

The Disability Market▼

DI: *Selling the Need*

by Branden Pierson

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Name the most important types of insurance an individual should have. Would you say health and life? Or would you say health, life and disability insurance?

Chances are, the way you answer that question is an indication of your DI-Q. Insurance producers who include it as a necessary type of coverage will be those who have a good understanding of the need for the product and how to resolve income replacement shortfalls through case design at the employer and employee level.

However, the majority of producers probably don't put disability insurance near the top of the stack. Disability insurance simply doesn't get the "shelf space" it deserves. Yet, protecting one's income should be one of the three most important coverages, right alongside health care and life insurance policies. Instead, it typically ranks well below the perceived need and value of dental and vision insurance.

Disability insurance isn't getting the shelf space it deserves from consumers, employers or producers. For consumers, it's a way to protect their incomes. For employers, it's a way to attract and retain employees. And for producers, it can be an opportunity for growing sales through selling the need and finding gaps in existing coverages. The disability market continues to be under-penetrated.

**Sell the Need: Protecting Income
Is More Important Than Ever**

The ability to earn an income is one of an individual's most valuable assets. Yet disability insurance for this valuable asset often is overlooked and undersold by financial professionals today.

Protecting an employee's income is more important than ever. In a recent survey, 56 percent of U.S. adults said they would be unable to pay their bills or meet expenses if they became disabled and could not work for a year or longer.

Although group long term and short term disability income protection insurance is offered by companies of all sizes across a wide spectrum of industries, the Bureau of Labor Statistics reports that only 39 percent of employees participate in short term disability benefits and 28 percent participate in long term benefits. In another survey, only 44 percent of respondents indicated they had long term disability (LTD) insurance.

When it comes to illustrating the need, consider these statistics:

- Three out of 10 workers between the ages of 25 and 65 will experience an accident or illness that keeps them out of work for three months or longer.
- Over 64 percent of workers do not have long term DI coverage through work

These statistics are important for two reasons. If only a few more than half of all adults say they would be able to pay their bills if disabled, then they should realize the need for income replacement insurance. And the participation levels for LTD and STD prove the under-penetration of the market.

Disability Insurance in the Workplace

The costs of hiring and training employees have escalated and employers are faced with the challenge of recruiting and training top talent in a highly competitive labor market. When employers offer disability insurance, they are not only offering a competitive benefits package that helps in the recruitment process, they are helping protect their employees from the financial impact of a debilitating illness or injury, which helps in the retention of employees.

Protecting Executive Income

Disability income insurance is important for everyone, but a particularly underserved segment includes highly compensated managers and executives whose skills, knowledge and experience are invaluable to your corporate clients.

Once considered a luxury, employer-provided group disability coverage is now the standard. Group plans provide standard income protection, typically with benefits that begin after 90 or 180 days of disability, payable until age 65. A typical group LTD program pro-

fects up to 60 percent of an employee's base salary.

But for many employees, 60 percent does not add up to adequate coverage. The 60 percent coverage maximum will, in fact, come as a shock to many workers who have the common misperception that they are 100 percent covered under their employer plan. Aside from this misperception, even 60 percent coverage can create a large gap in coverage.

Executives at middle-income level and above are at particular risk of underinsurance due to benefit caps, taxation of employer-provided LTD benefits, variable compensation issues and lost retirement savings. An opportunity exists to show these potential customers that individual supplemental insurance will cover income over and above LTD benefit caps. And since bonus and incentive compensation often comprise a portion of their earnings, management-level executives should realize that this variable type of income above salary is not normally protected by group LTD. Neither are the employer's contributions to a retirement plan during a manager's or executive's disability. The benefit from an individual income protection supplement can help to fill any or all of these gaps.

The Market Is Ripe With Opportunity

Studies show that the disability market continues to be under penetrated, with just four in 10 firms of all sizes offering an LTD benefit, and a similar percentage of firms offering an STD benefit. According to one study, only 26 percent of employers with 10 to 19 employees and 45 percent of firms with 20 to 99 employees offer LTD insurance. These numbers point up an opportunity for small and mid-size employers to enhance their benefits packages by giving employees the option to purchase supplemental disability coverage.

In addition, the need for supplemental coverage is becoming increasingly important as more employers offer disability coverage as a split-dollar plan. Also, because the average age of the U.S. worker is now 40, and studies show that nearly one-third of purchases for voluntary disability insurance occur between ages of 40 and 49, the time is right to capitalize on current buying trends.

As the workforce ages, long term care insurance is becoming an attractive benefit to help employees protect retirement assets. Some employees, however, may find that they waited too long to purchase this coverage, discovering that they may not qualify because of an existing health condition, or that the policy may include some restrictions. Many supplemental individual disability policies can help eliminate these concerns by enabling employees to convert coverage to a guaranteed-issue LTC policy at retirement age. This feature provides a smooth transition from income protection to asset protection.

Employees today need to protect a larger ratio of their income from the impact of disability in order to maintain their lifestyles and meet retirement goals. And, increasingly more of them are turning to the workplace to find adequate and affordable income protection insurance to meet their needs.

By integrating employer-provided group coverage with individual supplemental DI, insurance advisors can not only help companies enhance their benefit offerings and control costs, but they can also give employees a vital financial planning tool to maximize protection for their income.❖