

BenefitsPro

The shortcomings of group LTD Plans

I don't want to be so crass as to say that group LTD is worthless, but in many cases it is fundamentally inadequate, and instilling realistic expectations in those that have this type of insurance is a vital role of the professional financial advisor.

Employers willingly providing any type of income protection plan to employees is of course worthy of applause. However, it's reasonable, make that *imperative*, that both employers and employees are informed of any shortcomings of their GLTD plan. You don't want to be the one who informs the newly disabled employee that their 66 percent income replacement plan may actually provide a significantly lesser benefit.

You should point out the common limitations and deficiencies of traditional group LTD plans:

Calculation of benefit amounts

Bonus income is still income, right? Many GLTD plans will only cover base salary, which may be a significantly small percentage of certain employees' income. Many executives, sales people, attorneys and even military professionals earn substantial bonuses, commissions and incentive pay and rely on that income to support their lifestyles. Deferred compensation, stock options and pension contributions need to be protected as well.

Benefit limits

GLTD plans cover 60 to 66 percent of your income — up to a certain cap of \$5,000, \$10,000 or perhaps \$20,000 per month, depending on the generosity of the employer. For anyone earning more than \$400,000 annually (remember, base salary), a \$20,000 monthly benefit will not cover 66 percent of their income.

Portability

It's a very rare thing for an employee to spend their entire career at one firm. Change of field, greater opportunity and mergers and acquisitions are common occurrences in one's working life. Being able to take one's GLTD policy along for the changes is conversely uncommon. If a conversion option is included, the benefit is likely to drop to as low as a few thousand dollars per month and the premium bumped to that of being individually rated.

To be fair, some traditional Individual DI carriers recognize these potential inadequacies and do their best to offer supplemental coverage in hopes of better insuring one's income. Unfortunately, these efforts may still fall short of proper income protection levels. With these limitations in mind, you can see where leaving your client to discover on their own that their

GLTD plan is inadequate, is simply not professional.

You can play the hero and present solutions to these problems —

- **High-Limit GSI Group Disability Plans:** Found in the non-traditional insurance market, High-Limit Guaranteed Issue Group Disability plans are used to layer on top of an existing plan's coverage or can be used as a primary plan when the traditional carriers cannot offer any coverage. There are several reasons why this type of plan is needed. Reasons include high-income positions, high net-worth issues, unusual income reporting, hazardous employments, unique associations and sub-standard risks. Important income factors do not have to be omitted from this type of plan. As benefit levels can reach as much as \$100,000 per month or more, total income, including bonuses, commissions, incentive rewards and other types of income, can be calculated into benefit participation limits. They are individual plans and therefore completely portable.
- **Supplemental High-Limit Individual Disability Plans:** When employees are unable to obtain adequate income protection through group coverage, individually underwritten plans are often simplified when placed on top of in-force group coverage. In the non-traditional marketplace, Supplemental Individual Disability benefit levels can reach limits high enough to meet the needed 66 percent of income replacement coverage.

Offering a story that your prospect or client can relate to can often help. For example:

A physician group of 230 Orthopedic Surgeons had a traditional GLTD plan which provided 60 percent of income replacement up to \$20,000 per month. The median annual income in this group was \$650,000. This meant that the median income earners, were only receiving 37 percent of income replacement coverage. A traditional individual carrier offered supplemental, individual coverage of an additional \$5,000 benefit per month. This additional layer still did not adequately fill this insurance gap. A supplemental, High-Limit GSI Disability plan from the non-traditional market stepped in and offered participation up to 65 percent of income replacement. This producer became famous among the group of doctors for his three-tiered Disability Insurance, for his prescription performed magnificently when one of the doctors was diagnosed with cancer and soon lost the ability to perform surgeries.

Placing a High-Limit GSI Disability plan with a company or association can open so many doors to placing other types of disability coverage within the group. Business Disability Insurance uses like Business Overhead Expense, Buy/Sell Agreement funding, Key Person coverage and many more can become an easy addition to a client's portfolio. Helping your clients understand the shortcomings and solutions for traditional Group LTD can set you apart from the competition by demonstrating your expertise in the field.

For advisors willing to roll up their sleeves and jump into the Group or Multi-Life Disability market, the rewards can be tremendous. As reported by the Council for Disability Awareness, 90 percent of American workers believe it is important to plan for an income-limiting disability,

but less than half of them take steps to protect their income with disability insurance. There is a huge market of workers that need a good disability insurance agent to provide this vital benefit.

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