DI Exclusion Riders Explained

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What happens at claim time if you have an exlusion rider on your Disability Income (DI) Insurance Policy?

While the majority of DI insurance policies are issued on a standard basis, there are times, due to medical history, an exclusion rider may be necessary. How will an exclusion rider impact a DI insurance policy at the time of a claim? Typically, an exclusion rider will state that benefits are not payable for a disability resulting from a named condition (i.e., Gastroesophageal Reflux Disease) or injury to, disease or disorder of an area or part of the body (i.e., lumbosacral spine). The intent of the rider is to exclude or restrict coverage for a known pre-existing medical condition or a condition that predisposes the insured to a potential disability. In the event an injury or illness prevents the insured from working, they should submit a claim. DI carriers will thoroughly evaluate the claim and determine if the exclusion rider applies to the disability. Carriers will request medical information to evaluate and determine whether the pre-existing condition is a contributing factor toward the disability. If it is determined the pre-existing condition did not cause or contribute to the disability, then the disability will be covered and benefits are payable, assuming all of the other terms and conditions of the policy are met. If the pre-existing conditions caused or contributed to the current disability, then the terms of the exclusion rider will apply and benefits are not payable.

Consider a Cervical Spine Exclusion Rider on a policy for an applicant with a herniated disc at the C6-C7 area. Disabilities resulting directly or indirectly from the existing medical condition, such as sprains, strains, herniated discs, degenerative disc disease, arthritis, etc., would generally fall under the terms of this exclusion rider and be excluded from coverage. However, if an automobile accident caused fractured vertebrae or severe spinal cord injuries, and it was determind the underlying pre-existing condition did not contribute to the disability, then the disability would be covered under the policy, assuming that all of the other terms and conditions of the policy are met.

If the insured suffered from two concurrent disabling conditions, one that is specifically mentioned under an exclusion rider and one that is not, and if the covered condition alone renders the insured disabled, benefits would be payable assuming all other terms and conditions of the policy are met.

Inside this issue:

If there are specific topics you'd like to see covered in future newsletters, please contact:

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Newly Self-Employed Summary

Is your client newly self-employed? They may still be eligible for individual disability income insurance. Below is a summary of the guidelines some of our carriers have for newly self-employed applicants.

Principal: While at this time there are not published guidelines, as a rule-of-thumb, Principal will consider a proposed insured that is newly self-employed at about 75% of what their historical earnings would qualify for if they have been working in the same industry. That benefit amount is reviewable for an increase when there is a 1040 tax return that documents their first full year in self-employment. If newly self-employed *and* working from their home where they had not been previously, the consideration would be less (i.e., possibly 50% of historical income and with a 5-year maximum benefit period).

MetLife: In most cases Met provides individual disability income insurance coverage based on 75% of historical W-2 earnings for newly self-employed business owners that have work experience in the same professional capacity. In certain situations, Met will consider additional coverage. Eligible occupations include those that fall in a 6A, 5A, 4A and 3A occupation class as well as medical occupations.

Ameritas: As a general rule, Ameritas will consider 75% of the income prior to self-employment if the proposed insured is working in the same profession.

Mutual of Omaha: Currently a person has to be self-employed for at least 6 months if working in the same industry as they were prior to self-employment, or 12 months if working in a different industry. The carrier is currently evaluating these guidelines to see if any changes should be made to put them more in line with industry standards.

Standard: Newly self-employed business owners with work experience in the same professional capacity may be eligible for individual disability income insurance coverage based on their historical W-2 earnings. Insurable income is based on 75% of each individual's final, annual earning rate as a non-owner employee in the same profession as his or her new business. This is available to occupation classes 5A, 4A, 4P, 3P and 2P physicians. To be eligible as a business owner, the proposed insured:

- Must have established a business within the past 12 months
- Is actively involved in the operation of the business
- Is actively generating revenue at the time of underwriting
- Has been employed in the same professional capacity for at least 3 years as a non-owner, earning at least $50,000 annually.
- Has provided documentation of two years' prior income. Bonus income may be included depending on occupation, bonus history and how the bonus was generated. Fluctuating income may be averaged.

Spouse Security Benefit for LTC

The recommendation to insure one's risk for long-term care need not end when you discover one spouse is uninsurable. For a long time, when one spouse was uninsurable, the inclination was to look for a high risk/substandard alternative, but that does not have to be the case. Mutual of Omaha's long-term care policies offer a unique optional rider as a solution to address this risk. ***Security Benefit*** rider provides an *additional benefit* when the insured spouse goes on claim. The intent is that the *additional benefit* may be used to pay for care or expenses incurred by the uninsurable spouse while the insured spouse is on claim.

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Spouse Security Benefit for LTC (continued)

The ***Security Benefit*** provides an advantage in the LTC marketplace. Typically when a couple learns one partner is ineligible for coverage, they may try to look elsewhere or not do anything. The ***Security Benefit*** helps you save the sale by offering those clients a viable solution to a common problem. It allows you to write a policy on the insurable partner while offering a measure of security and protection for the partner who is uninsurable. This solution is something not available by other traditional LTC carriers.

Here is how the ***Security Benefit*** rider works:

Catherine and John are both 57. Catherine is in relatively good health. However, John has insulin dependent diabetes. Through a health pre-qualification process you determine he uses greater than 50 units of insulin a day, which means he's ineligible for coverage (now and likely forever). You recommend that they purchase an LTC policy for Catherine and include the optional ***Security Benefit*** rider to address John's needs.

That means when Catherine goes on claim, the policy will pay up to an additional 60% of the policy's reimbursement benefit for covered services she receives each month, excluding the cash benefit, if any. The couple then can use the money to pay for any services or living expenses John may need while Catherine is unable to care for him.

Since Catherine is the policyholder, there is no medical underwriting required for John. As an added benefit, the ***Security Benefit*** paid while Catherine is on claim, *will not reduce* her policy limit.

Call us at 877.455.9580 if you have any clients who may benefit from this solution.

Ben Towne Foundation

Pacific Advisors continues to support the efforts Ben Towne Foundation is making toward the cure for childhood cancer. Some of you have asked to hear more about the foundation and what they do.

Jeff and Carin Towne started Ben Towne Pediatric Cancer Research Foundation in 2010 in memory of their son, Ben Towne, who died of neuroblastoma at the age of three and a half years. Ben Towne Foundation is dedicated to Childhood Cancer Research, where 100% of the contributions go toward exploring innovative ways to treat childhood cancer so that patients do not have to endure the harsh chemicals of chemotherapy and radiation. Their therapy approach is to reprogram the body's infection-fighting T cells to find and eliminate the cancerous cells.

A look at the accomplishments of Ben Towne Foundation:

- In 2011, Ben Towne Center for Childhood Cancer Research became established in partnership with Seattle Children's Research Institute.
- In 2012, the first clinical trial using reprogrammed T cells was approved by the FDA.
- In 2013, the second clinical trial was submitted and approved by the FDA. The first two patients that received the reprogrammed T cells were declared in remission. Ben Towne Foundation received an award at the Seattle Met 2013 Light A Fire Awards for Best New Nonprofit.

Pacific Advisors believes the work they are doing at Ben Towne Foundation is inspiring and innovative. We are honored to support the cause to find a cure for childhood cancer.

If you would like to donate to the cause or learn more about Ben Towne Foundation, visit their website at www.bentownefoundation.org or contact us at 877.455.9580.

News You Can Use

- May is Disability Insurance Awareness Month and it will be here before you know it. Be sure to keep an eye out for our postcards and weekly e-newsletters during the month of May as we will be sharing sales ideas and marketing pieces that you can use with your clients and prospects to sell more DI insurance policies.

- Pacific Advisors was honored to receive The Standard's Top National Disability Insurance Leadership Award for the 14th consecutive year. Each year, The Standard recognizes the Top Ten Managing General Agencies for outstanding sales production and dedication to service for their shared customers.

- Maranda Cramer celebrated her 10-year anniversary at Pacific Advisors in March! Please help us to congratulate her. Maranda started her career at Pacific Advisors as an Illustration Specialist and then spent many years as a New Business Manager. Currently, Maranda manages all of our Guaranteed Issue cases, as well as in-force policy service. We are pleased to have had Maranda as a part of our team over all these years.

- You may have noticed some new faces around Pacific Advisors. We welcomed Amy Thornton and Emma Stover to our New Business Management team in January. Contact Amy at 877.455.9580 or amy@pacificadvisors.net, and Emma at 877.455.9580 or emma@pacificadvisors.net for your DI and LTC quotes or case management needs.