

BASIC DI CONCEPTS

(in alphabetical order)

Automatic Increase Benefit

A policy provision that increases annually, the policy monthly benefit by either a stated percentage or the latest Consumer Price Index measure, without the evidence of either medical or financial insurability. When included, it automatically increases the policy unless the client tells the company to not increase the policy (known as negative election).

Benefit Amount

How much the client will receive if sick or hurt and unable to work? For individual policies, up to about \$100k of income, approximately 60% is the amount most carriers will replace at the time the policy is issued. At higher incomes, the benefit amount goes down proportionately. The current limit without tapping into high limit or excess coverage for professionals and executives is \$30k of monthly benefit.

Benefit Period

The benefit period is the amount of time that a policy will pay benefits. Benefit periods available are 1, 2, 5, and 10 years, to age 65, 67 and 70. The average claim is about 5 years in length, so if a client cannot afford a benefit period to age 65 or longer they should consider a shorter benefit period.

Business Overhead Expense

A policy that reimburses a small business owner during a disability for fixed business expenses that are incurred. The benefit period is usually 12, 18 or 24 months, and is designed to keep the business open while the owner recovers or until the owner is no longer responsible for the business expenses. The owner's salary is not covered, but many other fixed expenses are, including; rent, utilities, employee salaries, professional licenses, property taxes and interest payments. Benefits of up to \$50,000 per month are available with traditional carriers.

Catastrophic Disability Rider (CAT)

This rider pays an additional monthly benefit in the event of a catastrophic disability. A catastrophic disability is defined by most insurance companies as follows: unable to perform without assistance two out of six activities of daily living or suffers from a cognitive impairment, the client would qualify for additional monthly benefits. Combined with the base policy you can replace up to 100% of current income.

Cost of Living Rider (COLA)

This rider adjusts the benefit amount at the end of the first year of claim and each year thereafter by a specific percentage (usually 3, 4 or 6%) and the cap is most often tied to the consumer price index.

Disability Buy Out

A policy that pays a business or co-owner either a lump-sum or a monthly payment to provide the funds to buy-out the business interest of a disabled owner in the event he/she is no longer able to work as a principal in the business.

Disability Insurance

Disability insurance replaces lost income in the event of injury or illness that prevents a person from being able to earn a living. If a person's financial lifestyle would be adversely affected by a disability, he or she needs disability insurance. The descriptions here focus on individual policies.

Elimination Period

Is the period of time that must elapse from the start of the disability until benefits are paid. For individual disability policies, the most common elimination period is 90 days. Shorter and longer elimination periods are available, but shorter periods are significantly more expensive and longer periods offer only limited savings.

Employer-Paid Limits

The monthly benefit the insured can purchase when the employer is paying the premium. This limit is higher than the ordinary issue limit because of the taxation on benefits when received due to the employer's deducting the premium paid as an ordinary business expense.

Exclusion Rider

A document, which the insured must sign, indicating a condition(s) which is specifically not going to be covered under this insured's policy.

Future Purchase Options

(FIO, GIO, Benefit Update or Guaranteed Insurability)

This feature, usually added by rider, allows the client to increase the monthly benefit on specified anniversaries without evidence of medical insurability. Financial underwriting is required with a short form application in order to obtain more coverage.

Graded and Step Rate Premiums

Some carriers offer a policy that starts out with a low premium, but increases annually or one time, usually at the end of five years. These policies are usually offered to applicants right out of school or just starting a business, when income is low, and expenses are high.

Guaranteed Renewable (GR)

Guaranteed renewable means that the carrier can never change or cancel the policy as long as the client keeps paying the premiums, but it does not have a rate guarantee. The insurance company maintains the right to increase the rates on a per class basis for all insureds. An individual policy holder cannot be singled out for a rate increase based on claim or health history, once the policy is in force and premiums are paid on time.

Inspection Report OE Telephone Interview

Information that provides a summary description of the insured's employment, health history, and habits as a result of a direct interview done by the insurance company during the underwriting process.

Key Person Policy

A product designed to reimburse the business for a financial loss during the key person's disability until recovery or a suitable replacement can be found. Usually a lump sum or combination with a monthly payment is available.

Non-Cancelable (Non-Can)

The insurance company can never raise rates on these policies. When included, it is more expensive because the rate is guaranteed from the time the policy is purchased until age 65, and it cannot be changed if client pays the premium on time.

Occupational Class

The occupation class is the way a rate is determined based on an applicant job duties (along with health issues, age and gender). Typically, the more manual labor involved, the lower the occupation class. The best way to determine the appropriate classification is to know what the applicants daily work related duties are. Insurance duties, not job titles.

Presumptive Total Disability

A policy provision that waives the total disability eligibility requirement in the event that a loss is suffered due to loss of sight, hearing, speech or use of two limbs.

Residual Rider

It allows the insured to collect a benefit if unable to work full time or do all duties necessary for his/her occupation, which causes them to suffer an income loss. The amount of benefit paid is proportional to the loss of income. The definition usually reads something like: "Due to injury or sickness, the insured is unable to perform one or more of the substantial or material duties of their occupation, is working and is suffering a loss of income of at least 20%." Residual is one of the most important features of a disability policy, since many claims do not begin or end as a total disability.



Retirement Protection Insurance

Provides benefits to fund a 401k or qualified retirement plan. Coverage can be in addition to individual DI and is not affected by disability issue and participation limits.

Return of Premium

This optional benefit provides a refund of a specified percentage of policy premium at specified dates less any claims that have been paid during the specified time period.

Social Security Offset Rider

An optional benefit that coordinates the policy benefits with any benefits received through Social Security disability (and, often, other public programs) to avoid being over insured.

Substitute Salary Expense

An optional benefit available under the Business Overhead Expense policy, it reimburses the insured for expenses incurred in paying a replacement for the disabled owner during the insured's disability.