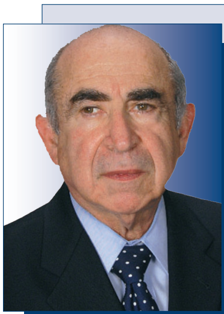
Disability Insurance Insights...



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.

MICHAEL COHEN,

CLU is president of the Eugene Cohen Insurance Agency, helping brokers, general agents, broker/dealers and financial advisors serve their clients.

Cohen has served on carrier advisory boards and organization boards of directors. He is a member of the Risk Appraisal Forum.

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GSI: Guaranteed Standard Issue Individual Disability Insurance—A Guaranteed Great Option!

One of the most intriguing markets within the individual disability insurance landscape is the Guaranteed Standard Issue (GSI) marketplace. This marketplace is vast and has various applications based on the insurance company, occupation, and existing coverage. In addition, there are different ways to approach this market depending on whether the case will be mandatory enrollment or a voluntary enrollment.

While there can be various reasons to recommend GSI disability insurance, one of the most popular is to supplement group disability insurance. To many producers in our industry, group disability is known as long term disability or LTD, while an individual disability policy is known as IDI. When an advisor is quoting group disability insurance (LTD), it's not unusual to have multiple classes of employees. Take for example an accounting firm of 40 employees comprised of five partners, 15 accountants and 20 support staff. When setting up the LTD plan the advisor may recommend the firm cover 60 percent of the employees' income up to a maximum payout of $10,000 per month. So, everyone would have a benefit of 60 percent to a cap of $10,000 per month. This means that if any one of the employees or accountants has an income greater than $200,000, then that individual would have a maximum of $10,000 per month of coverage, but their income percentage ratio would be much less than the 60 percent. For example, if each of the non-partner accountants were making $400,000, their percentage of coverage would be as follows: $400,000 of annual income equals $33,333 of monthly income; $10,000/$33,333 = 30 percent income replacement. Let's expand on our example and look at the partners. If each partner also makes $400,000, and has a $250,000 non-passive dividend income passed through to them at the end of the year, each partner is making $650,000 of total earned income. $650,000 per year equals $54,167 of monthly income. So, the income replacement percentage is even lower at 18.67 percent ($10,000/$54,167= 18.67 percent).

Let's take even a closer look at this example. The accounting firm is owned by the five partners, who typically would also be the accountants with the most clients. In addition, there are 15 more accountants who work with the firm's clients and conduct the accounting work that needs to get done. The rest of the firm provides important customer support functions, but typically are not the skilled professionals who drive revenue to the firm. Yet, based on the nature of the group plan maximum monthly benefit limit cap, the percentage of income replacement for the primary revenue generators is about 19 percent to 30 percent. It may be possible to increase the group cap to a higher amount, but there is only so much a group company typically is willing to offer. Therefore, at a certain LTD monthly maximum cap, there will be a number of high-income earners who will not be able to participate to the same income replacement percentage as the other employees.

Individual disability insurance (IDI) may be able to bridge the gap and provide additional coverage on top of the group coverage. Yet, if any one of these primary revenue earners has any underwriting issues, they may not be able to obtain the additional coverage. Some IDI companies will offer coverage on a Guaranteed Standard Issue basis (GSI) if there are enough lives. The greater number of eligible lives, the higher the monthly benefit an IDI company will typically issue. If you look at the accounting firm example, there may be an IDI company that would be willing to issue up to a 75 percent replacement ratio, not to exceed $10,000 of Guaranteed Standard Issue coverage, assuming all 15 accountants participated in the offering. In this example, these important revenue earners would have a plan of $10,000 per month of group coverage and then $10,000 of individual coverage. Therefore, the income replacement ratio has been greatly improved. Depending on the IDI company, and the size and occupation of the group, it may be possible to offer even more coverage on the GSI offering—such as adding additional monthly benefits for catastrophic disabilities and cost of living riders.

There are many factors to consider when contemplating offering a GSI plan in addition to LTD group coverage. Items to discuss with your case designer include, but are not limited to: Mandatory versus voluntary GSI plans, employer-paid versus employee-paid programs, the occupation or mix of occupations contemplating coverage, available riders, bundled discounts and the availability of customized programs.