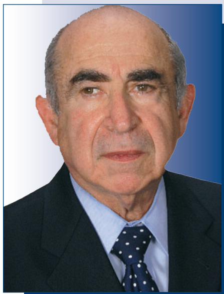
BROKER WORLD

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.

Eugene and Michael can be reached at Eugene Cohen Insurance Agency, Inc. Telephone: ***800-333-4340****. Website:* ***www.cohenagency.com****. Emails:* ***michael@cohenagency.net; eugene@cohenagency.net****.*

An Interview With Eugene Cohen—Inflation And Disability Insurance: A Very Timely Disability Insurance Rider For Your Client To Consider

With the help of Victor Cohen, this is part of our ongoing series with Eugene Cohen, founder of the Eugene Cohen Insurance Agency, Inc., 2009 Honoree International DI Society W. Harold Petersen Lifetime Achievement Award, 2015 Honoree of NAILBA's Douglas Mooers Award for Excellence.

From time to time, we will feature an interview with Eugene, who has dedicated over 58 years of his life to learning, teaching, and supporting brokers in the agency's quest to help consumers protect their incomes from the tragic effects of a disability.

Disability insurance (DI) is one of those products that can change the trajectory of an individual and a family's life and is crucial for every financial planner and insurance professional to learn about and offer to clients.

Victor: Eugene, when a client is applying for disability insurance and thinking about riders to add to the policy, what is something important that you feel the client needs to think about?

Eugene: Inflation. Every time you turn on the news you hear about inflation. You hear about the cost of living going up. Everybody's talking about it. In the past decade or so, it wasn't really in the conversation like it is today.

Victor: So, what is a good way for a client to protect themselves against inflation when applying for income protection insurance?

Eugene: Well, let's presume that an individual 10 years ago was applying for an income protection disability policy. At the time, the client was 30 years old and deciding if they should add a special rider to their policy that many DI companies offer—a rider that helps to offset the policyholder's monthly benefit specifically against inflation.

The client says to their advisor, "Should I add the Index Cost of Living rider on the policy?" This rider is often referred to as a "COLA" rider.

The advisor says, "I don't know. I don't have a crystal ball. I can't determine what inflation or the cost of living is going to be in the future."

The client thinks for a minute and says, "I want to add that rider to the policy." Remember, the client is 30 years old, in great health—with little talk about inflation at the time. So, the client gets approved for a base monthly benefit of $5,000, with a benefit period to age 67, with the COLA rider.

Then, 10 years later, all of a sudden, the individual suffers a severe disability. It could be cancer, or it could be multiple sclerosis, something that could disable them for a long period of time—let's say all the way to age 67.

Our client's COLA rider could offset some or all of the effects of inflation on the client's disability benefits. After the first year of being on claim and still disabled, the rider would allow the monthly payment to be increased by a certain percentage. Many policies indicate that the percentage of increase will be based on the Consumer Price Index, up to a certain percentage.

Just a reminder, each DI company has different provisions around the COLA rider, so the advisor needs to check with the company regarding specific rules around their COLA rider.

So, take a look at what could happen to that original $5,000 monthly base benefit paid out over the years because the client bought that index cost of living rider.

Victor: How much would that $5,000 monthly benefit increase, assuming the client's total disability began at age 40 and lasted through age 67, with a starting basic monthly benefit of $5,000 and annual increase based on a three percent rate of inflation, compounded?

Eugene: The client's ultimate monthly benefit would have gradually increased to $10,783. Remember, in our example, every year the monthly benefit goes up three percent, compounded. This assumes that the Consumer Price Index that measures inflation was at three percent every year during the total disability.

Victor: It really is amazing. What if the Consumer Price Index increases less than three percent during the previous year after the client has been disabled?

Eugene: Many policies will use the following method: If the CPI-U increases by less than three percent the previous year, the monthly benefit increase will be less than three percent that year. So, for example, if there were a two percent increase in the CPI-U, there would be a two percent increase in the monthly benefit. Of course, it's important to confirm how the disability policy is worded.

Victor: What if inflation were higher than three percent over any of the years our client was disabled after the first year of being disabled?

Eugene: With the three percent COLA rider that our sample client chose, the maximum monthly benefit increase they could get each year would be three percent. Some companies also give the client the option at application time to apply for a COLA rider with a six percent cap—which, of course, comes with a higher premium than the three percent COLA rider.

Victor: Let's say the client eventually recovers from their disability and returns to work full time. What happens to the monthly benefit increases that may have been added to the policy over the years the client was disabled?

Eugene: So, let's presume our sample client's disability is, let's say, only five years, and they are now 45 years old and completely recovered. At the time the client returns to work and is off of claim, the client would be offered the opportunity to retain the increased monthly benefit with no medical exam. To keep the higher benefit, the company would need to increase the premium that would support the cost of the additional monthly benefit that the policy increased to during the course of the disability.

Oh, and don't forget, with many companies the COLA rider may also increase a policyholder's monthly residual disability benefit as well.

Victor: Residual disability, meaning a partial disability.

Eugene: That's right. Some companies have a COLA rider that may allow the monthly benefit to increase when the policyholder is not just totally disabled but also if they are working part time and qualify for the residual definition or partial disability benefit. The advisor should check with each DI company.

Victor: Thank you, Eugene. As always, this has been another great DI conversation, jam packed with helpful DI information.

Eugene: Thank you, Victor. Looking forward to doing it again soon.