Advisor and Client
Disability Insurance Product Guide

Definitions, Provisions and Riders

Deciphered, Demystified, Decoded

All You Need to Know!
If you find yourself struggling with the numerous disability terms outlined in a quote or policy, don't worry! You're not alone. The insurance industry is fraught with language that makes the savviest legal eagles take pause.

It's all here... simpler than you ever thought possible!

- **OwnOcc.**
- **AnyOcc.**
- **Modified 0cc.**

- **Non-Cancelable Guaranteed**
- **Renewable**
- **Conditionally Renewable**

- **Elimination Period**
- **Benefit Period**
- **Waiting Period**

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Life, Disability, Long Term Care Insurance & Association Group Insurance

What are the common terms to know?

Three basic plan design terms that you'll see on applications are EP Elimination Period), BP (Benefit Period) and Benefit Amount.

Here's what they are:

- **Elimination Period (EP)** Also known as the "waiting period " this is the period of disability that must elapse before benefits commence.

- For example, if Sam has a policy with a 90-Day EP and is disabled on January 1, he will be eligible for benefits 90 days later - roughly April 1. Typical EPs are 60, 90 or 180 days. Choose an EP that is appropriate based on how long you could realistically sustain your lifestyle without income. Or better yet, ask how long of a vacation you could take before having to get back to work to pay the bills. Keep in mind policies with shorter EPs are priced higher than those with longer EPs.

TIP **Make sure that the EP can be satisfied by either partial (residual) or total disability. Some policies state that the EP can only be satisfied by total disability. Some policies also require that the days of disability be consecutive. Policies that allow accumulative days of disability are preferable.**

- **Benefit Period (BP):** The benefit period is the length of time that benefits will continue from the date they begin. Typical BPs are two years, five years, or to age 67. The most desirable BP is to age 67. It is also the most expensive.
- **Benefit Amount:** The benefit amount is typically 60 percent of gross pay (or 83 percent of net pay, assuming a 28 percent tax bracket), up to a limit of $15,000 per month. However, if you have a client who requires more than 15,000 per month, don't despair - just call us! We're usually able to obtain coverage for up to 65 percent of even the highest incomes.

TIP **If you are having sticker shock on the initial cost of a policy and you are on a budget, you have options. You can adjust the BP or EP remove/adjust certian policy riders or reduce the monthly benefit amount. Having some coverage - even that with a longer EP or a shorter BP - is much, much better than no coverage at all.**

What is a “disabling definition “and why is it important?

The disabling definition is the most important, central part of the DI policy. Think of it as the heart - without the heart, nothing else works. Make sure you understand the disabling definition of every policy. Not all definitions are created equal. Here’s how they work, in order of desirability:

Most desirable: Own-Occupation Definition (sometimes referenced as True Own-Occ)

Common policy language: “You are unable to perform the substantial and material duties of Your Regular Occupation; and you are under the regular care of a Physician appropriate for your Injury or Sickness:’

What it means: The insurance company will consider your client’s occupation to be the occupation he/she is engaged in at the time he/she became disabled. It will pay benefits even if your client returns to work in another occupation.

Example: If surgeon Dr. Brown develops a tremor that prevents him from practice as a surgeon, he can collect disability benefits even if he returns to work as a family practice physician. So, for example, as a surgeon he earned $300,000 per year. He had a DI benefit of $180,000 per year. While collecting DI benefits of $180,000 per year, he can earn an income of $150,000 per year {or any other amount) as a family practice physician. Not bad, huh?

TIP **Whenever possible, use policies that contain the Own-Occupation definition. Make sure your clients know the difference. While most DIS policies use the Own-Occupation definition, your competitors’ policies may not. And, contrary to popular belief, policies with the Own-Occupation definition cost little more than other policies for certain occupations.**

Second most desirable (and most common): Modified Own-Occ definition

Common policy language: “You are unable to perform the substantial and material duties of Your Regular Occupation; and you are not engaged in any other gainful occupation; and you are under the regular care of a Physician appropriate for Your Injury or Sickness:’

Using the same example: Once Dr. Brown returns to work as a family practice physician, he can no longer collect full disability benefits. His disability benefit will be based on a percentage of lost or reduced income. In this case, his annual benefits of $180,000 would be reduced to $90,000 due to having a 50 percent loss of income. Remember, his income is now $150,000 instead of his pre-disability income of $300,000.

TIP **The Modified Own- Occ definition still provides solid protection. However, you should strive to get the Own-Occupation definition, if it’s available and appropriate for your occupation. Some carriers offer this definition as a benefit rider. (See “Riders “ in pages to follow for details.)**

Least Desirable: Any Occupation definition (otherwise known as Gainful-Occ)

Common policy definition: "Because of Injury or Sickness you are unable to perform the material and substantial duties of Your Occupation, or Any Occupation for which you are deemed reasonably qualified by education, training or experience:'
Using the same example: The insurance company determines what type of work is suitable for Dr. Brown. If Dr. Brown were deemed suitable for other work due to his prior education, training or experience, he would not be eligible for any DI benefit.

TIP **These definitions are most commonly found in Group Long-Term Disability policies, or in add-on policies that come as part of a multi-line coverage bundle. If you have an employer sponsored plan, check the definition. If it's Any Occupation, there is a risk involved and we can offer supplementary protection. We never offer these types of policies on a stand-alone basis.**

What provisions add the most benefit to your policy?

If you think of the disabling definition as the heart of the policy, then think of provisions as the legs. "Renewal " provisions move forward over the years, while the "what if " provisions keep the policy running when and if your client becomes disabled.
There are three types of "Renewal " provisions:

Non-Cancelable and Guaranteed Renewable (most desirable): This provision guarantees that after a policy is placed in-force, there will be no changes to the premium or to the policy benefits through age 65 - regardless of the insured's working status, health or income level. This is THE iron clad, no-changes policy that you want your clients to have.

Guaranteed Renewable (okay): The insurance carrier cannot change the premium or the benefit for an individual, but it can make a change to the premium for an entire group of policyholders, categorized by state, underwriting class or policy year. The change would need to be approved by insurance regulators before going into effect. Use guaranteed renewable policies to bring down the cost if your client objects to the price of the better, non-cancelable and guaranteed renewable policy.

Conditionally Renewable (less desirable): This provision is found in group and association plans. It states that the policy is renewable only if the insured continues to meet certain conditions outlined in the policy. The most common condition for renewal is maintaining full-time employment (group) or membership (association). The carrier may increase the premium at the anniversary date or at prescribed age bands, such as five-year increments.

Remember, strokes are a leading cause of disablement. If you suffer a stroke that causes loss of use of a hand and foot, you will be "presumed" totally disabled; the EP will be waived and benefits will commence. The Presumptive Clause will help you see a need for coverage when discussed in context of real world maladies.

Core Features of a Competitive Policy

Own-Occupation Definition: Same as the Own-Occupation disabling definition discussed earlier, this rider pays benefits even if the insured is gainfully employed in another occupation. This rider is often only available for middle management through executive classes as well as traditional professionals.

Residual Benefits: This rider is essential because in many cases, insureds can work part time, but not full time. The Residual Benefits rider pays a percentage of monthly earnings if the insured suffers a loss of income of 20 percent or more. This eliminates the "all or nothing" benefit structure and can help facilitate a friendlier, more gradual return-to-work experience. For example, if Shirley Smith was making $50,000 annually, was disabled and then returned to work part time earning $25,000, she would have a 50 percent loss of earnings and would continue to receive a 50 percent disability benefit.

Future Purchase Option/ Future Increase Option: This option (otherwise known as guaranteed insurability) allows insureds through benefit update options to purchase additional coverage - regardless of health - without the need for a medical exam or blood tests. Some policies allow insureds to turn back the clock, allowing additional benefits to be purchased at the policy's original rates.

Supplemental Social Insurance Benefit (SSIB): If an insured does not qualify for Social Security benefits, this rider increases the monthly disability benefit by up to $2,000.
Cost of Living Adjustment (COLA): This option applies to those who are disabled for more than one year. It automatically increases the amount of coverage each year to keep up with inflation. Some policies increase by a fixed amount each year while others are indexed to inflation. COLA is of particular importance to young clients with longer life expectancies. For example, a COLA is much more important to Ryan Stevens who was permanently disabled at age 26 than it is to Mel Walker who was disabled at age 56

Automatic Increase Rider (AIR): This rider increases the monthly benefit for the first five years to keep pace with inflation. The AIR will only increase the benefit while not on claim where the COLA rider requires the client to be on claim in order for the benefits to increase.

Return of Premium: In some states, carriers offer a Return of Premium option, with which an insured with favorable claims experience becomes eligible for a refund of part of the premium paid. Some companies refund money periodically throughout the policy period, while others refund at age 65.

CATastrophic: This rider pays an additional benefit if the insured is receiving total disability benefits and is unable to perform at least two activities of daily living (ADLs); has a severe cognitive impairments; or is presumptively totally disabled.

Non-Disabling Injuries: If the client suffers injuries requiring medical treatment prescribed by a physician or dentist, the carrier will pay the expense of such treatment up to one half of the monthly benefit amount (or stated benefit amount). No EP is required.

Good health benefit: Reduces the EP by two days each year you are claim free. Ameritas has this rider available in most states.

TIP **Make sure to periodically review your coverage levels. Income will most likely increase over time, so use the Future Purchase Option to keep coverage levels adequate.**

What do I need to know about exclusions and limitations?

Exclusions and limitations vary by policy. The most common exclusions and limitations are Mental & Nervous, Alcohol & Drug (MNAD) claims; claims caused by crime; and claims caused by war. Typically, policies do not exclude MNAD claims, but they do limit the Benefit Period to two years.

We hope this helps take out some of the confusion about disability insurance for you. As always, please contact us directly should you have any questions or would like a better understanding of what was outlined in this document.

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