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The Key To Success In Disability Insurance Underwriting: The Pre-Screen

HHealth—Occupation—Financial. These are the three key elements of traditional disability insurance underwriting. The disability marketplace has evolved, and so has underwriting. While companies can issue policies on a more expedited basis, the fundamentals of traditional disability underwriting will come into play, especially as larger, more comprehensive policies are written.

The key to success in marketing and selling traditional individual disability insurance is to know when one of these areas has a high probability of causing your client to have a problem getting a policy issued without a modification—or issued at all. There are some companies that may be able to offer more limited policies for these conditions and underwriting issues. This discussion will be for the typical individual disability policies that require traditional underwriting. Of course, underwriting will vary by company and product, so always check with your underwriter.

Health Issues

With many clients, this can be obvious. People with known health issues can have problems obtaining disability insurance. Many conditions that cause concern in life insurance underwriting can also cause concern in disability underwriting (cancer, diabetes, heart disease, etc.). What isn't so obvious is when a client has a medical condition (or conditions), but was recently issued a preferred rate class for life insurance. There is no way to list all the poten-

tial issues that can have different results, but let's take a look at a few that tend to be more common. These areas shouldn't be glossed over in your typical pre-screening process.

Muscular-Skeletal Issues: Any current or past history of muscular-skeletal issues can cause an exclusion rider or even a decline. An exclusion rider may let the insurance company issue a policy but exclude disabilities caused by a certain condition, such as a back or shoulder issue. Areas to look out for would include back conditions such as pain treated with prescription medication, bulging discs and disc diseases, sciatica, neck sprains, spinal stenosis and a myriad of other back issues. Also, any other bone, joint, or consistent soft tissue type pain can cause concern. Try to inquire about these issues beforehand so that you can consult with your underwriter or pre-sale team. Be sure to find out if there has been any physical therapy, chiropractic care, physician care and/or prescription medications. You may find out that the DI company indicates that an exclusion rider may be predicted. In which case it's much easier to prepare your client for a rider at the time of application, as opposed to at the time of delivery.

Mental/Nervous Conditions: In many situations, clients can get life insurance issued while on treatment for anxiety, depression and other mental/nervous conditions. For disability insurance, these almost always result in an exclusion rider, reduction in benefit period, ratings and/or, in some cases,

a full declination for insurance. Most brokers will ask what medications someone is taking during the pre-screen interview. I would advise most brokers to repeat the medication question, specifically asking if the client has currently or in the past taken any medications such as Prozac, Xanax, Lexapro, etc. For some reason, clients may not admit to the medication at first, maybe due to thinking that you were only asking about medications for physical ailments and not mental ones. Also, any therapy or counseling from a social worker or psychologist can be problematic, even if no medications are being prescribed. Find out how long your client has been in treatment, any hospitalizations and, if they are medicated, have they had any changes in medication or dosages in the past couple of years. Changes in medication may show improvement in one's condition, but usually it shows a lack of control.

Sleep Apnea: This has the potential to be a real problem in disability underwriting. Find out when it was diagnosed and if your client is using a c-pap machine on a regular basis. A copy of the sleep study would be great for pre-screen purposes.

Colitis/IBS/Crones: While possible to get life insurance with these conditions, the disability insurance companies tend to be more conservative on these issues. Be sure to concentrate your questions on control, flare-ups, medications and changes in medications, hospitalizations, and operations needed for treatment. In many cases it's common to see these cases get ratings, reductions in benefit periods, exclusions and declinations.

Occupation

A cornerstone of DI pricing and underwriting is to properly classify the occupational class. Most companies have multiple occupational classes that may control pricing and available plans. While on the surface this may appear to be an obvious and simple task, it can cause confusion in the field, and additional underwriting inquiries. It's no fun trying to go back to a client who was shown rates for a top class and then trying to explain why the issued class was much lower and has a much higher premium and/or limited benefits. I would suggest to start wide and get more narrow when asking about occupation. For example, an engineer could be an electrical engineer, a construction engineer or a custodial engineer. Start with the industry, then work to obtain the exact job in that industry.

For instance, a salesperson in the liquor industry may be classed differently from a salesperson in the auto industry. Also, it may be helpful if your client can break out their duties in general percentages, such as sales, administrative, supervisory (and if so, how many employees), manual labor, and technical (such as an architect). For clients who have ownership, you'll need to dig a little deeper: length of ownership, percentage of ownership, and how many employees. If this is a new business owner, find out if your client has done this occupation in the past or if he is taking over an established business. On a side note, if anyone works out of his home, you should find out what percentage of time he needs to leave the home to conduct business, as there are guidelines on these types of scenarios. Of course there are a myriad of occupations and additional questions that may be asked, so be sure to check with your pre-sale team or underwriter.

Essentially, the underwriter will be looking for predictability and stability of employment or occupation. Your pre-sale team should be able to assist you in helping to obtain the correct occupational rate class.

Financial

Disability insurance is about insuring one's income. Therefore, the underwriter will need to know and confirm what someone's income is in order to consider issuing a policy. While there are many aspects of financial underwriting, some of the primary items we'll touch on will be income, coverage in force, passive income, and net worth.

Income: For many of your employee W-2 type clients, this will be fairly straightforward. For some of your clients, you may need to ask some additional questions. The important underwriting concerns are usually stability and predictability of income.

Individuals with fluctuating incomes and/or bonuses: Most DI companies will take an average of the net income over a period of years. It would be best to find out the last three complete years and consult with your pre-sale team or underwriter. If the income is trending down or there is an obvious decrease of income in a given year, you may want to inquire as to the reason for the decrease.

Individuals whose primary income is reflected as a 1099, and business owners: The income that the underwriter will be seeking is the net income, after business expenses, but

before taxes.

Business owners with pass-through income: For individuals who are shareholders of an S-corp, or members of an LLC, there most likely will be W-2 income from the business and then Schedule E non-passive income from the business. Most underwriters will allow you to combine these incomes for underwriting purposes.

Newly employed: Individuals who have changed employers in the same industry may not be an issue, though the underwriter may want to see an employment contract or the most recent pay stub to confirm income. If the client has switched from a W-2 to a 1099 type of employment or is starting a new business, the disability company may want additional information or may not consider issuing the policy until stability of the employment or business can be established. There can be variations among DI companies regarding how they treat newly established businesses, so be sure to consult with your pre-sale team or underwriter.

In-force Coverage: It's important to know how much coverage is in force and who pays for that coverage. If the coverage is group LTD coverage, be sure to find out if your client contributes to any of the cost.

Passive or Unearned Income: It's important to note that disability insurance is meant to insure income that is earned from working. Some of your clients may have substantial unearned income from rents, dividends, trusts or other sources. Just because your client has unearned income doesn't mean he will be prohibited from buying disability insurance. Disability insurance companies have formulas that are used to establish how much earned income can be insured when unearned/passive income exists. Get as much detail as you can on the unearned/passive income and consult with your pre-sale team or underwriter.

Substantial Net Worth or Substantial Income: An individual who has a very large substantial net worth or an income that is in the millions may not be able to qualify for individual disability insurance. Find out as much detail as you can and consult your pre-sale team or underwriter.

Disability insurance is one of the most satisfying and important products to recommend to your clients. Working through the issues above will help make the logistics a much more enjoyable experience. ☺