

Filling the coverage gap in executive benefits plans

Employers want to retain star employees; star employees want to retain their pay in case of a disability. The solution to both problems? Supplemental individual disability insurance.

By Kay Hall

By 2018, the Bureau of Labor Statistics estimates there will be 2,125,700 top executives in the corporate market.¹ These high-income earners, who include CEOs, COOs and presidents, travel frequently, deal with a multitude of pressures and have demanding schedules. The nature of their jobs naturally leaves them more susceptible to stress-related illnesses that can lead to long-term disability.

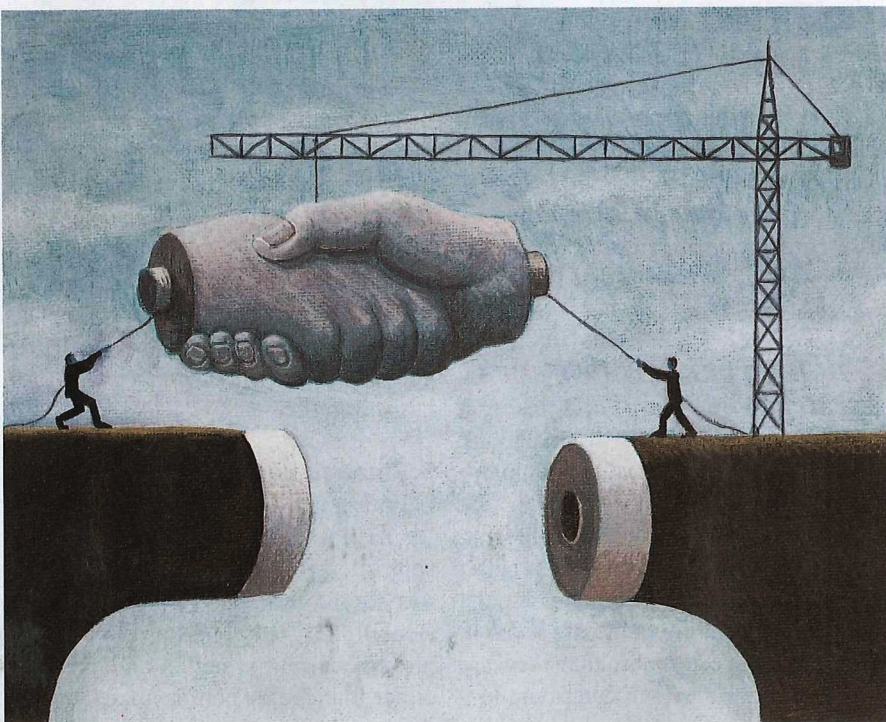
Recognizing the integral roles these executives play in the success of their companies, many employers are maximizing executive benefits packages with solutions that attract, retain and protect this top talent.

Supplemental individual disability insurance (IDI), such as IDI on a guarantee-issue basis (GI IDI), is a cost-effective choice for employers and a high quality, reliable option for executives who need extra financial protection. Where group long-term disability (LTD) coverage stops, GI IDI starts.

A broker's target market for GI IDI is the employers who want to take care of key employees who have gaps in disability coverage or who have uncovered compensation. This includes employees who:

- want to upgrade their disability income insurance coverage to provide for more guarantees, portability and better definitions compared with group coverage;

“Executives tend to assume that LTD benefits, plus Social Security disability benefits, will be sufficient financial protection. But in many cases, a benefits cap kicks in, bonuses are not included — and the coverage is too low.”



▶ EXECUTIVE BENEFITS

- need to replace benefits lost due to taxation of group disability benefits or who have gaps in coverage created by a cap on a group disability plan;
- may need additional coverage due to the definitions of covered income in the group disability plan;
- are key employees or executives and likely have high income (\$100,000 or more) that warrants a greater depth of benefits.

Once you know which audiences to focus on, invest time in really building relationships with these prospects. Find out what their needs are and then help educate them on the need for disability income insurance. Once they under-

stand they are exposed to risk, they'll be open to a solution.

Uncovering the need for GI IDI

Most highly paid employees and executives don't know that group LTD leaves them vulnerable to a large income gap. This income gap equals the difference between the disability protection executives have available to them through their employer's group LTD program and what they actually need to maintain their typical standard of living during a disability.

Benefits from employer-paid LTD plans typically replace 60% of an employee's earnings. Executives tend to assume that LTD benefits, plus Social Security disability benefits, will be sufficient financial protection. But in many cases, a benefits cap kicks in, bonuses are not included — and the coverage is too low.

GI IDI can fill this income gap for employees with an additional layer of financial protection that covers a larger percentage of total compensation. Part of the extra coverage is due to the inclusion of incentive pay, such as bonuses or commission, as part of the covered earnings. Plus, it can be structured to be a tax-free benefit, unlike most group LTD plans.

Brokers can easily position employer-sponsored GI IDI as a way to complement group LTD and better protect high-income earners. Typically, it takes convincing only one key decision maker to buy this plan, as they also will be one of the high-income earners most affected by the coverage gap. It's a matter of revealing this need.

For any prospects still skeptical of the value, you can consider offering them a tangible example to support the above concept. Try this scenario:

State the problem

In a company with 70 employees, the employer-paid LTD plan covers 60% of earnings to a maximum of \$6,000 per

month. This means any employee who earns in excess of \$10,000 per month or \$120,000 per year will receive less than 60% income replacement.

There are 10 key employees or sales executives. They all receive in excess of \$120,000 in annual compensation. Executives receive base salary plus bonus tied to company profits. Key sales employees receive base salary and up to 75% of their income as commission. Bonus and commissions are not covered under their current LTD plan, however.

“When and where appropriate, set aside cost and accentuate the benefits and features that will truly mean (and do) something for employees when they actually have to use the policy.”

Provide the solution

Propose a GI IDI plan for the 10 key employees equal to 60% of total compensation, less the LTD benefit, to a maximum of \$4,000 per month. Include salary, commissions and bonus in the earnings definition of the GI IDI plan.

The combined program will cover earnings up to \$200,000, with a maxi-

Save 75% Off On Final Expense, Life and Annuity Leads

Leads for \$1.00-\$2.00

Hyde Park, UT. Now you can buy wholesale aged 31-85 days Final Expense, life and Mortgage Leads for \$1.00-\$2.00 in quantity of 100-400 in your area code.

Also, we have a limited supply of \$10.00 aged annuity leads in selected states. For more information and lead counts plus a **TWO FREE REPORTS: “How I wrote 2500 Final Expense Plans in 10 Years” and “How To Write An Extra 100 Policies a Year.”** Go to the following website below: www.WholesaleLeadsNow.com

Or you can also call Russ Jones (The Lead Junkie) Toll free at 800-808-6551 Ext 112

mum disability benefit of \$10,000 per month. It will greatly benefit the 10 key employees, be affordable for the employer and be easy to administer for everyone involved.

Identifying the gap and selling the need is a straightforward and honest approach to take with employers — the value is clear. As for brokers, the benefit is not only providing clients with a unique solution, it's selling multiple policies through a single employer with no medical underwriting required.

Identifying a focus during the sale

Brokers face a natural dilemma during the sales process. Should the focus be on selling low price or high quality? Focusing too much on rates can pigeon-hole you into "selling on spreadsheet" and comparing against competitors' pricing. Rates matter, but they're only a component of the sale. The idea is to communicate the right mix of each element to maximize your offer.

With GI IDI, consider highlighting the following:

- *The quality of the product*
- *The amount of total benefit in the GI IDI offer*
- *The quality of service offered by the carrier, especially claims administration*
- *How well the proposed GI IDI plan meets the clients' needs*
- *Portability of the policy*

What pulls all of these key fundamentals together is finding the right GI IDI carrier. Brokers need to feel confident in the disability carrier they're working with.

Select a carrier based on how they support your sales efforts and how their products will meet your clients' needs. Make sure they're committed to providing you with their valuable claims and disability insurance expertise and education. It's a surefire way to stay relevant and close to your clients' changing needs.

Playing up policy benefits

Not all employers, or individuals for that matter, value the same benefits or features in a policy. The more you can find ways to customize options for employers, the better the results for employees. Look for a GI IDI policy that takes a different and more appealing approach to disability, for instance:

- *Partial disability provision* — A partial disability provision often pays benefits for an extended period of time if the disabled insured has a partial disability. Look for a partial disability provision that is as flexible as possible in offering benefits based on a loss of time, duties or income.
- *Own occupation rider* — This rider broadens the definition of total disability. Under this rider, a person still would be considered totally disabled if, due to injury or sickness, the individual is unable to perform the substantial and material duties of his or her regular occupation even though he or she is working in a different occupation.
- *Catastrophic rider* — This rider pays an additional benefit if the policyholder is receiving the benefit for total disability and is unable to perform at least two activities of daily living. It's a popular add-on because it can be ap-

plied to long-term care coverage.

When and where appropriate, set aside cost and accentuate the benefits and features that will truly mean (and do) something for employees when they actually have to use the policy.

Building relationships with your customers, providing them with education and expertise, and most importantly, connecting with them on a more personal level to meet their exacting needs, creates the ultimate equation for a long-term partnership. These initial steps eventually make the sale *for you*. ♦



Kay Hall is director of sales operations for The Standard's Individual Disability Insurance unit. She began her career selling both individual and group insurance, with an emphasis in disability. Over the past 15 years, she's worked in the healthcare and medical insurance sector, focusing on business development for national accounts, government employers and federal contracts. Kay can be reached at kay.hall@standard.com or (971) 321-4215.

Footnote:

1. Bureau of Labor Statistics, U.S. Department of Labor, *Occupational Outlook Handbook, 2010-11 Edition, Top Executives*. Available at: <http://www.bls.gov/oco/ocos012.htm>.

MAGDALEIN

& ASSOCIATES Inc.

INSURED RETIREMENT STRATEGIES

WE HAVE THE RIGHT

- **Prospecting Methods**
- **Concepts**
- **Products**
- **Presentations**

To help you become a
\$3-5 million or more
Annuity Producer!

(904) 343-3532