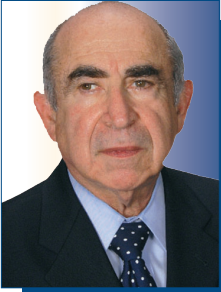


Disability Insurance Insights...



**EUGENE
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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.



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Exploring Association Group Disability Insurance Coverage

"An investment in knowledge pays the best interest." — Benjamin Franklin

We've recently been asked about association group coverage and wanted to touch base on some features to make note.

Why is it that some association group disability plans can be priced less than individual disability plans? Sometimes the price difference can be significant, so how can this occur? In fact, some association group plans insure the same highly sought-after occupational classes that individual disability insurance companies seek out. We are not talking about association discounts on individual plans, we are referring to plans that are developed for an association that use a group chassis.

If the occupations are similar or the same, then the morbidity rate would be similar as well. So, if the morbidity rates are similar,

how can the group association plan charge substantially less premium? Typically, the contract would need to have provisions that may have an impact on policy pricing. Let's look at some of those provisions that may influence product pricing. (Note—the association group marketplace is dynamic, and policies will vary from company to company, so please ask your client to obtain a specimen contract to be reviewed.)

Termination

Individual: Most individual plans are guaranteed renewable to a certain age, usually age 65. The company that underwrites the individual plan can't cancel the policy and may even have provisions so the client can keep the policy past age 65.

Group: Most group plans have provisions that allow the insurance company to cancel the plan. Why is this important? If a client's association group DI coverage were cancelled, they would need to obtain a new policy. There are medical conditions that may still allow a professional to work but may make them uninsurable for an individual plan's underwriting. For example, an individual with treated cancer or heart disease may still be able to work but may be uninsurable or postponed. In addition, as one gets older, the premiums for individual coverage tend to be more expensive. The pricing of today's individual DI product would most likely be significantly less expensive than a similar product ten years from now.

Rate Guarantees

Individual: Many individual plans are purchased with a provision called noncancelable, guaranteed renewable. The expansion of the guaranteed renewable clause can cause some confusion from a policy that is just "guaranteed renewable." Essentially the "noncancelable" prevents the company from changing policy provisions, including the premiums, without the policyholder's permission. Typically this provision will expire at a certain age, usually age 65.

Group: Many group coverage certificates will have variable rates that can change based on age, so as a client gets older their rate will increase assuming the plan has not been cancelled. In addition, many group contracts are built with provisions that allow the company to change the pricing of the actual product. Having certainty of pricing is of great value, especially over a 10 year, 20 year, or even a longer time period.

Association membership requirements

Most association group plans require that the certificate holder maintains their membership in the association. It's important that the cost of the association and future increases in association dues be considered when a cost comparison is made between plans. Some associations have additional membership requirements that may need to be maintained in order to renew membership. In addition, some members may not

always be socially, politically, or culturally aligned with their association, but dropping their membership would nullify their disability coverage. The association member must be aware of the various factors involved when their disability insurance is entangled with a membership requirement. Disability insurance can be someone's most important insurance protection. To have that protection wrapped up and dependent on association membership can possibly become detrimental in the future. While premiums allow someone to pay for an individual disability policy, someone's health and financials allow them to pass underwriting and to obtain an individually underwritten policy. If a client decides in the future that association coverage wasn't a good match for them, it's possible that their medical or financial underwriting may prevent them from obtaining an individual policy issued today. In addition, we never know what products may be available in the future, but we do know what is available today.

Policy provisions

We'll touch on a few of the basic points that are important for someone who is considering buying an association group disability plan.

Total disability requirements during the elimination period: We tend to find this provision in some association group plans. It's rare to find this in an individual plan, but we've seen it a few times here and there. This provision requires that, during the elimination period, the individual must be totally disabled. To become eligible

for monthly benefits they can't be working at all for the full 90 days or 180 days of the elimination period. Remember, if someone were going to the office a couple of days a week, they usually would not be considered totally disabled but rather partially or residually disabled. Most of the comprehensive individual disability plans will allow the elimination period to be satisfied with either a total or partial/residual disability claim. This provision raises the bar on who can or can't qualify for a disability claim. Disabilities come in all shapes, sizes, durations, severities, and affect people differently. This one provision in an association group plan can restrict many individuals from qualifying for a disability claim that otherwise may have been covered under an individual policy. We can't stress enough how limiting this provision can be for those who are unaware of its ability to be a barrier to a seemingly obvious claim.

Reduction of benefit based on current income: Again, we tend to find this provision in some association group plans. It's rare to find this in an individual plan, but we've seen it a few times. The provision, usually called a Relation of Earnings clause, indicates that, at the time of claim, the policy will not pay more than what an individual earned the last year or two years depending on the contract. This means that the group member may be paying an annual premium that allows them to obtain a benefit only up to a certain amount of coverage. In fact, they may have qualified for that full amount based on their earnings at the time the application was submitted and the

"It's important that the cost of the association and future increases in association dues be considered when a cost comparison is made between plans."

certificate issued. Fast forward years later and now the individual may be earning a lot less than they did when the certificate was purchased. At claim time, that individual may not be paid the full benefit if the benefit were to exceed their more recent income.

There are other provisions that may or may not be applicable that should be reviewed as well, such as: Changes in the definition of disability as the claim proceeds; mandatory rehabilitation provisions; integration of other income such as social security, workers compensation, retirement

benefits, and pass-through income received as a result of being a partial or full business owner; soft tissue and self-reported ailment exclusions or benefit period restrictions; and mental nervous benefit limitations.

The value received is the value perceived. Skilled professionals are sought out due to their knowledge of certain professions. For the most part, analysis of a group association disability policy and the analysis of important provisions is not part of the training, education, and background of most skilled professionals. If someone knew they

were going to be in a car crash, how many airbags would they want installed in their car? Would someone buy a car with no seat belts in order to save money? How large of a safety net would one want if they were an acrobat, how narrow or wide? When purchasing a product that may be someone's financial lifeline, seek out the most comprehensive disability policy possible! The wider the net, the more comprehensive the policy, the more it can have the ability to catch the wide variety of disabilities that can occur. 🌐