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Disability Insurance Kit

Shopping Tips

Value quality over price.

Expect to pay 1 to 4 percent of your income for a good individual disability insurance policy. With some things, cheaper is not necessarily better. Three things that come to mind are life preservers, heart surgery and disability insurance.

Disability insurance is not a commodity; it is a contract that clearly spells out when a claim will and will not be paid. There are significant differences between plans beyond the price. Before you buy anything, make sure you clearly understand the contract.

Look at the company ratings.

Your disability company could potentially pay your salary for the next 20 years. It is important that they be financially sound.

All disability companies are rated by third party rating companies. We do not recommend anything lower than an "A+" rating by AM Best; an A++ is even better.

Be careful of group plans.

Group plans can be changed or canceled at any time. This could leave you without coverage when you need it most. Most group plans cannot be taken with you if you switch employers. If your health changes and you need to change jobs, this could leave you without coverage.

Most group plan benefits are taxable and do not cover bonuses, which leaves you with a lower net after-tax benefit. Group plans have a benefit cap (some as low as \$5,000 per month).

Many group disability plans have a restrictive definition of disability. These plans require you to be COMPLETELY disabled before they pay a benefit. In other words, if you have the ability to do any type of work, benefits may not be payable.

Benefits are typically reduced by income received from workers comp, social security, and other income sources.

Most group policy benefits do not keep pace with inflation.

Many group plans do not cover a partial disability (which is the most common type of disability).

Make sure you understand the definition of disability.

A policy that pays a benefit if unable to work in your occupation is preferable to one that pays only if unable to work in any occupation.

Buy from a specialist.

- There is a lot to understand about disability insurance. Most insurance agents do not know how the contracts work. Find a disability insurance specialist.

Buy from a broker.

- A broker represents more than just one company's point of view and offers you objective advice.

Consider the inflation protection benefit.

- A person disabled for 20 years with a \$5,000 per month benefit would be paid a cumulative benefit of \$1,200,000 without adjusting for inflation; if increased by 3 percent per year to adjust for inflation, the cumulative benefit would be \$1,641,000.

If three or more people from the same employer buy a policy, they can save substantially.

- In some cases, three or more women physicians can save nearly 50 percent per year when they buy their policies together.

The 90-day waiting period is usually the most cost effective.

- A policy with a 90-day waiting period will cost substantially less than one with a 30 or 60-day period. Increasing the period beyond 90 days does not reduce the premium very much.

Just because your association sponsors a plan does not mean it is good.

- In almost all cases, association plans are group plans (see group plans above).
- Make sure you read the master association contract (not just the marketing piece they give you) so you can understand all of the contractual provisions.

We recommend policies that are guaranteed renewable and non-cancelable.

- The insurance company can never raise your rate or cancel your policy even if your health or job status changes.
- They are portable, even if you move to a new state.

Westland Financial Services

Disability Income Proposal Request

Agent Name: _____ Email: _____

Phone: _____ Fax: _____

INSURED: Name: _____ **Date of Birth:** (not age) ____/____/____
State: _____ **Gender:** Male Female

Occupation: _____
Specific Duties (**If physician – please indicate specialty.** If applicable – year of residency)
Business Owner (brief description of duties, # of employee, # of yrs in business, type of business)

Do you work from home: Yes No If yes, percentage of time: _____%

Tobacco Use: Yes (Type: _____) No **Height:** _____ **Weight:** _____

Additional Medical History: _____

DISABILITY INCOME

Annual Gross Earned Income \$ _____ Last Year's Income: \$ _____

Requested Amount \$ _____ and/or Maximum Available

Existing Coverage: None Yes (If Yes - answer questions below)

DI Coverage \$ _____ Paid By: Employer Employee

LTD Coverage \$ _____ Paid By: Employer Employee

Percentage: _____% Cap/Max: _____

Is this a replacement of current coverage: Yes No

Has client ever been declined disability coverage: Yes (year, carrier, reason _____) No

Waiting Period: 30 60 90 180 360 720

Benefit Period To age 65/67 60 months 24 months Lifetime

Mode of Payment: Annual Semi-Annual Quarterly Monthly

Premiums to be Paid by: Employer (C-Corp, S-Corp, Partnership or Sole Proprietorship)
 Employee/Insured

Riders: Residual COLA Future Purchase Option Own Occ Non-cancelable

DISABILITY BUY-OUT:

Waiting Period: 12 month 18month 24month

Benefit Period: Lump Sum Monthly 2 year 3 year 5 year

Business Value: \$ _____ Percent of Ownership: _____

OVERHEAD EXPENSE:

Existing Coverage: None Yes: Amount: _____

Waiting Period: 30 60 90

Benefit Period: 12 months 18 months 24 months

Monthly Expenses: _____

Comments:

Disability Buy-Out Insurance

Statistically, a person is up to ten times more likely to become disabled than they are to die prematurely. In the case of businesses and their owners, this means that is especially important to insure against one owner becoming disabled and unable to continue running the business. A disability buy-out insurance policy enables either the remaining owners, or the business entity itself, to buy-out the disabled owner's share of the business at an agreeable price.

The Benefits of Disability Buy-Out Insurance

Disability buy-out insurance provides benefits for all parties.

The disabled owner is guaranteed a buyer willing to pay a reasonable price for their share of the business. Because a formula is already put in place to determine a reasonable price, it also negates the need for litigation or for negotiation on the price. Furthermore, it enables the individual to concentrate on recovering from illness or injury without the added concerns of running the business or finding a suitable buyer.

The remaining owners are enabled to purchase the shares in their business without having to seek an outside investor. This ensures that they are able to continue in the normal operation of the company without having to relinquish any control. Continuity in daily operations is guaranteed and the remaining owners are provided with adequate funding to buy out the disabled partner.

The business itself would normally continue to pay the disabled partner an income, or return on their investment. This financial drain can cause serious problems for the remaining partners, especially, who will need to pick up the pace to meet the increased demands. With a buy-out policy in place, this does not have to be the case because the insurance is used to cover against this liability.

Insurance Payment Types

It is most common for a disability buy-out policy to offer a lump sum payment. This money is then used to complete a buy out in one installment. However, it is possible to arrange for the disabled partner to receive their payment in multiple installments, but this needs to be agreed when the policy is first placed in force.

Elimination Period

Not all disabilities or illnesses last a lifetime. The majority of disability buy-out insurance policies include an elimination period consisting of between one and two years. This period helps to limit the impact of the disability on the business, and it also allows the disabled owner time to determine whether or not they will be able to consume normal duties or whether a buy-out is the best solution for all concerned.

Disability Buy-Out Insurance Protects Everybody

Disability buy-out insurance provides a safeguard against a possibility that nobody really wants to consider. However, should one or more owners of a business suffer a disability it can cause a major strain not only on the stricken individuals, but also on the remaining owners and the business itself. Disability buy-out insurance works to ease this strain and provide a beneficial solution for all parties.

Business Overhead Expense

A Business Overhead Expense (BOE) policy pays overhead expenses if an insured business owner or employee becomes disabled. The policy is typically short-term, from 12 to 24 months, and is designed to keep the business running until the insured recovers from a disability.

BOE policies typically cover rent, interest payments on some types of debt, utilities, salaries, office equipment expenses and maintenance, both payroll and property taxes, professional membership dues and subscriptions, accounting fees and insurance premiums for employees. In some cases, BOE policies also cover the salary on any temps hired to do the job of the disabled person.

BOE policies typically do not cover income taxes or the cost of inventory.

Key Man Disability Insurance

In many cases, the most valuable asset a business has is one or more "key employees". While the employee may be covered by individual disability insurance and even worker's compensation, if they were to suffer a disabling illness or injury, the business itself stands to lose significant earnings through that loss. Key-man disability insurance is designed to insure against this potential loss, for the sake of the business.

Small to Large Businesses

Small businesses may rely heavily on a sole individual, without whom the business would quickly fail. However, even medium and large sized businesses rely much more on some individuals than on others. Losing these key employees can mean a huge potential loss in revenue or, worse still, it could mean the end of the business completely.

Limited Options in Policies and Insurers

Key man disability insurance is not a legal requirement of a business, but it is a sensible addition in many cases. Because fewer businesses and organizations consider key man disability insurance, there are significantly fewer options available to those that do. In a large number of instances, businesses would need to specifically request a policy that is individually tailored to their needs. It is also usual to have separate policies with very different features for each key member of a company.

Determining the Financial Value of an Individual

Any company looking to take out a key man disability insurance policy needs to consider all of the financial impacts and cost implications of losing that employee. Consider the direct revenue that individual brings in to the company and how much it would cost to find and train a suitable replacement. Hiring a new recruit can be a lengthy process for some positions, and they will almost certainly require some time to become proficient in the new position. All of these factors need to be considered when determining the financial value of a key member of staff, partner, stakeholder, or any other individual.

Monthly or Lump Sum Payments

Companies usually have two options regarding a financial payout; monthly repayments or a single lump sum payment. Monthly repayments usually continue for a period of between 6 months and 2 years because it is assumed that a candidate can be found and adequately trained within that period. Lump sums are calculated using this same period but the entire settlement is made upon the disability to that key member of staff.

Key Man Disability Insurance

Once a payment has been made, it is at the discretion of the company as to how the money is spent. There are usually no stipulations on whether it should be used to train an existing staff member or start a hunt to find a new one.