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## Disability Insurance Observer: Gaps at the Top

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The Income Umbrella (AP Photo/Charles Dharapak)

The top of the individual disability insurance market seems to be warming up with the rest of the market, but plenty of glacial ignorance remains.

Three income protection specialists told me they have seen more competition throughout the market in the past two or three years, but also a lingering blanket of silence about the holes in group disability plans for well-paid employees.

Steve Brady, an individual disability insurance marketing specialist at Standard Insurance Company, Portland, Ore., believes many of the executives with Swiss cheese coverage do have personal financial advisors. “They said the word ‘disability,’” Brady told me. “The executive said, ‘I have long-term disability at work,’ and that’s where it stopped. They don’t realize they’re discriminated against.”

The design of a group plan might whittle away protection for executives – or even regular staffers – earning as little as \$100,000 a year, according to Thomas Petersen, a vice president at Petersen International Underwriters, Valencia, Calif.

Petersen International is where you could go to get the highest of the high-limit disability coverage. Need \$100,000 per month for personal protection, with a participation limit of 75%? Petersen International can arrange for that.

But typical clients simply need coverage in excess of what the traditional insurers admitted to do business in their states can handle. Many agents have clients who fit that description, Petersen said.

Larry Schneider, the disability insurance specialist who runs [DI-Resource-Center.com](http://DI-Resource-Center.com), Albuquerque, N.M., has written the book on selling disability insurance – *The Anatomy of Disability Income Insurance*.

He said people with high incomes should try to follow the same rule of thumb that everyone else follows: Protect 60% of your pre-disability income.

But a typical group disability plan might max out at \$10,000 or \$12,000 per month. An ordinary individual policy might have a limit of \$25,000 per month.

John Doe, an executive who earns \$600,000 per year, will need to buy \$30,000 in monthly income protection to replace 60% of his income, but he may have trouble getting group coverage that covers more than \$20,000 in monthly income. Their policy may not cover major sources of income, such as sales commissions.

Helping high-income individuals reach the 60% income replacement threshold is one area in which insurers have made improvements, Schneider said.

In some cases, Schneider said, a second carrier might come in and top off the first policy by providing \$5,000 in additional coverage, to bring the total to \$20,000.

Carriers are more interested in that kind of business than they were, in part because like the idea of sharing the underwriting burden with another carrier, and in part because they're competing harder, Schneider said.

Brady said he thinks every disability carrier has seen an uptick in sales.

Petersen said he has a list of more than 30 carriers now competing in the individual disability market, up from a low of 23 about 10 years ago. Like Schneider, he has started to see an increase in participation limits.

The increase has cut into Petersen International's market a bit, by close some of the gaps in the traditional disability market.

Petersen said he's fine with that.

"We believe a good, healthy disability market is a very good thing," Petersen said.

Petersen also would like to see more general understanding of the high-limit market, including a recognition that an executive earning \$500,000 per year who becomes disabled shouldn't simply plan to "sell one of his homes" if he becomes disabled.

An executive earning \$500,000 per year probably has just one nice home, and, even if he does have a second home, “why should they have to sell a home when there’s a solution there that would prevent them from having to do that?” Petersen asked.

One barrier to an increase in sales at the high end, as in the middle market, is a lack of new disability insurance producers.

“Disability insurance should be the cornerstone of all financial plans,” Schneider said.

Schneider can see why there might not be many producers trying to court the high-limit market: The market is relatively small, and "not everyone has a \$9,000 suit."

But he's a little surprised by the relatively small number of calls he gets from experienced agents who are trying to diversify their commission streams by learning to sell what he sells.

Learning to sell disability insurance takes time, but keeping business on the books is relatively easy, and the commission streams are good, Schneider said.

So far, though, he hasn't exactly had to hire guards to protect himself from would-be disability producers seeking enlightenment.