

Unit 1: Disability Insurance: Its Role in Your Practice

Pre-Class Assignments

- Read this unit and complete the quiz.
- Review the following collateral materials:
 - [The Short Course in Disability Income Insurance \(Pub3748BL\)](#)
 - [DI Myths \(Pub3670BL\)](#)
 - [Lindsay's Story Consumer Brochure \(Pub4888BL\)](#)

Unit Purpose:

The purpose of this unit is to give you a solid understanding of how a DI policy provides protection for your client's most important asset – their income – and why there's no other way to get the proper protection. You will also read about "what's in it for you" to not only sell DI, but to make it your lead product. You learn how you benefit both economically and strategically for your practice, as well as doing the right thing for you client.

Unit Topics:

Section I: Income Protection is Fundamental

- A. Income: Your Client's Most Valuable Asset
- B. The Consequences of Disability
- C. Alternatives to Earned Income

Section II: "Why is Disability Insurance Important to Me?"

- A. Prospecting & Marketing Efficiency
- B. Increases Your Profit
- C. Your Professional Responsibility

Unit Learning Objectives:

After completing this Unit, you will be able to explain:

- That earned income is your client's most valuable asset and needs protection;
- The consequences of a disability to a primary breadwinner for the finances of a family or to a business for an owner or key employee;
- That the income replacement alternatives to the income provided by an individual disability policy for the high income professionals who are our target market are inadequate for our clients;
- That selling IDI is a great opportunity for you to increase your efficiency and profit; and
- How it's your responsibility to present IDI proposals to your clients.

Section I: Income Protection is Fundamental

Disability income insurance (DI) is a unique and valuable product, one that forms the very foundation of an individual's life long financial well-being. It is also a product of which few people are even aware. In this unit we will examine in detail the reasons you must learn about DI and make it integral to your practice. In a moment, we'll discuss why DI is important to you. But first consider the questions: "Why is disability income insurance important to my clients?"

What is the purpose of disability insurance policy? Quite simply, to pay a monthly benefit if the insured individual is unable to work (perform his or her material and substantial duties) as a result of sickness or injury.

As a Guardian representative your mission is to help your client build an integrated program that maximizes wealth and at the same time optimizes protection. Since the ability to earn an income is the very foundation of your client's financial "house" the logical first sale is disability insurance. Would you even consider building a house without first being assured of a strong foundation?

Now consider why individual disability insurance is important to the people who make up your target markets: well-educated, successful professionals, business owner and executives. These people have invested in their careers; they work hard and enjoy high incomes. As a professional you must help them understand the importance of protecting their income.

A. Income: Your Client's Most Valuable Asset

It is income that makes possible the ability not only to live well today, but to plan and build toward a prosperous future. Younger people, especially, tend not to have considered just how valuable their ability to work and earn income actually is. Most of us think of income in terms of a monthly or annual amount. When looked at over one's entire working life, though, it becomes apparent that the ability to earn an income is by far your typical client's most valuable asset. This chart demonstrates the total cumulative value of an individual's annual income – an indication of the individual's Human Life Value. For example, a 35-year old now earning \$150,000/year could have a lifetime earning capacity of something like \$7,136,312.

Potential earning to age 65 with 3% compound annual increases:

Age	\$50,000	\$75,000	\$100,000	\$150,000	\$200,000	\$250,000
30	3,023,104	4,534,656	6,046,208	9,069,312	12,092,416	15,115,520
35	2,378,771	3,568,156	4,757,541	7,136,312	9,515,083	11,893,853
40	1,822,963	2,734,444	3,645,926	5,468,889	7,291,852	9,114,816
45	1,343,519	2,015,278	2,687,037	4,030,556	5,374,074	6,717,593
50	929,946	1,394,918	1,859,891	2,789,837	3,719,782	4,649,728
55	573,194	859,790	1,146,387	1,719,581	2,292,775	2,865,969

What is your income worth?

Your client's income is also a vulnerable asset – more than most people realize. Many have not been educated about the threat posed by a serious illness or injury to their financial well being. Others refuse to consider the possibility of becoming disabled.

While life insurance protects a family against the loss of income suffered due to the loss of a breadwinner, with a disability a family's financial picture could be worse than if the main provider died, given increased medical costs and other expenses.

So, how great is the threat of disability? Statistics show that the chances of an individual becoming disabled are much higher than one might expect, and higher than the chances of dying anytime during the prime earning years.

Keep in mind that statistics alone do not convince a client to buy insurance. On the other hand, you need to know the facts. The fact is:

- A typical male¹ has a 21% chance of becoming disabled for 3 months or longer during his working career, and a 38% chance that the disability would last 5 years or longer.
 - His average disability would last 82 months.
- A typical female² has a 24% chance of becoming disabled for 3 months or longer during her working career, and a 38% chance that the disability would last 5 years or longer.
 - Her average disability would last 82 months.

Source: Council for Disability Awareness, Personal Disability Quotient (PDQ) calculator

Even given the facts, most people feel that disability “won’t happen to me.” One of the reasons for this attitude is that they associate disability with serious injuries (e.g. the quadriplegic in a wheel chair). It is difficult for them to imagine themselves in such a condition – and they would rather not do so. They rationalize: “I am in a low risk occupation. I drive carefully, and I don’t have any dangerous hobbies.”

¹ Male, age 35, 5’10”, 170 pounds, non-smoker, who works in an office job with some outdoor physical responsibilities, and who leads a healthy lifestyle.

² Female, age 35, 5’4”, 125 pounds, non-smoker, who works mostly an office job with some outdoor physical responsibilities, and who leads a healthy lifestyle.

Contrary to what most people believe, over 1 in 4 of today's 20 year-old will become disabled before they retire¹; furthermore, few disabilities result from accidents. The vast majority of disabilities – approximately 90% - result from illness, not injury². Consider the current leading causes of disability in 2012:

Major Disablers	New Claim %	Existing Claim %
Musculoskeletal / Connective Tissue	28.5	30.7
Cancer and Neoplasms	14.6	9.0
Injury/Poisoning	10.6	7.7
Mental Disorders	8.9	7.7
Cardiovascular/Circulatory	8.2	12.1
Nervous System-Related	7.2	14.2

Source: Council for Disability Awareness, Disability Claims Survey, 2013

Advances in medicine – diagnosis, treatments, and technology – have led to increasing morbidity rates (i.e. measure of incidence of disability) and decreased mortality. Fewer people in our society are dying of such diseases as hypertension, heart disease, diabetes, and cardiovascular disorders. This means, ironically, that more are becoming chronically disabled by these and other treatable diseases.

B. The Consequences of Disability

The Individual and the Family: Disability is not an abstract concept. It will affect the individual and the family in many ways, both emotionally and financially. Imagine the ramification of a long-term disability:

- How long would your savings last?
- How would increased medical costs be covered?
- What would happen to your credit rating?
- What would happen to your dreams for the future (college for the kids, vacation home, a comfortable retirement)?
- Would your spouse be able to work more to make up the shortfall?
- What if your spouse had to spend more time caring for you?
- How would you feel about the loss of your role in the family?
- What conflicts would arise if the family's living standard had to be cut?

¹ U.S Social Security Administration, Fact Sheet February 7, 2013.

² Council for Disability Awareness, Disability Claims Survey, 2013.

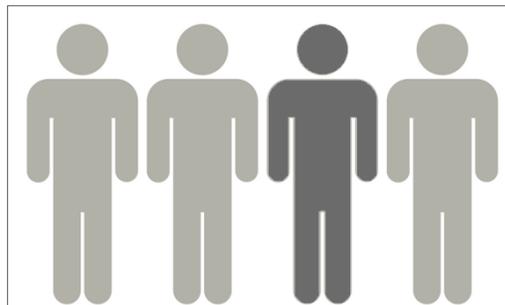
The Business: Business owners, especially self-employed professionals, face an additional range of problems should they or a key employee becomes disabled. It's literally true—if the owner is disabled, the business is also disabled. He or she should be prepared to answer the following questions:

If illness or injury prevented you from working in the business:

- How long could you continue to take income from the business?
- How long could you continue to meet ongoing expenses like rent, utilities and employee salaries?
- Could you be replaced? How long could the business afford to pay a replacement?
- When would your customers begin leaving?
- How long could you afford to keep your employees?
- How will your creditors be paid?
- Could you continue funding your retirement plan?
- How long would your business be able to stay in business?
- Do you have an agreement that will preserve the value of your investment in the business?
- How long will your partners want to keep you in the business?
- Where will your partners get the money to buy you out?

If a key employee went out on disability:

- Would you feel obligated to continue his or her pay?
- For how long would you continue payments?
- Do you have the paperwork that would make this possible?
- Do you have a funding vehicle to make this possible?
- As in a family, owners and employees are economically dependent on one another. A disability to one member of the group will affect others, often in drastic ways.



Just over 1 in 4 of today's 20 year-olds will become disabled before they retire.*

Alternatives to Earned Income

So far we have seen that disability does indeed occur, and that it has consequences for the individual, family and the business. What are the alternatives to earning an income? These other sources are, at best, only partial solutions, especially for the higher income people in our markets.

* U.S. Social Security Administration, Fact Sheet February 7, 2013

While many people are aware that these other sources exist, few realize the danger of relying totally on them. You must demonstrate this danger to them; in Unit 3, we will discuss how to engage your client in this discussion. Let's look at several potential sources of income.

Social Security Disability Benefits: Yes, the federal Social Security program does provide disability benefits. There are a couple of problems, however:

First, it is difficult to qualify for Social Security benefits, due to the stringent 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."

Is it any wonder that 65% of initial Social Security disability claims applications were denied in 2012*? What's more, your prospects and clients have benefited from a good education. Even if they are physically handicapped, there are likely to be many jobs they can still perform. Most of those jobs will not offer the same income or future as their present jobs do; however, under Social Security's requirements, they could be considered "qualified" for those jobs, which will result in their application for benefits being rejected. In only a small percentage of cases will people in your markets qualify for disability benefits.

Secondly, the process of applying for benefits is onerous and time-consuming. Once one applies for benefits it takes three to five months before a decision is reached. Once denied, claimants have a right to seek reconsideration, which takes an additional three months. If denied again the claimant may seek a court hearing, which takes an additional twelve months or more.

Finally, claimants who are approved receive very limited benefits; at the end of 2012 93% of Social Security disability recipients received less than \$2,000 per month.*

Worker's Compensation: State-run worker's compensation programs are designed to provide basic coverage for employees who become disabled on the job. As we've seen, only a small minority of disabilities are caused by work-related accidents. In addition, the owners of the business (except for owner-employees in a corporation) generally aren't eligible to receive benefits – so, many of your clients are not even eligible. While the maximum amounts payable vary from state to state, benefit levels fall far below the needs of individuals in your markets.

State Disability Benefits: Five states, California, Hawaii, New Jersey, New York and Rhode Island, have disability laws that cover non-occupational as well as on-the-job disabilities. Benefits are payable, however only for six or twelve months. That's of little comfort to a person who suffers a serious disability, considering that the average long-term disability last between two and four plus years. Plus the amounts payable under these plans replace only a tiny portion of the income of those in our target markets. For example, the plan established under the New York State Disability Benefits Law pays a maximum of \$170 per week for up to 26 weeks (Source: New York State Insurance Fund web site, January, 2011).

* U.S Social Security Administration, Disabled Worker Beneficiary Data. December, 2012

Group Long-Term Disability Plans: Group LTD plans are a very common employee fringe benefit, and most of your clients who are W-2 employees will participate in such plans. Group LTD is designed to provide a basic level of protection for employees. But this low-cost form of coverage is inadequate for most of your clients.

One of the primary weaknesses of group coverage is the inadequacy of benefits for highly compensated executives. Typical group plans cover up to 60% (sometimes 67%) of an employee's salary, subject, however to a monthly benefit cap. This cap is usually about \$5,000.00 per month, although some group plans go up to \$10,000.00 a month or more. Bonus income (often a sizeable portion of an executive's income) is usually not covered.

The combined effects of the cap on monthly benefits and the exclusion of bonuses from coverage can create serious shortfalls in protection for the very people who make a company run. Additionally, if the employer pays the cost of coverage, benefits are taxable, reducing their value substantially.

Group LTD plans also share the following disadvantages:

- Generally they offer a restrictive definition of disability – rarely do they provide true own occupation protection.
- Costs are not guaranteed beyond one or two years.
- The employer can decide to terminate coverage or switch to a lesser plan.
- The insurance company has the option to cancel the plan.
- You do not own the coverage, so you generally cannot take it with you upon leaving your employer (or any conversion rights will be very limited).
- Coverage cannot be tailored to individual needs.
- Group benefits are offset by payments received from Social Security, Worker's Comp or other government programs.

If your client's group disability coverage is voluntary, you have the opportunity to replace it with quality individually-owned DI. If the employer funds the group LTD plan, you still, in most cases, will be able to add a layer of individual coverage on top of the exiting group plan. In this case be sure to add a Future Increase Option rider to the policy so that your client can lock in sufficient coverage in case he or she leaves the group plan. In either case individually owned DI helps to correct the shortfall of group LTD and maximize your clients' income protection plans.

Group LTD is not so much a roadblock to selling individual coverage, as it is an opportunity to analyze fully your client's situation and propose a fully integrated plan of maximum income protection. Your task – and opportunity – is to understand your' client's group plan and educate him or her as to how it works.

Association Group Plans: Professionals, such as doctors and accountants, can purchase group disability coverage through their professional associations. At first glance, these plans look less expensive than individual disability income policies. However, when you look at the benefits offered you'll find that the professionals who buy them get what they paid for...less!

Like other group coverage, association plans have some major flaws:

- Premiums are not guaranteed.
- The carrier may cancel coverage or raise premiums so high that the association drops coverage.
- Premiums are “age-banded”, i.e. they are scheduled to increase every five or ten years. Total outlays will, over time, likely surpass that for level-premium individual coverage purchased at the same original age.
- Definitions’ and plan provisions are more restrictive than those found in individual DI policies.
- Maximum benefit amounts are insufficient to provide optional coverage.
- Inflation protection and the optional benefits are generally not available.
- Coverage may be forfeited if the professional leaves the organization.

In other words, association disability coverage is no competition for the high-quality individual disability insurance protection that you offer.

Section II: “Why is Disability Insurance Important to Me?”

As important as it is to your clients, individual disability insurance also provides you with a number of career-enhancing benefits. You owe it to yourself to take full advantage of them.

A. Prospecting and Marketing Efficiency

Focused Prospecting

The success of your practice depends upon getting in front of enough people who need and can afford you. Who is your ideal prospect? Let’s see...well-educated...high income...professional, executive or business owner...already successful (or on a strong success track)...relatively young...sense of responsibility...

Our disability products are designed precisely for such people. Yes, they enjoy high incomes, but these people work hard for that income. Their regular paychecks are what allow them to pay their bills, meet current living expenses, and accumulate the wealth required to achieve their financial objectives. Relatively few of your prospects have taken steps to adequately protect their income.

DI: A Door-Opener

What’s more, prospects and clients are willing to discuss the importance of income protection! This is especially true of highly trained professionals and small business owners, who often carry a lot of debt and understand the risks involved if they cannot work. Young people, especially those who are not married, tend to be more concerned about meeting current living expenses than paying for life insurance, which likely is not a priority. Use DI to make them clients now—then life insurance and other sales will come.

Networking Opportunities

Our disability products are designed to meet the needs of specific occupational groups and provide a natural entrée to them. Additionally, we have developed marketing programs and support to help you succeed in reaching and providing value to high quality markets (e.g. association discount program, special issue limits for young professionals, and expert target marketing materials)

Referrals

Let's say that you are working with a client who has employer provided group disability coverage (a very common scenario). You place a supplementary individual DI policy. Since you are now familiar with the firm's group plan, you are in a very strong position to obtain quality referrals to your client's colleagues.

Lock Out the Competition

When calling on qualified prospects, you can expect to run into competition. Few companies now offer disability insurance products or train their agents to sell them. As a result, most producers focus only on the life insurance sale and never discuss the problem of disability. Being knowledgeable about DI—the need, the solution, and how to sell it—will set you apart from the competition. You will be able to position yourself as a true professional who can do the complete job for your clients.

And consider this: when you take care of a client's disability as well as life insurance and other financial needs, a potential competitor has much less opportunity to move in behind you. With each additional sale your relationship is reconfirmed and strengthened. Guardian's integrated sales philosophy and systems fully support this approach to client development.

B. DI Increases Your Profit

You may not realize how lucrative disability insurance can be for you. Let's now review several ways in which selling DI dramatically increases your income, that is, your profit.

The Rule of ROP

It is important that you think of yourself as a business person, not merely a sales person. Successful business owners focus on profit—the bottom line—not merely revenue. By selling disability insurance as well as life insurance and other products, you substantially increase your profitability, because you substantially increase per-client commissions while only marginally increasing per-client expenses

This table demonstrates what we call the **Rule of ROP (Revenue, Operating Expenses, and Profit)**. The concept is simple: if you increase your **Revenue** without increasing **Operating Expenses**, you automatically increase your **Profit**.

	Revenue	Operating Expenses	Profit
A	\$3	\$2	\$1
B	\$4	\$2	\$2
C	\$5	\$2	\$3
D	\$6	\$2	\$4

Consider: Agent A earns \$3 of revenue and has operating expenses of \$2. His profit is \$1. Agents B, C, and D are progressively more efficient. Agent B, for example, maintains the same operating expenses, but gets \$4 of revenue from each client. Notice that Agent B increases her revenue by 1/3 over Agent A, but she has doubled her profit. Agent D has doubled revenue over Agent A, but quadrupled his profit!

The Rule of ROP is a simple illustration of the power of cross-selling and client development. Too many agents fail to comprehend and act on this basic rule of business—and therefore they're out of the business within two to three years.

Better Persistency

High persistency is one of the factors that will keep you in this business year after year, and keep your income rising on an ever-increasing slope. Company records show that overall persistency for disability insurance is significantly better than for life insurance. DI stays on the books. Not only that, when you sell DI as well as life insurance, persistency improves for both products.

Higher Commissions—and Much Higher Renewals

You owe it to yourself to learn about Guardian's rich DI commission and renewal structure. The compensation on disability insurance is the richest of any product in our portfolio. And it's not just the first-year commission that's great. In fact, renewals are where you'll really enhance your income over the years. Here is what DI can pay you:

Basic Commission Schedule – First Year and Renewals ProVider Plus

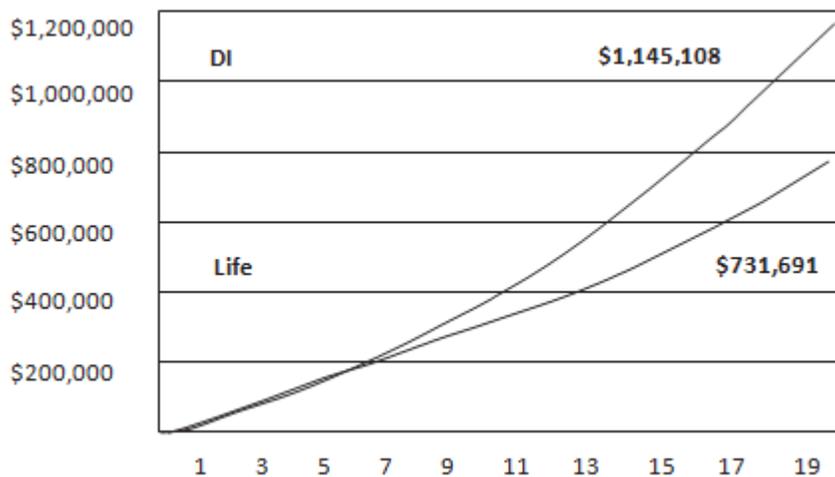
Occupational Class	YTD 1 st Year Premium			Renewals	
	Up to \$12,000	\$12,001 to \$25,000	\$25,001 and up	2nd to 10th year	11th year and up
6—3	50%	55%	60%	5% to 17.5%	2% to 14.5%
2	35%	40%	45%	5% to 17.5%	2% to 14.5%
1	25%	30%	35%	5% to 17.5%	2% to 14.5%

How can DI pay up to 17.5% renewals? The secret to the high renewal stream is what we call **VRPV (variable renewals based on persistency and volume)**. That is, the more you sell each year and the better your persistency, the more you will make. In addition, FRs earn an additional DI compensation component referred to as the Adjustment Component that can

make it possible to earn an effective 75% first year compensation and as much as 19.25% in renewals on policies less than two years old. And remember: DI commissions also contribute to an FR's Annual Production Requirement, Wealth Accumulation Plan and club qualifications. Refer to the Field Representative Plan Handbook for more information.

What can one DI sale a month mean to you? Let's say that you place one policy per month, and that the average premium on a new policy is \$2,000 (this is somewhat less than the company average). That would add up to \$24,000 in new DI premium a year. Now compare that annual \$24,000 with an equal amount of permanent life insurance premium over a 20-year period. As you can see, after about the fifth year the annual income gap starts to expand—in DI's favor—and over 20 years it's over \$400,000 wide.

**Total FR Compensation
\$24,000 Life Premium vs. \$24,000 DI Premium (increasing at 5% per year)**



The Best Products

Our disability insurance product portfolio, led by the ProVider Plus individual DI policy is perhaps the best in the industry today. The question is: why wouldn't you want to sell the most comprehensive products?

C. Your Professional Responsibility

Do the Right Thing

Imagine receiving this phone call from a client's wife:
 "Hello Jim, this is Deborah Riley. Something's happened to Wes. He collapsed in the office two days ago and was taken to the hospital. He's suffered a very bad stroke. The doctors say that he'll survive, but will probably never work again. We really need your help. Would you call me? I need to speak with you about that policy we bought earlier this year."
 Could you face Deborah if the policy her husband purchased was not disability insurance?

Protect Yourself

In today's litigious society it is more important than ever for you to fulfill your responsibility to your clients. Agents have in fact been sued for failure to propose disability insurance. You never want to become one of them. Our advice: do the complete job, give your client the opportunity to make the right decision, and then keep good records to document your recommendations. If your prospect decides against purchasing DI, we strongly suggest that you have him or her sign our Declination of Coverage form (Pub3091), available as an optional report through our DI illustration system or through Guardian Online.

In Summary

By now we hope that you recognize how important disability insurance is both to you and to your clients. Your job is to provide them optimal protection for their income in case illness or injury prevents them from working. The threat of a serious disability is quite real; the effects can be devastating; and other sources of income fall short of adequately protecting individuals and families. And you will be well rewarded for doing the right thing.

Quiz: Disability Insurance: It's Role in Your Practice

1. A 40-year old individual earns \$100,000. What will be his total earnings to age 65, assuming 3% annual increases?
 - a. \$1,343,519
 - b. \$2,015,278
 - c. \$3,645,926
 - d. \$4,030,556
2. What percentage of serious disabilities results from illness?
 - a. 89.0%
 - b. 15.3%
 - c. 51.5%
 - d. 51.8%
3. Assume that you are the primary breadwinner for your family. Briefly describe your feelings after you have been unable to work for the past twelve months.
4. Why would you not want to have to depend on Social Security disability benefits if you became disabled?
5. What are the odds of a serious illness striking one partner in a 3 partner group of 40 year olds before the age of 65?
 - a. 41%
 - b. 70%
 - c. 80%
 - d. 90%

6. Your client has group LTD coverage that pays 60% of his salary. His annual income is \$180,000, of which \$30,000 is in the form of a bonus. What would you do?
 - a. Congratulate him on having adequate disability protection.
 - b. Find out more about his group LTD plan.
 - c. Recommend that he drop the group LTD plan.
 - d. Recommend that he purchase \$4,670 per month of individual DI.

7. Why do we say that DI is the logical first sale?
 - a. Earned income is the foundation of your client's financial program.
 - b. DI premiums are larger than life insurance premiums.
 - c. DI renewals are greater than those for life insurance.
 - d. Clients always ask about disability insurance first.

8. What does ROP stand for?
 - a. Renewals, opportunity, premiums
 - b. Revenue, operating expenses, profit
 - c. Revenue, opportunity, premiums
 - d. Renewals, operating expenses, profit

9. Which is not true of DI commissions?
 - a. You can earn up to 60% FYC on DI.
 - b. You can earn up to 17.5% renewals on DI in policy years 2—10.
 - c. VRPV means "Very Rich Paychecks eVery" month.
 - d. Compensation on DI is the richest of any product in the Guardian portfolio.

10. To protect yourself in today's litigious society you should keep good written records to document your recommendations to clients.
 - a. True
 - b. False