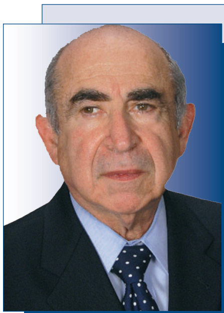
Disability Insurance Insights...

Individual Disability Insurance And Various Increase Options



EUGENE COHEN

began his insurance industry career in Cleveland, OH, with a company that specialized in disability income protection.

In 1981 Cohen founded the Eugene Cohen Insurance Agency, Inc., Skokie, IL, which specializes in DI, life, LTCI, fixed annuities, and impaired risk cases. The agency is a member of LifeMark Partners, NAILBA, the IDIS and is a founding member of The Plus Group.

Cohen received the W. Harold Petersen Lifetime Achievement Award from the IDIS and NAILBA's Douglas Mooers Award for Excellence.

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Individual disability insurance is one of the coolest products in the insurance world. There are features that you really don't see in other life and health insurance products. We want to focus on some of the increase options that you will most likely see in many of the products. Of course, each insurance company is different and designs their products differently, so please read the specimen contract to ensure that any of the features mentioned are available for your client.

Automatic Benefit Increase Riders

There may be variations to the actual name of this rider, but in general, if issued with the policy, it will allow your client's benefit to slowly increase each year for a certain duration. Depending on the company, this rider may not be available at the time of issue due to occupational class and/or age limits. The rider allows the monthly benefit to increase by a certain percentage on the policy anniversary.

For example: A client bought a $5,000 per month benefit with a policy date of June 1, 2020. The next year, the rider would increase the monthly benefit by a certain percentage. If the rider allows for a four percent increase each year, then the $5,000 per month would be increased to $5,200 at the anniversary. The percentage of increase will vary based on the company, but typically we've seen this be in the four to five percent range. Typically, this automatic increase will continue for about five years. Again, it can vary based on the company. At the end of the initial automatic period, assuming the client is not on claim and is under a certain age, the client usually is given the option to allow the increases to continue for another set period based on the company's underwriting requirements. Usually just financial justification is required to renew the rider for another five years. What an awesome feature to a policy! This allows for a client's monthly benefit amount to increase to thwart possible erosion of the benefit by inflation and helps to keep the benefit up with slight increases of income. Note, the rider usually will not increase benefits when a claim is in progress.

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Future Purchase Options

These are options to increase the monthly benefit by larger amounts, but again without having to prove medical insurability. These types of riders are typically available at the time of issue as long as the client fits certain parameters, such as issue age, occupational rate class and applying for a certain percentage of eligible benefit. These riders allow for a much larger amount of monthly benefit to be purchased on certain policy anniversaries. In addition, some companies may allow the client to increase the policy off-anniversary if certain events occur, such as, but not necessarily limited to, a loss of group benefits.

This rider has really evolved into two subsets: The purchased rider and the no cost rider. The purchased rider usually will give the client a set amount that can be applied for at a later policy anniversary. In general there is no medical underwriting, but usually financial underwriting and not being on claim at the time the increase is being requested are required.

For example: An attorney client, age 35, buys a $5,000 per month disability policy with a $5,000 future purchase option. At age 40 the attorney has seen a doubling of income and needs more coverage, but at age 38 he was diagnosed with MS that is hardly noticeable and hasn't slowed down the attorney's solo practice. Even though the attorney is most likely uninsurable for disability insurance with traditional insurance companies, the client can still increase his disability benefit via the future purchase option assuming the current income would justify the increase. Depending on the company, the increase can raise the monthly benefit on the current policy, or the company may issue a new policy for the increased amount using the most current disability policy series. The rates would usually be based on the current age at the time the option is being activated. The unused amount of future purchase options will expire at a certain age and be taken off the policy. Companies may or may not issue this rider on their current policy offerings, but as a planner it's very important to know about this rider when reviewing previous disability policies purchased by your client.

The other increase rider that we see being developed by companies is a rider that typically doesn't add extra cost to the premium at the time the policy is initially issued. This no cost rider may go by various names, such as benefit update or increase option rider, but they have some similarities. In general, this rider allows the actively at work client to increase the monthly benefit every few years with only financial underwriting. The key is that this is systematic, in that typically the client needs to submit a financial questionnaire and/or more detailed financials whenever the option becomes available. The company will then let the client know how much the policy can be increased if at all. A usual requirement of this type of rider is that certain conditions need to be followed in order to keep the rider active with the policy. If the client doesn't submit the requested financial information or if the client doesn't accept a certain percentage of what the company offered, then conditions of the rider may not have been satisfied and the rider would be removed.

For example: The same attorney client. At the third policy anniversary, the company notified the client to submit financials to be evaluated for a possible benefit increase. The client submits their financial information and, due to a large increase in income, is offered to increase the policy by $8,000 per month for a total of $13,000 per month of benefit. If the client accepts a certain amount of the offered increase, the option to increase rider will stay on the policy—assuming the client is still age eligible. If the client decides to not submit the financials or doesn't accept a certain percentage of the offer, then typically the rider will be removed from the policy as the client didn't fulfill the contractual requirements to keep it. Similarly, some companies may allow the client to increase the policy off-anniversary if certain events occur such as, but not necessarily limited to, a loss of group benefits.

These riders are essential to the planning and design of individual disability policies. These also give an opportunity for the adviser to have a valid business reason to systematically review and update disability insurance needs with their clients. These riders and benefit options are not only essential for the client but are also some of the additional benefits for the adviser in building a block of disability policies.