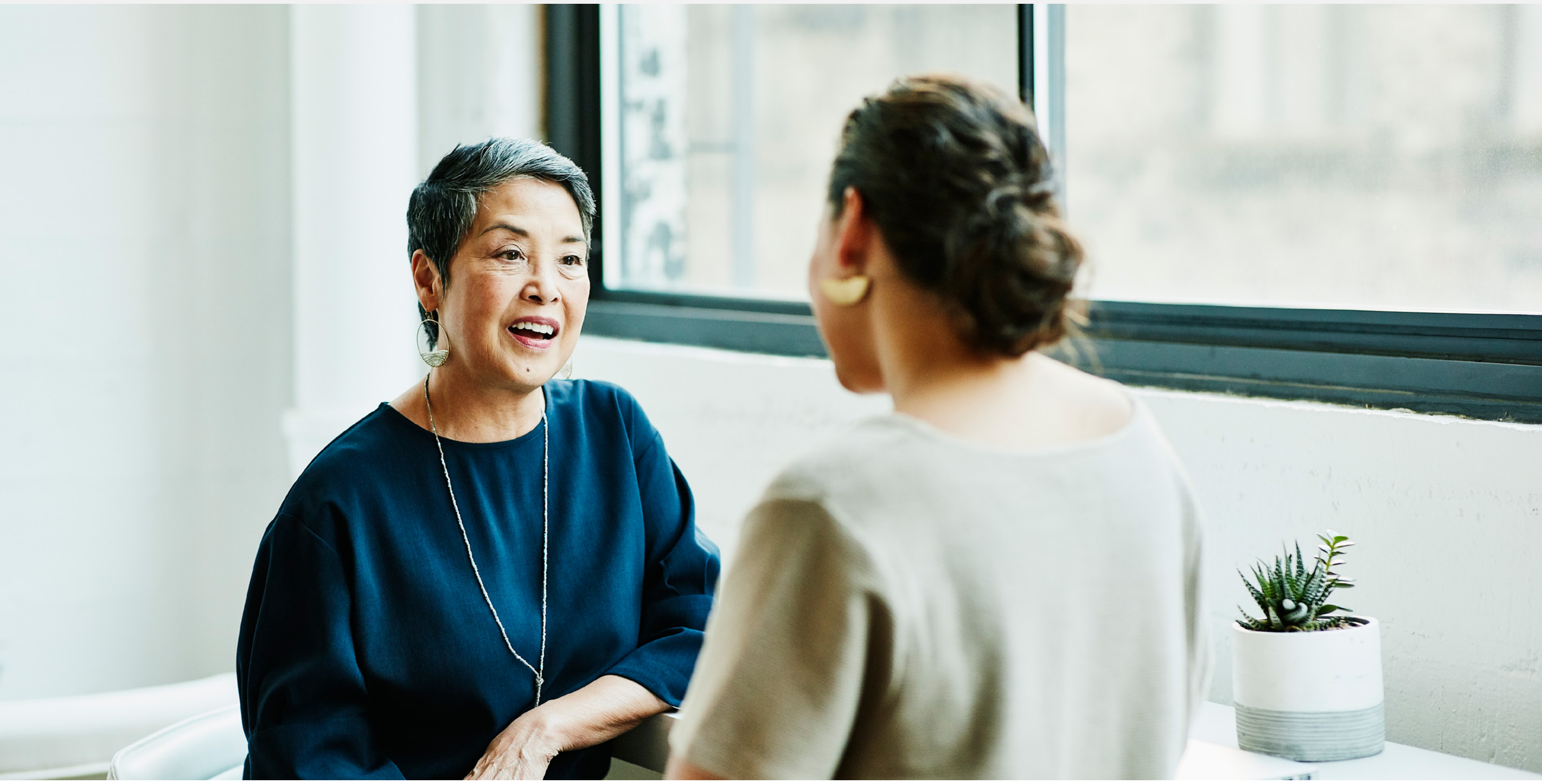
Pivoting to CI from long term disability insurance

Path to Success

Expert advice on navigating CI sales

For advisor use only



Pivoting to CI from long term disability insurance

Some advisors see the presence of a quality long term disability insurance contract as a barrier to a potential CI sale. Conversely, top critical illness insurance advisors use the fact that their client owns long term disability insurance coverage as an opportunity to open the critical illness insurance conversation. Critical illness insurance complements disability insurance in two ways; it can offset the difference between monthly disability benefits payments and full working income, and it can provide further capital to fund increased costs often associated with a significant health diagnosis.

It's important that you communicate clearly how even the strongest long-term disability insurance contracts do not wholly and immediately replace your client's full working income. Study after study has shown that the higher percentage of income a client has replaced on a disability product, the more frequent and longer duration are the disability claims[1].

Insurance companies include waiting periods and benefit maximums when designing their long term disability insurance plans which provide less than full income replacement, to incent insureds who could potentially return to work to do so as opposed to staying on disability.

Most clients are unaware of benefit maximums on long term disability insurance policies as they often have been told they have "full disability coverage" through their work, or they bought the maximum amount of coverage on their personal disability insurance that they were allowed.

Interestingly, clients who have taken out individual disability coverage may be more receptive to critical illness insurance than a client who does not own disability insurance. The personal disability insurance ownership shows their understanding that a significant health change could occur and that they believe in shifting financial risks to an insurance company. In the below example, we assume the client has a three-month waiting period on their disability insurance and that their monthly benefit is $4,000 per month compared to their $5,500 per month pre-disability after-tax income. To introduce how critical illness insurance complements disability insurance, an advisor might say:

It is excellent that you have this disability coverage in place as it shifts a significant amount of financial risk in the event of a significant illness onto the insurance company.

Even with this reliable disability coverage, you would still see a reduction in income if something serious like Cancer, Heart attack, or Stroke were to occur.

Critical illness insurance can be a great supplement to your disability insurance as it:

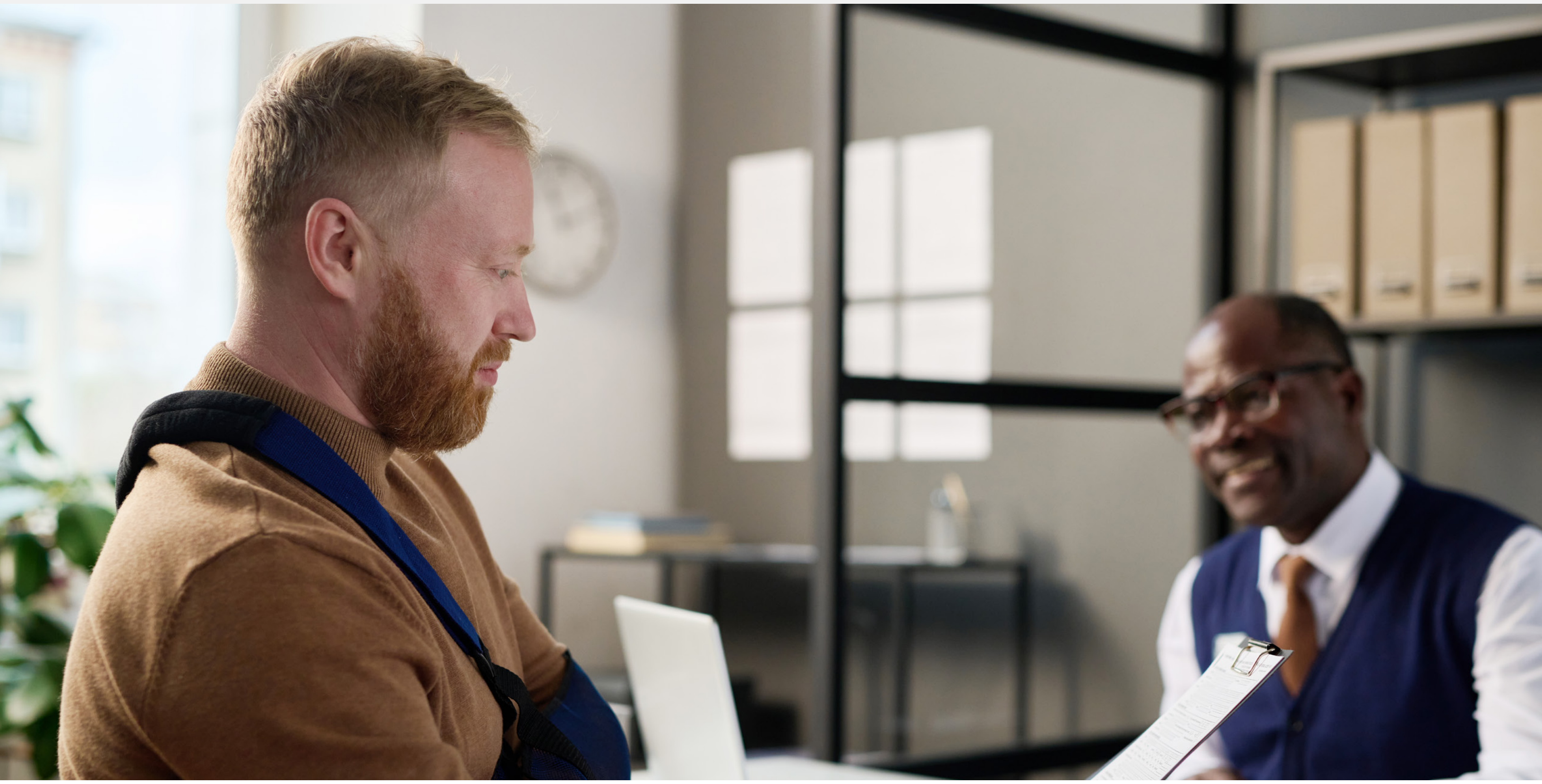
- Can help offset this reduced income while claiming on your disability for something serious like Cancer

  and

- It can also provide funds to help cover some of the new increased costs often associated with something serious like Cancer

The following format could be used to start the conversation with your client about how critical illness insurance coverage fits with their disability insurance:

Your disability insurance has a (insert the number of months your client's disability waiting period is) month waiting period which amounts to (insert the client's current monthly after-tax income) per month in income that you would need to replace. This means that during the waiting period for your disability insurance benefits, you will be out of pocket for (after-tax income multiplied by the waiting period).



For example (assuming the client does not have short-term disability insurance coverage):

Let's walk through what would happen if you were unable to work for a year due to a disability as a result of a covered critical illness.

With your long term disability insurance, you would have to satisfy a waiting period of three months, so you would be out of pocket $16,500 (3 times $5,500). Disability benefit amounts thereafter would be about $1,500 less per month than if you were working. So, if something terrible like Cancer kept you off work for a year, just receiving disability insurance benefits would drop your household income by an additional $13,500 over the 9 months you received disability payments. In total your household income on this disability claim would be reduced by $30,000; the $16,500 up-front and the $13,500 over remaining 9 months.

I understand why these disability contracts leave motivation for people to work. Still, I think that if someone suffers something critical like Cancer, Heart attack, or Stroke that they and their family should not have to suffer financially while claiming on their disability, would you agree?

At a minimum, we should have enough critical illness insurance coverage in place so that if one of these conditions occurred, your household income would not go down. In addition to the $30,000, we should discuss how much additional capital you would want on hand to cover off any waiting periods for disability insurance as well as for additional expenses you would want covered if you were diagnosed with a critical illness.

[1]source: https://www.soa.org/globalassets/assets/library/research/transactions-of-society-of-actuaries/1990-95/1990/january/tsa90v429.pdf

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