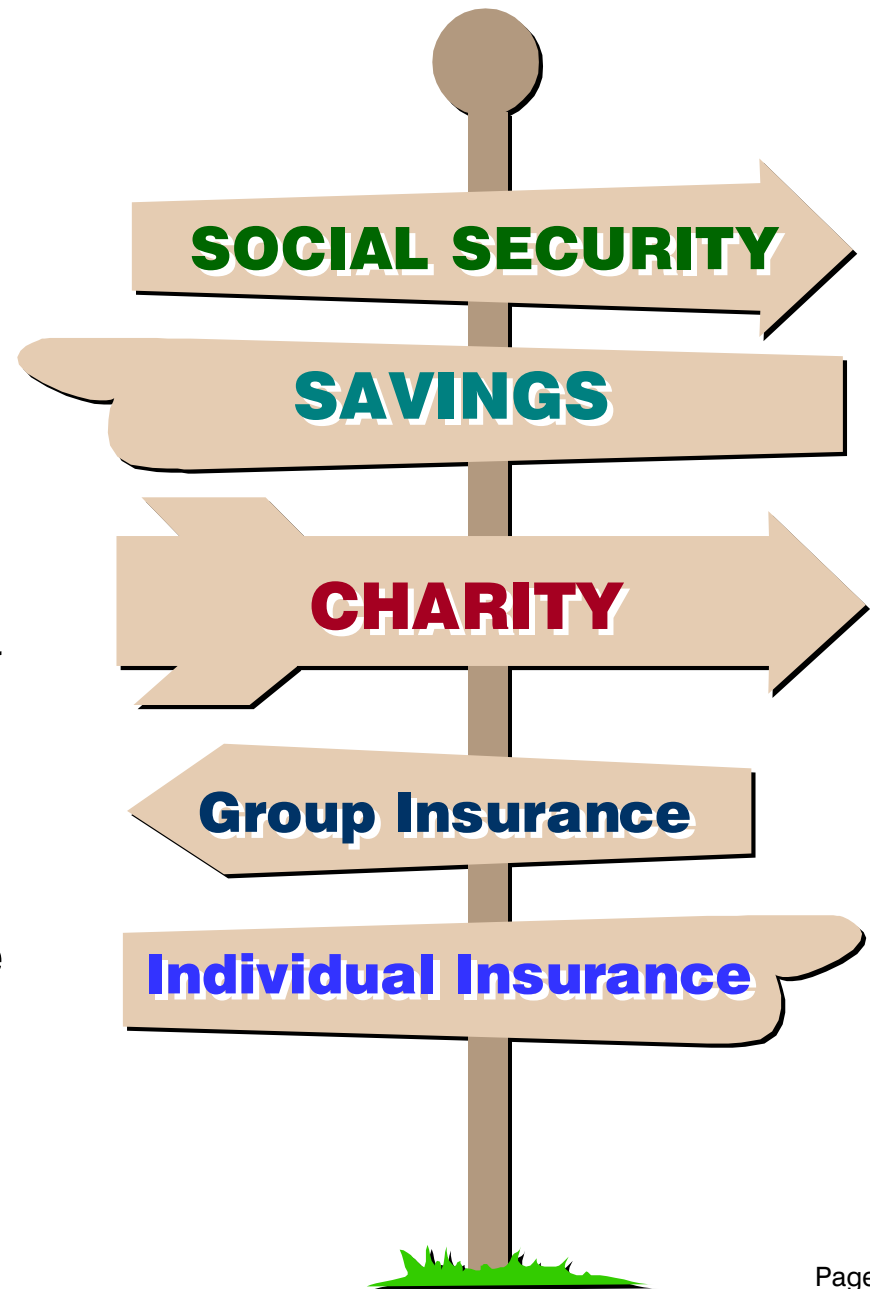
Everything Rests on Income



Detour Ahead: Which Route Should You Take?

You can think of disability in terms of a detour. If unplanned for, it can send you far off your course to financial security.

Of course, there are several alternative routes available for replacing lost income due to a disability. We can help you decide the best alternative for your needs.



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SOCIAL SECURITY

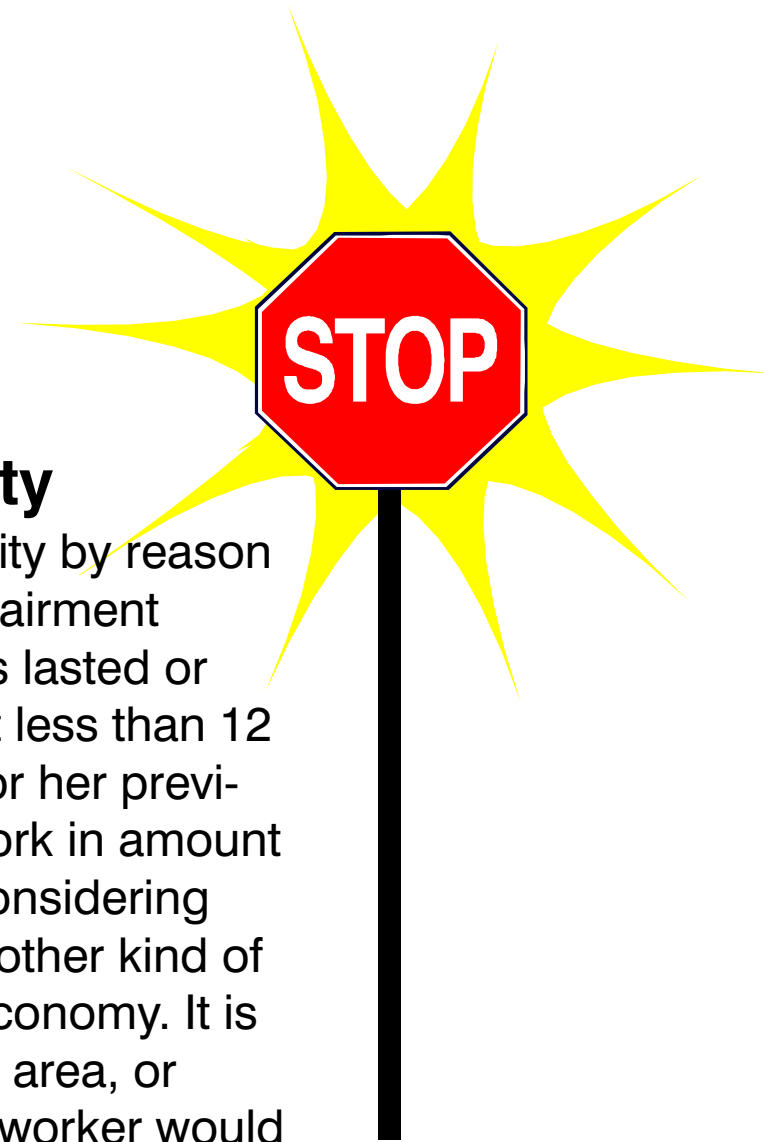
You may be eligible for disability benefits from Social Security. However, you should realize qualifying for benefits is difficult and the amount of benefits is very limited.

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Social Security's Definition of Disability

The inability to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or which has lasted or can be expected to last for a continuous period of not less than 12 months. A person must be not only unable to do his or her previous work or work commensurate with the previous work in amount of earnings and utilization of capacities but cannot, considering age, education, and work experience, engage in any other kind of substantial gainful work which exists in the national economy. It is immaterial whether such work exists in the immediate area, or whether a specific job vacancy exists, or whether the worker would be hired if he or she applied for work.

SOURCE: Section 223D of the Social Security Act



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“... 500,000 people in the United States apply each year to receive disability benefits, according to a Social Security spokesman at the department’s office in Baltimore. Slightly fewer than half receive benefits, he said.”

Minneapolis Star/Tribune, 1981



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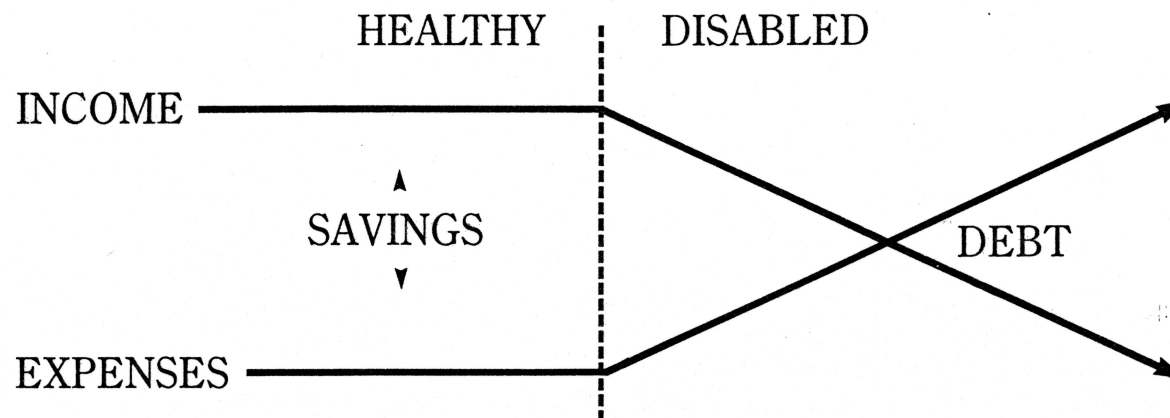
SAVINGS

You could live off your savings and investments. If you saved five percent of your income for 10 years, a disability could wipe it all away in just six months. Is that really the way you want to spend your life savings?

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This chart illustrates how quickly your financial picture can change if a disability strikes. Your earning power drops off dramatically while expenses tend to increase, sending you into debt.



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CHARITY

You could depend on charity or financial help from your relatives. But relying on others places an unexpected economic burden on them. Is it fair or even possible to depend on others to guarantee your financial security?



GROUP INSURANCE

You may be eligible for group insurance through your employer or professional association. However, these benefits may be difficult to qualify for and limited in terms of benefit amounts. In addition, these type of plans can usually be cancelled, perhaps at a time when you need coverage most.

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Personal Disability vs. Group Disability Benefit Comparison



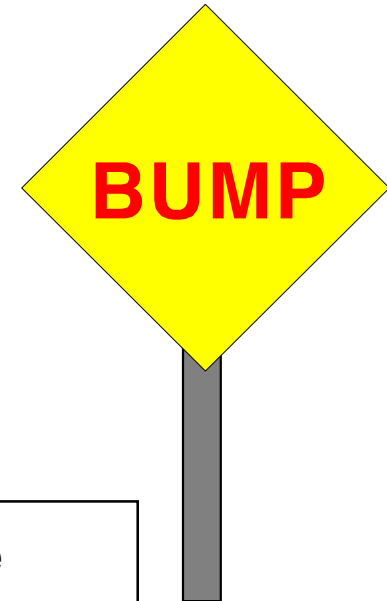
Group disability insurance is designed to cover the average employee, not the executive. As a fringe benefit, group disability may be a good idea for the average employee. For the executive, however, it's a second class benefit for the following reasons:

Ceiling On Benefits

Group disability limits benefits to the lesser of a percentage of salary up to \$2,000 per month, benefits payable can be compared this way:

<p>\$20,000 Employee Maximum Benefit \$12,000 60% of salary</p>

<p>\$80,000 Executive Maximum Benefit \$24,000 30% of salary</p>
--



The Contractual Provisions

Group Policy vs. Individual Policy

1. No coverage guarantee
2. No premium guarantee
3. Total disability required
4. Many exclusions from coverage
5. Not portable
6. No inflation adjustment
7. Nonparticipating

1. Guaranteed coverage
2. Level premiums guaranteed
3. Total disability not required
4. Fewer standard exclusions
5. Portable
6. Inflation adjusted
7. Participating

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INDIVIDUAL INSURANCE

The most reliable and practical way to stay on course during a disability is through quality, individual disability income insurance.

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How Does Disability Insurance Make Up the Shortfall?



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Individual Financial Needs Analysis

Expenses	Monthly Amount
1. Rent	\$
2. Food	\$
3. Utilities (water, heat, electricity, telephone)	\$
4. Transportation	\$
5. Installment payments (credit cards, loans)	\$
6. Insurance Premiums (life, health, car, medical)	\$
7. Miscellaneous	\$
Total Monthly Expenses	\$

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Individual Financial Needs Analysis

Income	Monthly Amount	For How Long?	Waiting Period
1. Current disability benefits (group, individual, association)	\$		
2. Other benefits (Social Security, Worker's Compensation, veteran's compensation, etc.)	\$		
3. Other income sources (stocks, bonds, spouse's income)	\$		
Total Monthly Income	\$		

— SOURCE —
BROKERAGE, INC.

Disability Income Insurance Illustration
for John Doe
earning \$75,000 as a pharmacist
Prepared by Source Brokerage, Inc

Male	
Age (Nearest):	36
Occupation Class:	4A
Non Smoker Discount	
Total Monthly Benefit:	\$3,950
Waiting Period:	90 Days
Benefit Period:	To Age 67
Premiums Payable To:	Age 67

— SOURCE —
BROKERAGE, INC.

Disability Income Insurance Illustration

for John Doe

earning \$75,000 as a pharmacist

Prepared by Source Brokerage, Inc

Benefit Description	Premium
\$3,950 Base	\$842.14
Residual Disability Rider**	118.11
Future Purchase Option Rider** \$5,000 Option Pool Amount	142.87*
Non-can Rider**	295.47
Own Occupation Rider#	118.50
Indexed Cost of Living Rider**	396.59
Policy Fee	30.00
<hr/>	
\$3,950 Total Monthly Benefit	
\$47,400 Total Annual Benefit	Net Annual Premium \$1,943.68

Special Monthly Premium \$170.07

— SOURCE —
BROKERAGE, INC.

The Spare Tire

Maybe you've never thought of a disability insurance policy this way, but it's a lot like that spare tire in your car's trunk — hopefully you'll never have to use it, but you'll feel secure in knowing it'll be there if you do need it.

The following people thought they'd never have to use their policies. But, as you can see, disability is a major risk and can affect anyone.



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Sample of Current Claims

Age at Disability	Occupation	Cause	Months on Claim to Date
46	Orthopedic Surgeon	Neurological Disorder	13
52	Purchasing Supervisor	Hip Replacement	4
55	Physician	Open Heart Surgery	4
35	Attorney	Stroke	37
50	Financial Advisor	Auto Accident Injuries	20
41	Physician	Multiple Sclerosis	127
36	Executive	Spinal Cord Injury	34
32	Veterinarian	Auto Accident Injuries	104
41	Physician	Chemical Dependency	3
28	Attorney	Neurological Disease	120
56	Physician	Lung Cancer	6
47	Neurologist	Stroke	31
34	Dentist	Severe Burns	5
39	Surgeon	Broken Leg	4
59	Marketing Director	Alzheimer's Disease	18
44	Administrator	Heart Attack	4
51	Psychologist	Liver Cancer	6
37	Accountant	Motorcycle Accident	10

Let's See If You Qualify for Disability Income

The
STANDARD
INSURANCE

Proposed Insured

Application for Disability Income Insurance
Standard Insurance Company • Individual Division
1100 SW Sixth Avenue • Portland, OR 97204-1993

1. Full Name (Last, First, Middle) _____
2. Sex _____
3. Social Security Number _____

4. Home Address _____
City, State _____ Zip Code _____

6. Date of Birth _____
7. State of Birth _____
8. Length of US Residence _____

5. Email Address _____

10. Phone Numbers _____
w () _____
w () _____

9. Driver's License No./State of Issue _____
11. Best Time to Call _____
☐ AM ☐ PM ☐ H ☐ W
Best Place to Call _____

Insurance Applied For

12. Plan Type and Features:

A. Disability Income
BASIC MONTHLY BENEFIT \$ _____
WAITING PERIOD _____ DAYS
BENEFIT PERIOD _____
SUPPL. SOC. INS. \$ _____
SSI WAITING PERIOD _____ DAYS
☐ RESIDUAL DISABILITY
☐ NONCANCELABLE
☐ OWN OCCUPATION
☐ INDEXED COST OF LIVING
☐ FUTURE PURCHASE OPTION
\$ _____ POOL AMOUNT
OTHER _____

B. Business Overhead Expense
BASE AMOUNT \$ _____
WAITING PERIOD _____ DAYS
BENEFIT MULTIPLE _____ MONTHS
☐ RESIDUAL DISABILITY
☐ FUTURE PURCHASE OPTION \$ _____
OTHER _____

C. Disability Buy-Out
WAITING PERIOD _____ DAYS
AGGREGATE BENEFIT LIMIT \$ _____
FUNDING METHOD (SELECT ONE)
☐ LUMP SUM AMOUNT \$ _____
☐ MONTHLY AMOUNT \$ _____
FOR _____ YEARS
☐ DOWN PAYMENT AMOUNT \$ _____
LUMP SUM \$ _____
FOR _____ MONTHLY
FOR _____ YEARS
☐ FUTURE BUY-OUT EXPENSE RIDER
AGGREGATE BENEFIT LIMIT \$ _____
FUNDING METHOD (SELECT ONE)
AS BASE? SELECT ONE
☐ LUMP SUM AMOUNT \$ _____
☐ MONTHLY AMOUNT \$ _____
☐ DOWN PAYMENT AMOUNT \$ _____
☐ EXTENDED BENEFIT OPTION
OTHER _____

13. Occupation Class: ☐ 5A ☐ 4A ☐ 3A ☐ 2A ☐ A ☐ B

14. Premium Mode: ☐ EFT (MONTHLY); ☐ ANNUAL; ☐ LIST BILL (MONTHLY); ☐ OTHER _____

15. Other Coverage: ☐ EFT (MONTHLY); ☐ ANNUAL; ☐ LIST BILL (MONTHLY); ☐ OTHER _____

EXPLAIN YES ANSWERS IN TABLE BELOW. USE STATUS AND TYPE CODES PROVIDED.

a. Have you applied for any disability insurance in the last 12 months?

b. Is there any other disability insurance currently in force or pending on you?

c. Will you become eligible for any disability insurance in the next 12 months?

STATUS CODES: NOW IN FORCE (N); PENDING (P); APPLIED FOR IN LAST 12 MONTHS (A); WILL BECOME ELIGIBLE IN THE NEXT 12 MONTHS (F).
TYPE CODES: INDIVIDUAL (I); SOCIAL SECURITY SUBSTITUTE (S); GROUP (G); ASSOCIATION (A); OVERHEAD EXPENSE (OE); OTHER (O) - EXPLAIN.

COMPANY	STATUS	TYPE	YEAR APPLIED FOR	MONTHLY AMOUNT	RE-ENTRY PERIOD	WAITING PERIOD	WILL CONTINUE RE-ENTRY REDUCED?
					<input type="checkbox"/> YES <input type="checkbox"/> NO		
					<input type="checkbox"/> YES <input type="checkbox"/> NO		
					<input type="checkbox"/> YES <input type="checkbox"/> NO		

DIAP1000IN

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How's Your Disability Awareness?

by John Newell, CLU, ChFC
Berkshire Life Insurance
Company of America •
Pittsfield, Mass.

If you know the statistics to back up your sales pitch, selling disability income insurance can be much easier.

The public sector promotion of disability awareness can be traced back to 1945, when Congress enacted the annual "Employ the Physically Handicapped Week." Two generations later, with 1990's far-reaching Americans with Disabilities Act (ADA), general awareness of issues faced by people with disabilities expanded greatly as accommodations and policies changed in workplaces, schools, and other spheres of public life.

But even after 15 years, how many prospects have internalized the possibility that this could happen to them too? More important, what do producers know about the realities of disability and people's attitudes? Gaining a true appreciation of these realities will make producers more committed to taking the message to their prospects.

Recent surveys indicate that consumers have concerns about disability but a low level of awareness about their options if they become sick or injured and cannot work. A 1999 survey conducted by Roper Starch Worldwide identified the major financial concerns of people in the United States. The results¹ show that:

- 70% are concerned about having enough money to live comfortably in retirement.
- 61% are concerned about health insurance for themselves and their families.



- 60% are concerned about their families' financial security if they no longer can work.

In 2000, the Consumer Federation of America and the American Council of Life Insurers conducted a survey to gauge consumers' awareness levels about disability coverage. They found that 82% of U.S. workers either have no long-term disability coverage or believe that the coverage they have is inadequate. Of those who had disability coverage, 43% did not know what benefits actually would be provided.

According to the joint survey, most people (72%) view long-term disability coverage as an important work-related benefit. But who is covered? The U.S. Labor Department found in another study that only about 40% of employees of companies with 100 or more workers have any kind of long-term disability coverage. The situation is much worse among people employed by smaller companies.

Only 23% of workers in companies with 50 to 99 employees have long-term disability (LTD) coverage; the percentage drops to 15% in companies with fewer than 50 employees.

Why aren't people buying disability insurance? Perhaps they don't want to think about disability or picture themselves as disabled. As producers no doubt have encountered, people do not understand the actual risk of becoming disabled or the potential consequences for themselves and their families.

While statistics alone never sell a policy, they can help to get a prospect's attention, initiate a dialogue, and clear up misperceptions.

Recent Stats May Be Surprising

Many people associate the risk of disability with work-related accidents or the rare Christopher Reeves-type catastrophic disability. Yes, it could happen, but most people think the risk is low.

Only 13.4% of all disabilities, however, are due to injury.² The vast majority don't involve wheelchairs or traction. Here is what is known about the primary causes of disability:

Impairment / Percentage of Claims³

Back / 18.2%
Emotional/psychiatric / 12.7%
Neurological / 11.3%
Extremities / 9.0%
Cardiovascular / 4.1%
Diabetes / 3.6%
Substance abuse / 3.3%
Hearing / 2.9%
Vision / 2.6%
Blood disorders / 2.6%
Cancer / 2.3%
Asthma / 1.7%
Other / 25.7%

The producer can use the following statistics with people who haven't seen disability in their families or circle of acquaintances:

- In 1997, 9.7 million people ages 16-64 suffered from a disability that prevented them from working. Another 7.2 million people were limited in the kind or amount of work they could perform.⁴
- From 1984 to 2000, the incidence of disability for working-age adults increased sharply, up more than 50% for adults between ages 30 and 49.⁵
- In 1999, 326,441 families who filed for bankruptcy protection identified an illness or injury as a primary reason for filing. This is one in every four debtors who filed that year.⁶
- Disability causes 48% of all home mortgage foreclosures. Only 3% of foreclosures are due to a breadwinner's death.⁷

- If a 35-year-old person is disabled for at least 90 days, on average he or she can expect to be out of work for more than three years. As the person gets older, the disability's average duration becomes even longer.⁸

- From 1992 to 2000, an average of only 31% of applicants for Social Security disability benefits were awarded benefits at the initial claim level. After reconsideration and appeals were exhausted, only 51% of all claims were approved.⁹

Economic Trends Increase Our Vulnerability

Because so many companies have left the business, most producers and brokers are not being trained systematically about how to discuss the need for disability income insurance (DI) with their prospects. This ironically comes at a time when consumers are more financially vulnerable than ever and less able to tolerate disruptions in income.

As a result of rising health insurance costs, employers want to reduce expenses for such items as disability insurance by dropping coverage or shifting the cost to their employees. At the same time, several

trends make consumers even more defenseless against the loss of a regular paycheck, such as:

- Rising consumer debt (household debt in 2000 rose to an average of 14.3% of disposable personal income according to the Federal Reserve Bank);
- Greater exposure to volatile investment assets (that is, stocks versus guaranteed bank deposits); and
- The work force's growing mobility (group disability coverage has limited portability).

What Should Producers Be Saying?

Producers constantly ask if there are new statistics that they can use with prospects. The 1985 CIDA tables (from which the most-used

How's Your Disability Awareness?

statistics come) are almost 20 years old. Many producers doubt their relevance today. At any rate, I don't believe people are motivated by the odds alone, and the days of using them to frighten people into buying disability insurance are long gone.

Producers shouldn't expect to succeed in selling disability insurance by only quoting statistics. They must be willing to engage their prospects in discussions that prospects probably would prefer not to have — discussions centered on the personal and family consequences of a serious disability.

Producers should focus on the importance of their prospects' income. They can ask questions to get prospects thinking seriously, such as:

- How much of your income goes to paying daily living expenses? How much goes to savings and investments?
- If you are too sick or injured to work, how much income can you guarantee from other sources? For how long?
- What things would you and your family have to give up?

Producers should point out that savings rapidly will disappear, and employer-provided group LTD benefits rarely are sufficient. It also may be unrealistic to expect spouses to work more, particularly if they will have to assume care-giving responsibilities.

Asking these questions puts prospects in the picture and helps them take inventory and make informed decisions.

Jeff Howard, a producer with Consolidated Planning, Inc., a Guardian agency in Charlotte, N.C., recently conveyed that sense of professional responsibility to me in a compelling way. He's seen firsthand how having adequate disability coverage has made a profound difference in his clients' lives.

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"For me, selling disability income insurance has become natural," he said. "My advice to new agents is, don't give up. Help your clients to make the right decision — don't let them say no to this critical piece of their financial program."

How's Your Disability Awareness?

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"Sure, it can take work to 'get to yes' with the client, as well as with the underwriters. But remember: You never want to apologize to a client later on because you failed to carry through in doing the right thing."

What about the objection that "I don't believe it can happen to me"? This is where producers can tap into the facts. Used with discretion, statistics can educate and dispel the myths surrounding disability. Knowing the facts more fully can prepare them to fulfill their professional responsibility.

Notes:

1. *Percent responding to survey as "concerned" or "extremely concerned."*
2. *National Institute on Disability and Rehabilitation Research, Disability in the United States: Prevalence and Causes, 1996.*
3. *HIAA Source Book of Insurance Data, 1999-2000.*
4. *U.S. Census Bureau, 2001.*
5. *RAND Corporation, 2003.*
6. *Norton's Bankruptcy Advisor, May 2000.*
7. *U.S. Housing and Home Finance Agency*
8. *Commissioners' Individual Disability Table A.*
9. *Social Security Administration, Annual Statistical Report on the Social Security Disability Insurance Program, 2002.*

Ouch! Don't forget disability insurance

Broken leg? Bad back? A disability policy keeps your finances above water if you can't work.

May 6, 2002: 2:44 PM EDT

By Annelena Lobb, CNN/Money Staff



NEW YORK (CNN/Money) - Buying disability insurance probably ranks low on your financial to-do list. After all, if you're young and healthy and you work at a desk job, what are the odds you're going to need it?

Well, you might not think of a broken bone, a problem pregnancy or an anxiety condition as disabling, but all of them could keep you out of work. About 30 percent of Americans age 35 to 65 will suffer a disability lasting at least 90 days sometime during their careers, according to the [Health Insurance Association of America](#).

Should you ever need the protection a disability policy can offer, you'll be glad you took financial precautions. Without coverage, an unexpected disability can easily drive you into serious debt.

"Unless you're independently wealthy, you need insurance if you stand a chance to lose your income because of a disability," said David Woods, president of the [Life and Health Insurance Foundation for Education](#).

Getting the right policy isn't easy. Prices vary widely, and only a handful of the big insurers even offer disability policies, said Steve Crawford, a spokesman for [Guardian Disability Brokerage](#).

Do you need it?

"Most people say, I don't need disability coverage — I've already got it through work," said Crawford. But most company-issued disability insurance only provides you with 60 percent of your

salary and sets a monthly maximum of \$5,000 to \$10,000, which can be even less than 60 percent of a highly compensated employee's salary.

But here's the problem: Those benefits are also fully taxable, which means you're actually getting a lot less than 60 percent of what you're used to.

"You could easily find yourself trying to survive on about 40 percent of your salary — or less, if you're a high wage earner — if you don't buy a supplemental policy," Crawford said.

And Social Security probably won't cover you, either — Social Security disability benefits are one of the most difficult benefits to qualify for, Crawford said. "You have to be completely disabled for at least a year, with no hope of recovery," he said. "Even when you meet those requirements, you're unlikely to receive more than \$2,000 a month."

Shopping for policies that make the grade

Look for company strength. The first question you need to ask is whether the insurance company you're eyeing is financially sound, said Crawford.

"There are maybe six major insurance companies left that still offer disability insurance," he said. "There are lots of smaller companies

Risk-classified occupations	
Class 6:	Attorney, CPA
Class 5:	Computer engineer, paid \$75K+
Class 4:	Manager, making \$50 to \$75K
Medical:	All physicians and dentists
Class 3:	Administrative assistants
Class 2:	Musicians
Class 1:	Plumbers
Source: Guardian Disability Brokerage	

Ouch!

Page 2

that offer disability insurance, but you should check their financial statements. Make sure they look like they'll be able to pay out claims as time goes by."

To check insurance company ratings, check moody's.com, standardandpoors.com or ambest.com.

Aim for a non-cancelable contract. Next on your checklist is renewability, or whether your policy's terms are subject to change over time. There are three options: a non-cancelable and guaranteed renewable policy, a guaranteed renewable policy, and a conditionally renewable policy.

Experts say the non-cancelable contract, especially if price is not an issue, is by far the best of the three. That's because it locks in your rates and benefits. The insurance company can't make changes unless you request them.

A guaranteed renewable policy is less desirable. After you invest in a policy, your insurer doesn't have the right to drop you, said Susan Baker, manager of DI sales and marketing for [Berkshire Life Insurance](http://BerkshireLifeInsurance.com), but they reserve the right to raise prices for specific reasons.

"All the companies that are writing guaranteed renewable contracts used to write non-cancelable contracts," said Crawford. "They often say the two are the same, but they're not. There's a reason why they're leaving themselves the back door open."

Finally, avoid conditionally renewable policies. An insurer can put any condition on them or raise rates at any time.

Look for a broad definition of "total disability." The most consumer-friendly definition of total disability is "own-occupation disability." If you are disabled and cannot perform the principal duties of the job you currently have, you get paid your disability benefit even if you can do some other tasks.

"Even if they become disabled, most people want to keep working," said Crawford. "The neat thing about own-occupation coverage is that you're not penalized for working at the flower shop down the street, even if you can't yet go back to your full-time job."

The most conservative definition of total disability is "any-occupation disability." Under this definition you do not get a benefit unless you are completely unemployed and unable to do any work.

Many companies, of course, will define "disability" in shades of gray between own-occupation and any-occupation disability. And some disability insurance products will give you own-occupation coverage for a specified period, then move you to a modified plan, increasingly contingent on whether you can produce any income.

Buy residual or partial disability coverage. A third of [Northwestern Mutual](http://NorthwesternMutual.com)'s claims are for partial disability coverage, said Meridee Maynard, vice president of disability income products at the company.

Insurers pay partial disability benefits if you can only work at your job for a reduced period of time. After an accident, for example, someone might leave work entirely for six months, then work on a reduced schedule for the next year. If working part-time meant the person lost a percentage of his income, partial disability coverage would kick in and pay a proportionate benefit.

Get the appropriate riders. If you have disability coverage, you may not use it for decades — if ever — and \$3,000 a month in ten years will buy you considerably less than it does now. You might want to buy a rider that adjusts your policy for inflation, particularly if you're in your 20s and 30s, said Baker.

Another option to consider is what Baker terms a "future purchase option" — it allows you to buy more coverage as your salary rises or

Ouch!

your business expands. This is especially good for people just starting their careers.

Putting a price tag on your policy

Crawford tells clients that disability insurance premiums will typically cost between 1 percent and 3 percent of annual income. Prices will vary according to several main factors, including your age, gender, health history and occupation.

Another factor affecting your premiums is the policy's elimination period. That's a specified length of time — people usually choose 90 days — from the onset date of disability. When that time is up, the company starts paying your benefits. You can choose an elimination period as short as 30 days or as long as 720 days. Generally, the longer your elimination period is, the cheaper your premium.

You'll also have to choose a benefit period, or the length of time the insurer will pay you benefits. Most companies let you choose between benefits lasting two years, five years, all the way to age 65, to age 67, or for the rest of your life. Most people choose the age-65 option, as Social Security kicks in thereafter. The longer your benefit period, the more expensive your policy will be.

When they price your policy, each insurer categorizes you according to its own set of occupation classes, ranking systems that sort different jobs according to their likelihood of filing a claim. The more likely your occupation is to result in disability, the more expensive your coverage will be.

And if you work at a job that requires intense manual labor, like construction work, it's likely you'll be unable to get coverage at one of the big disability insurers, Crawford said.

"You'll have to go to a smaller insurer. They won't make you necessarily pay more for coverage, but you'll get a stripped-down contract, without any bells and whistles," he said. •

Association Group Disability:

The Pitfalls of a Bargain Plan

If a person has compared costs of an individually owned disability income plan versus an association group plan, the person may conclude that one would be a sucker to pay the higher price for an individually issued plan. The facts indicate differently.

Typically, an association group is set up by having the board endorse a plan. Endorsement means that the board, unknowledgeable in insurance matters, goes on record endorsing a plan that may or may not be of value to the individual association members. Usually the president of the association sends a letter to all members urging them to enroll in the plan.

An enrollment period is then announced and a mail order campaign conducted to get members to send in their applications and their checks. There can be no personal consultation, for there are too many members for an agent to see. So, the member, unknowledgeable in disability insurance, must decide upon a plan and order it through the mail. There is no personal service provided, although the premium includes a commission for an agent of record.

The original reason for the association to sponsor a plan was to attract new members and help retain old members. This reason has largely evaporated, particularly for professional people, since they can now enroll in several different groups, if they want insurance. A surgeon, for example, could enroll in a plan for the American College of Surgeons, The American Medical Association, the State Medical Society and the County Medical Society.

The Treachery of Open Enrollment

Open enrollment is used to excite people into action. A promise is made that when a percentage of young and healthy risks have enrolled in the plan an open enrollment will be conducted during which time everyone will be accepted regardless of physical condition. The

appeal is that everyone should get on the bandwagon so that all the uninsurable members get coverage. This is the beginning of the end.

Suppose you were the bank president. Ten people came to you as a group. They admitted one among them was a liar, cheater, an embezzler and a robber. This person needed to borrow money so the nine friends agreed that they would borrow a like amount to make the business proposition attractive to your bank. Would this be a prudent thing to do?

A similar situation exists in taking on the uninsurable under a group plan. If the premium is actuarially right for the sound risk, it is inadequate for the impaired risk and visa versa. The company then is saying to you, "if you sound risks come in we take the one out of ten (more probable one out of three) who is an unsound risk, just because you sound people do business here."

Time Takes Its Toll

As time progresses, enthusiasm for the plan runs thin. The agent of record does well to send out an occasional mailing. Participation is faltering. One of the reasons is that the members get talking to a local insurance person who counsels them and points out that for a little more premium the healthy member can get a fine individual policy that he owns and controls. It removes the fear of group cancellation and the local insurance person will always be there to provide personal service.

Only the otherwise uninsurable remain in the group. Sooner or later the company must increase the premium, decrease the benefits or terminate the group.

What is at Stake?

In buying insurance through the mail, members don't get personal service. Many say, however, that even if they select a plan that doesn't fit their exact needs, they need to save premium. Furthermore, they say even if the group is cancelled, they will have inexpensive protection for the time it was in force.

In mail ordering for group disability coverages, a person takes a great risk. One has at stake his or her earning power. A 35-year-old earning \$30,000 per year who works to age 65 stands to earn \$900,000 even if he or she never gets a raise. For the hazard of loss of \$900,000, is the cheapness of a mail order plan worth it?

If one is to economize, it is better to do it in some lesser thing, such as a cheaper car or house, fewer clothes or canceling the country club membership. A person should not try to economize on disability insurance, for it insures the source of money that pays for all other facets of life.

What's Wrong with the Product?

Why is a group plan that insures the physically impaired risk so much cheaper than an individually issued policy? Is it due to commissions, economics of operations, mass purchasing? These savings are comparatively small and are certainly offset by the underwriting company assuming coverage on uninsurable members of the group?

If you found an \$18,000 Cadillac on sale for \$12,600 or 70 percent of its normal cost, wouldn't you be suspicious?

We have found many example of companies offering individual non-cancellable disability income policies for sale that are similar in coverage and cost of other companies in the industry that underwrite association group a substantially less cost. We wonder why one department of the company charges X and another charges X less 30 percent. The promises in the policy are very similar. It creates a similar question to an \$18,000 Cadillac being offered for sale at \$12,600. Is it safe purchase? What is wrong with the product?

We must assume that either all other companies rates are overpriced, which hardly seems possible with competition being what it is, or the company is deliberately underpricing the association group plan to entice enrollment with an eye to increasing the costs after it has captured many enrollees.

The Element of Prestige

Prestige of a group is not a safety factor to the individual member. There is an industry list of hundreds of association group plans that have been cancelled, altered or amended. As a matter of fact, one of the largest companies brought about termination of the American College of Surgeons a few years after it was enrolled. The price was too low for the benefits provided. The prestige of the American College of Surgeons was not sufficient to stop the cancellation of their plan.

There is no substitute for quality. Quality insurance is not cheap, but it's inexpensive. If the risk is worth insuring, it is worth the price of permanent, quality coverage, owned and controlled by the insured and serviced by a local insurance broker or agent.

W. Harold Peterson Reprinted with permission from "California Broker" October 1988 W. Harold Peterson is one of the founders of the advanced health underwriting seminar of Purdue University and Florida State University. He is on the Board of Trustees of the California Association of Life Underwriters.

Group vs. Individual Disability Insurance

What Are The Differences Between Group LTD & Personal Disability Insurance?

By: William Olmsted

Almost every day I get a call from someone looking to compare their group long term disability insurance at work with what is available to them as an individual. Usually they are looking to compare the two totally different types of disability protection based on cost alone, and this just may be the largest mistake people make when they evaluate their disability insurance options. They have just found out that the company LTD received a premium increase, and they want to know if the new rate is a “good deal”.

When talking to people in this situation, I try to stress that there are many interpretations of a “good deal.” There is a good deal on price, and one on policy benefits. The perception, however, is that the two should be similar. They are not. A cheap policy is rarely a quality policy, and a quality policy is rarely cheap. This article will try to touch on the important differences of a group long term disability policy and an individual disability insurance policy.

My Premium Just Did What?

Most often, the calls I receive from people comparing group LTD to individual disability insurance coverage are generated from a seemingly significant increase in premium on their LTD coverage. Most long term disability plans guarantee the rate for a period of time. After that guaranteed period, however, they are free to raise the rate to the employer as needed. In these situations, employers can pass that increase on to their employees. For employees who have not been used to paying premiums, and now find themselves out \$20 per

pay period, it is not a welcome change. They have felt entitled to the coverage all along, probably haven’t paid it any attention, and don’t think disability insurance is something they really need to worry about anyway.

The other type of employee is someone who has been paying a modest amount all along for their disability insurance coverage. They have been paying \$50 per pay period and now got an increase to \$80. They see the value in having disability coverage, but just not at a \$30 per pay period increase.

Both of these people want to test the waters on the individual disability insurance side, thinking that they might be able to get the same coverage for less money on their own. It worked for them on their term life insurance, so it might work for disability insurance too. The bottom line is there is not a good disability insurance policy on the market for an individual that has a lower cost than the group coverage available through work. If that is all you are interested in, you can stop now.

	Group LTD	Individual Disability Insurance
Definition of Disability	The most common definition we see is a “modified” own-occupation for the first two years of a claim, then a change to the restrictive “gain-ful” occupation definition for the rest of the benefit period.	One can purchase anything they want from a pure own-occupation policy to a modified own-occupation contract.

	Group LTD	Individual Disability Insurance
Portability	It is extremely rare to find a group LTD policy you can take with you should you change employers, or become self-employed. Most LTD contracts are not portable, and do not fall under COBRA regulations.	You own it, and the coverage remains in force so long as you pay the premiums regardless of how many different companies you work for, including becoming self-employed. One can take this policy with them to any new employer, or new occupation without a need to update their coverage.
Taxability of Benefits	If your company pays the premiums for the LTD coverage, if you go on claim the benefits are taxed as ordinary income to you. That 60% benefit is truly much less after you pay taxes on it.	When you pay the premiums for this insurance with your own after-tax dollars, any benefit received during a claim is tax-free to you .

	Group LTD	Individual Disability Insurance
Residual / Partial Benefits	It is extremely rare to find a group LTD policy you can take with you should you change employers, or become self-employed. Most LTD contracts are not portable, and do not fall under COBRA regulations.	Most individual disability insurance plans have a significantly better residual / partial provision that covers partial disabilities to age 65.
Mental & Nervous Restrictions	Group plans typically limit claims paid for any mental and nervous disability to 2 years. Many will also limit claims paid for drug and alcohol abuse to one year.	Some individual plans limit mental and nervous, and drug and alcohol benefits to two years as well, however there are still some that treat mental and nervous claims like any other disability.

	Group LTD	Individual Disability Insurance
Monthly Maximums	Every group plan has a monthly maximum benefit. Two of the most common maximums are \$5,000 and \$10,000. A group LTD policy will typically	Most insurance carriers limit the monthly benefit under an individual disability insurance policy to \$15,000. Physicians are often limited to \$10,000 a month.
Covered Income	Many group LTD plans only cover base salary, and leave out commissions and bonus income. Anybody in sales, or who depends on bonus money for a portion of their income has even less LTD coverage than they think.	Insurance carriers typically cover any earned income filed on a federal tax return. This includes commissions, bonus, and profit-sharing.

Perception vs. Reality

The perception is that group disability insurance provides adequate protection against disabilities. Our belief is that it is a shell of a disability insurance contract, and provides too many people with a false sense of security. The perception is that individual disability insurance is too costly, and will pay the same amount as a group LTD plan. The reality is that personal policies cost more than group LTD, but they also pay you more money in more claims scenarios, and can protect your income in your own-occupation.

This perception can be emphasized with another example. Let's say you were in the market for a Honda Accord, and went to two dealerships, and found two identical cars. One was priced at \$27,000 and the other at \$2,700. You would probably be skeptical of the one that was priced \$2,700. Now let's say you are in the market for a disability insurance policy. One costs \$3,000 and the other costs \$300, why is it that people are skeptical of the one that costs \$3,000. The difference is that people are familiar with what a Honda Accord should cost, they are not familiar with what a quality own-occupation contract should cost.

Don't let the perception become reality, look past the cost, and assess the value of the policy you are considering. A policy that pays you when you need it is a much better deal than the one that costs a lot less and is not there when you need it. Disability insurance is designed to protect your income, if you have a family depending on your income, and the only protection you have is group LTD, your family is truly exposed to financial disaster should you suffer an extended long term disability.