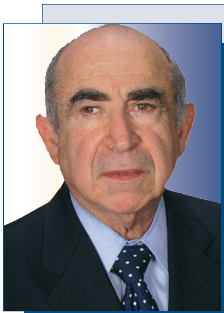
BROKER WORLD

*Disability Insurance Insights…*



**EUGENE COHEN**

*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.*

**MICHAEL COHEN,**

*CLU is president of the Eugene Cohen Insurance Agency, helping brokers, general agents, broker/dealers and financial advisors serve their clients.*

*Cohen has served on carrier advisory boards and organization boards of directors. He is a member of the Risk Appraisal Forum.*

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# Disability Insurance: True Value Versus Perceived Value

Value perceived can influence the buying decision for many clients. We were always taught the miracle of insurance: That you can pay pennies for the potential dollars received. When we present life insurance, we talk about the annual premium for the total death benefit received. Say, for example, we have a 40 year old who is being presented $1 million of 20 year term insurance for about $600 per year. The value…$600 for $1 million is pretty clear value. It's the pennies for dollars classic example.

Now take the same 40 year old and who is being presented disability insurance. Say the illustration shows that he can buy $5,000 per month of coverage, payable to age 67, for a premium of $2,000 per year. This is the way disability insurance is typically presented, and for some consumers this presentation does not emphasize the true value of the policy. These policies are so valuable that it's important that the presentation doesn't de-emphasize the true value. Think about it, we are presenting a monthly benefit and quoting an annual premium.

So what is the potential monetary value

of that disability policy? If the 40 year old above gets disabled a year and a half after buying the policy, so that the elimination period is satisfied on the 42nd birthday, the yearly payment could be $5,000 a month, times 12…or $60,000 a year. If the disability lasted to age 67, then that could be 25 years of payments, or approximately $1,500,000. So that $2,000 per year in premium would have the potential to be as much as $60,000 per year or, depending on when the claim starts and the elimination period is satisfied, $1.5 million…which brings us to the pennies for dollars.

Now, the actual total payout would be based on the client's age at the time of claim, elimination period, and benefit period. Also, if a policy has an automatic increase, cost of living rider, catastrophic disability or other riders, then the total payout can be even higher. For example, if that 40 year old also bought a $10,000 a month catastrophic disability rider then a qualifying claim could potentially triple the payout amount. $5,000 per month base benefit + $10,000 per month of catastrophic disability would be $15,000 per month x 12 months x 25 years—up to $4,500,000 of payout. Again, the actual payout would be based on the elimination period and age at claim.

If you look carefully at many of the company provided illustrations, you may be able to find the total potential payout. We have found that some companies will calculate the potential payout based on the base policy only and some will calculate the total potential payout by taking into account the catastrophic disability rider and/or the cost of living rider (COLA).

Make sure to emphasize to your client the potential annual benefit and potential total benefit of the contract. In describing the monthly benefit, it may also help to quote the premium in a monthly amount as well. Having aligned dollar amounts and units can help clients understand the true value better than misaligned dollar amounts.

The miracle of insurance is that a client can transfer risk for fractions of the true cost of replacement. The ratio of premium to potential payout needs to be identified for your client so that the real value can be presented correctly. The miracle of insurance…paying pennies for dollars.