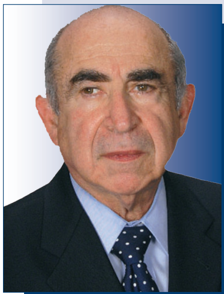
Disability Insurance Insights…



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****.*

A Side Of IDI With Your LTD? Don't Miss Open Enrollment Season Opportunities!

With the holiday season in full swing it's easy to get distracted, but there are more reasons why this is one of our favorite times of the year. Many companies have now aligned their benefit enrollments to be this time of year as well, with benefits typically starting on January 1. Regardless of your insurance industry focus, this is one of the best times of year to reach out to your clients.

Financial planners, insurance producers, personal lines:

This is a great opportunity to reach out to your clients to see if their company is offering benefits and if they have decided to enroll in any of the programs. Offering to review what your client enrolled in will allow you to open up some conversations that may have been overlooked in the past. Clients who have been offered group life insurance may have chosen to obtain additional coverage as well. This gives you the opportunity to ask them how they came up with the amount requested and if that death benefit would be sufficient to replace their income for the time period that their beneficiaries truly need.

For example, someone making $100,000 per year who is the primary or only income provider for a family may get one or two times their income in group life insurance. Some plans allow for the individual to elect for more life coverage that may require underwriting and/or an extra cost.

Why are we talking about life insurance in a DI article? There are a few reasons that we'll discuss. One is that for many working adults with families, life insurance can be about replacing the earnings of the main income producer(s). Next, if a client is taking more life insurance than what is given by the group, the client has likely recognized that they are underinsured. This gives you the opportunity to assist with some basic income replacement planning. In addition, the cost of many supplemental plans can be more expensive than fully underwritten plans. This gives you the opportunity to improve their current scenario with lower premiums or more coverage for the same price as the supplemental life. Lastly, and possibly more importantly, this gives you the opportunity to discuss income replacement strategies when someone is disabled instead of passing on.

We know that clients who are working and in their wealth building years are more likely to have a disability than to pass early. So, naturally, if a client is concerned about replacing their income when they pass, they should have a keen interest in continuing their income if they were to become disabled.

What if the client also were given or signed up for group disability? (*Note: Group disability insurance is often referred to as LTD, versus IDI, which is individually purchased disability insurance.)* We'll continue this discussion.

Employee benefit brokers and financial planners, insurance producers, personal lines:

When presenting group LTD, it's important to realize the potential taxes that can offset the total payments received in the year. For example, take a client who makes $120,000 salary per year and has group coverage that's employer paid with the premium not grossed up in the client's income.

With group LTD that pays a monthly benefit of 60 percent of income up to a maximum monthly cap of $8,000, the client's group DI benefit in this example would pay a qualifying disability to the client of $6,000 of gross disability benefits per month. Why gross you may say? When there's employer pay group benefits, the disability payments will actually net out much lower due to the taxes that will need to be paid. There will be federal and state income taxes. In addition, for the first six months, Social Security withdrawals will need to be paid as well.

Now that $6,000 per month of benefit actually doesn't seem as much as it may have initially. In fact, depending on the client and if they have joint income, the benefit could be reduced by more than 40 percent. Of course, this can vary based on the client's tax bracket and state of residence. Now imagine this client isn't making $120,000, but has been making $1,200,000 for the past few years. The group benefits may only cover a small fraction of what the client needs to maintain their standard of living. It's essential that clients in these scenarios have excess coverage.

Now, what if you were able to add the additional coverage but not need any comprehensive medical underwriting? There are individual disability insurance companies that will allow guaranteed standard issue (GSI) depending on the make-up of the group and the industry. We call this the GSI marketplace that is usually used to supplement the group LTD. For companies that inspire to have benefits that compete with the top companies in the county, suggesting GSI disability insurance for the high earning executive class is important.

In addition, those companies that have an egalitarian philosophy of providing equal benefits to all employees are usually interested in providing additional benefits to those team members whose income percentage replacement is lower than others. Taking the example of a client who makes $500,000 per year with an $8,000 monthly cap on the group LTD, their gross income replacement is less than 20 percent! Compare this to an employee who makes much less and has less responsibility, but has a dramatically higher percentage of replacement at 60 percent due to not being capped out.

Take advantage of the best time of the year for so many reasons, including setting up individual benefit review appointments for the first quarter of the year. May you and your family have a wonderful holiday season and a happy and healthy new year!