

Financial Advisor Series

ESSENTIALS OF DISABILITY INCOME INSURANCE
Third Edition

Kevin M. Lynch



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Use of the Term Financial Advisor or Advisor

Use of the term "financial advisor" as it appears in this book is intended as the generic reference to professional members of our reading audience. It is used interchangeably with the term "advisor" so as to avoid unnecessary redundancy. Financial advisor takes the place of the following terms:

- Account Executive
- Agent
- Associate
- Broker (stock or insurance)
- Employee Benefit Specialist
- Estate Planner
- Financial Consultant
- Life Insurance Agent
- Life Underwriter
- Planner
- Practitioner
- Producer
- Property & Casualty Agent
- Registered Investment Advisor

- Financial Planner
- Financial Planning Professional
- Financial Services Professional
- Health Underwriter
- Insurance Professional
- Registered Representative
- Retirement Planner
- Senior Advisor
- Tax Advisor

Answers to the Questions in the Book

The answers to all essay and multiple-choice questions in this book are based on the text materials as written.

Essentials of Disability Income Insurance explores individual and group disability income insurance products, as well as business-related disability buyout, business overhead expense insurance, key-employee disability insurance, and salary continuation products. The first six chapters examine the individual disability income product and are structured around the eight-step selling/planning process. Chapters 7 and 8 examine business disability insurance products.

Chapter 1 begins by discussing the history and evolution of disability income insurance and its current place as an essential component of personal financial security and risk management. The chapter also introduces the eight steps of the selling/planning process and explains what client-focused planning is and how it is conducted. The chapter goes on to discuss step 1 (identify the prospect) of the selling/planning process, and concludes with reasons why advisors should market disability income insurance.

The focus of chapter 2 is sources of personal disability income and approaching prospects, which is step 2 of the selling/planning process. Social Security Disability Insurance and other government disability income programs are examined in detail. Financing alternatives to disability income insurance are also discussed. The chapter concludes with a discussion of preapproach and approach techniques for marketing disability income insurance.

Chapter 3 focuses on step 3 (meet the prospect) and step 4 (gather information and establish goals) of the selling/planning process. It describes how to establish a relationship and communicate effectively with the prospective client. It provides an overview of the risk of becoming disabled and the need for the appropriate disability income insurance product to insure that risk. With the aid of prequalification and disability income fact-finder forms, the advisor is able to gather personal and financial information about the prospect and help that individual establish and quantify his or her need for disability income.

Chapter 4 examines the individual disability income product. The chapter begins with a discussion of the provisions that define disability income insurance. It also explores the 24 statutory provisions under the Uniform Individual Accident and Sickness Policy Provision Law. Additional policy benefits and riders commonly found in individual disability income insurance policies are surveyed as well. The chapter concludes with the income tax implications of individual disability income insurance.

The first part of chapter 5 discusses step 5 (analyze the information) and the first part of step 6 (developing the plan) of the selling/planning process. The chapter discusses how to analyze the client's existing insurance and financial situation, with emphasis on the need for adequate disability income protection and techniques to develop a plan to improve that situation. The second part of chapter 5 focuses on the second part of step 6 (presenting the plan) of the selling/planning process. It discusses strategies for presenting disability income insurance solutions to the prospective client. The chapter concludes with a thorough discussion of managing resistance and handling objections to the purchase of disability income insurance.

Chapter 6 deals with step 7 (implement the plan) and step 8 (service the plan), the final two steps of the selling/planning process. The chapter begins by discussing some issues involved in implementing a plan, such as completing the disability income insurance application. Field and home-office underwriting are also discussed. The chapter concludes with a discussion of policy delivery techniques and strategies for servicing the individual disability income insurance client on an ongoing basis.

Chapter 7 discusses the types of disability insurance products that business owners need. Group disability income insurance is discussed in detail. Disability income salary continuation plans for the owners of small businesses are also explored. The chapter concludes with a discussion of prospecting in the business disability marketplace.

Chapter 8 begins with a detailed discussion of disability buy-sell funding and disability buyout insurance. Business overhead expense and key-employee disability insurance are also examined. The final topics are the regulation of advisors and ethics and professionalism in selling DI insurance.

Learning Objectives

An understanding of the material in this chapter should enable the student to

1. Describe the history of disability income (DI) insurance and its relevance in today's financial services marketplace.
2. Discuss the importance of DI insurance in total insurance planning.
3. Explain the need for DI insurance.
4. Identify the eight steps in client-focused planning.
5. Identify several potential market segments for DI insurance.
6. List and describe seven sources of DI insurance prospects.
7. List several reasons why advisors are hesitant to sell DI insurance.
8. Describe several reasons why advisors should market DI insurance products.

INTRODUCTION

This chapter examines what disability income (DI) insurance is and the various reasons why it is needed. It also describes the financial problems that DI insurance attempts to solve and explains how it has developed over the years. The chapter also explores sources for identifying DI insurance prospects. Finally, the chapter discusses how important DI insurance is to our society today and why advisors need to market it.

According to *Webster's Third New International Dictionary*, disability is defined as "the condition of being disabled: incapacity," and "the inability to pursue an occupation because of physical or mental impairment."

This definition is objective in its factual statement of what constitutes a disability. It does not account for the subjective interpretations of disability insurance companies use to decide when a person is disabled. It also

does not consider the financial and emotional aspects of disability from the disabled person's perspective. The financial impact associated with a disability is what gives rise to the need for DI insurance.

This textbook will look at individual DI insurance and the closely related business disability products such as disability buyout coverage, business overhead expense insurance, and key employee disability insurance. All of these are designed to protect against the serious financial problems that can result when a person suffers an injury or illness that interferes with his or her ability to work.

DI Coverage—Past and Present

A brief review of the historical development of health and DI insurance may help you understand how—and why—the products marketed today have evolved.

DI in the Past

Both property and casualty and life insurance have roots in the 17th century or earlier, but insurance to protect loss of income from the result of an illness or accident did not appear until the mid 19th century with the development of simple accident policies.

In general, during the early years of our country, there was not a significant need to replace lost income because of injury or sickness. Our economy was primarily a rural one, and extended families usually stayed together. When an illness or accident struck, the family worked together to get through the time of need. Because income came from the land, rather than a salary paid by someone else, family and neighbors usually made up for the loss of a disabled worker.

As society became urbanized and specialized, families split apart as they moved to cities to take jobs. More and more families became dependent on the income of an individual wage earner. As the need for that income became more refined, the insurance industry developed the means to protect that income.

Accident Coverage. The Railway Passengers' Assurance Company of London sold the first accident insurance coverage as part of a train ticket in 1848. In 1852, the company offered expanded coverage for loss from any accident.

James A. Batterson, a stonecutter from Hartford, Connecticut, who traveled to England and bought a Railway policy, brought this form of coverage to the United States. Returning to the U.S., he founded the Travelers Insurance Company in 1863. Coverage applied to accidents that occurred during travel, so the coverage was limited and the rates were low.

Accident benefits in the early days of the health insurance business were usually made as lump-sum or installment payments over a short period of time. DI insurance gradually evolved from this original concept.

Sickness Coverage. Sickness insurance as we know it today was developed in the late 19th century. In 1890, the St. Lawrence Life Association issued the first combined accident and sickness policy. The first policies offered no coverage for medical expenses; they covered only the income lost from accidents or the contraction of a few diseases.

Following World War I, the DI insurance industry grew rapidly. Many companies offered DI products, often in the form of a rider attached to a life insurance policy. Some of the products competed by offering benefits that increased as the period of disability lengthened. In addition, the definition of disability was quite liberal compared to today's standards. As a result, insureds had little incentive to get back to work, and the budding disability insurance industry learned some painful lessons.

During the widespread unemployment of the Depression Era, DI insurers first realized the problems of liberal definitions of disability and the amount of indemnity offered by the riders that were often based on the amount of life insurance purchased. During the 1930s, insurers experienced a significant increase in both the number and length of disability claims. There was little financial incentive for a person stricken by illness or accident to recover quickly. In many instances, injuries and illnesses were feigned. Disability insurance was used as "unemployment insurance" by unscrupulous policyowners.

As a result, some companies failed and others withdrew from the marketplace. The companies that continued to write DI coverage readjusted their sales and underwriting positions. The disability rider on a life insurance contract virtually disappeared. It was replaced by carefully designed individual policies. The insurance industry learned that care must be taken in the definitions, design, pricing, sale, and underwriting of DI products.

Recovery and Growth. Following World War II, companies returned to designing and marketing DI insurance. Remembering the lessons learned from the 1930s, insurers recognized that DI insurance should be linked directly to income.

In 1956, disability benefits were provided for participants in the Social Security program. In the mid-1960s, both state and federal governments moved to provide and expand DI benefits. Workers' compensation plans providing monthly benefits to workers disabled by on-the-job injuries or work-related illnesses exist in all states. Some states have even developed programs for disabilities not covered by workers' compensation.

In the midst of this expanding market, the economy once again taught the insurance industry a lesson. The recession of the mid-1970s caused serious losses to DI insurers. As in the 1930s, some people used their DI coverage as "unemployment" insurance. The recession, coupled with government DI programs, had a severe adverse impact on the disability insurance market, especially among lower-income insureds.

In restructuring their marketing efforts, many insurers targeted the white collar and professional market. Insurance companies assumed that these people had greater earnings potential and vocational drive than those in blue-collar markets. It was also felt that professionals were motivated to return to work because of their vocation, even during recessionary periods.

The late 1970s and 1980s saw a dramatic evolution in the development of DI insurance products. As companies competed for a larger share of the disability market, they developed policy features and marketing strategies to make their products more attractive and competitive. These included

- more liberal definitions of disability
- own-occupation definitions of disability
- extended benefit periods
- increased issue and participation limits
- noncancelable policies with guaranteed rates
- relaxed underwriting requirements
- a move to unisex rates

At the same time, many companies targeted high-income professionals like doctors and dentists in their sales efforts.

The aggressive pursuit of upscale markets with high-income levels, combined with increasingly liberal underwriting, benefits, and issue and participation limits, began to have a negative impact on the profitability of many of the biggest disability providers.

In the early 1990s, changing claim patterns and other expense factors once again began to make companies reconsider their underwriting practices. Many companies started to rethink their liberal provisions in the face of negative claims experience.

Late in 1994, a number of companies announced major changes in their approach to DI insurance. Some companies withdrew from the marketplace entirely. Others, including three of the top 10 disability producers in the country, formed marketing agreements with other companies that specialized in disability insurance coverage.

Other companies adjusted the provisions of their policies. Some of the trends and common changes in the late 1990s that continued into the new century were the

- emphasis on guaranteed renewable policies in place of noncancelable ones
- elimination or modification of coverage with own-occupation definitions of disability, sometimes limiting it to a specific number of years
- elimination of lifetime benefits
- imposition of benefit caps for specific health conditions
- reduction of issue and participation limits
- elimination of short-duration elimination periods
- reclassification of occupational ratings
- movement toward income replacement instead of flat benefit amounts
- movement back to individual sex-distinct rates
- limitations on coverage for mental and nervous conditions

In addition, all companies have tightened their underwriting practices. This includes a restructuring of pricing to reflect the claims experience of the less profitable policy features.

Even companies that have not made significant changes in their policies are taking greater care in assessing the risks they accept. More information about applicants is being requested by insurance company underwriting

departments, especially financial information, and a higher percentage of applications are being rejected or modified.

DI Coverage Today: An Overview

As individual DI insurance continues to evolve, fewer contract differences separate the major carriers in the industry. Instead, distinctions of service, response time, and marketing support are becoming the characteristics by which DI insurance carriers are measured. However, because the DI product is still new in comparison to other lines of insurance, some contract provisions vary from company to company and state to state. In this section we will merely mention aspects of DI insurance products and introduce some policy provisions and definitions that will be discussed in more detail later in this book. For now, however, it is important that you have an overview of certain basic DI contract terms, definitions, and policy provisions.

disability

Definition of Disability. From an insurance company standpoint, disability can be one of the hardest perils to insure, because definitions of disability are often quite subjective. It is much easier to define death or property damage than it is to define disability. Insurance company disability definitions do have one thing in common: They always relate to a loss of income caused by accident or sickness. Beyond that, definitions can differ to a great extent. For example, here are several descriptions and definitions of *disability* used in today's products:

- the inability to engage in any gainful occupation in which the insured might reasonably be expected to engage because of education, training, or experience
- the inability to perform the duties of your occupation and not working in any other occupation
- the inability to perform the duties of your professional specialty
- the inability to earn as much as was earned prior to an accident or a sickness
- a sickness or injury that continuously prevents him or her from performing the material and substantial duties of his or her occupation at the time the disability began. After 24 months of benefits have been paid, "occupation" means any occupation for which the insured is or becomes reasonably suited by education, training, or experience.

Furthermore, many contracts have several categories of disability within the definition of disability, such as the following:

- total disability
- presumptive disability
- partial disability
- residual disability

It is crucial in your marketing activity to have a clear understanding of the different definitions. You must be able to identify and understand what terms are used in the contracts you sell and service and how they differ from other definitions.

Definition of Income. The amount of income a prospect has is a key factor in underwriting DI insurance. Income and its components can be a difficult area to define precisely. Companies do not want to overinsure an individual and create the kinds of problems that were previously experienced in times of economic depression and recession. Therefore, among other things, insurers consider both an individual's earned and unearned income.

earned income Generally, earned income is income produced by a person's efforts in a business, trade, or profession—that is, the income that would stop or be severely reduced by a disability. Earned income is the basis upon which an insurance company determines the amount of DI insurance coverage to make available to an individual.

disability income insurance Disability income insurance may be defined as a financial product that attempts to indemnify its owner for the lost capacity to earn income resulting from an impairment that is caused by either an accident or illness. In other words, DI insurance replaces lost earned income that results from the insured's becoming disabled.

The amount of DI insurance available is measured as a percentage of earned income, usually excluding business expenses but including pension contributions. The maximum percentage of gross earned income available may range from 50 to 70 percent, depending on the insured's income level and the insurer's underwriting practices. As a practical limit, most companies seek to insure no more than 60 to 70 percent of an applicant's gross earned income, known as issue and participation limits. The percentage of gross earned income is the overall limit; the amount of DI coverage available may be reduced by other factors such as unearned income (income from dividends and interest), the individual's net worth, or other DI insurance covering the applicant.

EXAMPLE

Assume Smith has net earned income of \$4,000 a month. The insurer has issue and participation limits of 60 percent. This means that Smith is eligible for up to \$2,400 ($\$4,000 \times .60$) per month of benefits. Smith has no unearned income, but he does have existing group coverage of \$1,000 per month. The insurer will adjust the amount it will issue to \$1,400 ($\$2,400 - \$1,000$) to compensate for the existing coverage and to avoid exceeding its issue and participation limits.

Other mitigating factors may be taken into consideration for further adjustments, and these will be discussed in subsequent chapters of this book. For now, the point to keep in mind as you talk to prospects is that it is vital to determine all current income, the sources of that income, and the amount of existing coverage.

Policy Cancellation and Renewal. DI insurance contracts vary with the ability of the insurance company to cancel or renew the coverage. You should carefully review the contracts you work with to determine which renewability provisions are offered by the DI insurance carrier(s) you represent.

noncancelable

Noncancelable. With the non-cancelable is type of DI insurance policy, known in current usage as a "non-can" policy, the insured has the right to continue coverage up to a specified age or for a specified period of time. The insurer cannot change the scheduled premium or the policy provisions, or refuse to renew the policy, although policy provisions may be improved to the benefit of the insured. These policies often become conditionally renewable at age 65 to provide extended coverage. The noncancelable provision may be offered as a rider to a guaranteed renewable policy.

guaranteed renewable

Guaranteed Renewable. In guaranteed renewable policies coverage is guaranteed to a specified age as long as premiums are paid. Premiums may not be changed unilaterally or on an individual contract. The insurer can change the premium by underwriting class, but only with state approval.

Conditionally Renewable. A conditionally renewable policy is renewable as long as the insured continues to meet the qualifications outlined in the policy. Currently, this policy provision is seldom offered prior to age 65.

Optionally Renewable. Under an optionally renewable provision, the insurance company has the right to terminate the agreement at any anniversary. The company also may increase premiums and/or add exclusion endorsements.

Duration of Benefits. The DI insurance contract defines the length of time that benefits will be paid. Benefit periods can range from one year to the insured's lifetime, with the most common being to age 65. Some policies written today provide benefits to age 70 or are tied to Social Security's changing full retirement benefits age eligibility schedule. Typically, not all options are available to all job classifications. The applicant selects the benefit period from the options available, based on the amount of premium he or she is able to pay. The shorter the benefit period, the lower the premium. The duration of benefits for disability caused by accident or by sickness are virtually always the same.

Elimination Period. The elimination period, or waiting period, is the time during which the policyowner must be disabled before benefits begin to accrue. Typical elimination periods are 60, 90, 180, and 365 days; a 90-day period is most common. Some companies offer even longer elimination periods, while some offer shorter ones where allowed by state law.

Summary

Today's DI insurance product offers a variety of policy provisions, including various definitions of disability and income, and varying benefits. The loss of income through disability is substantial, and the DI insurance industry plays a major role in protecting against that loss.

As companies reconsider their underwriting and marketing approaches to DI insurance, advisors and companies alike are reminded of one fundamental principle for all insurance sales. Although policy features are important and may influence a sale, the fundamental purpose of insurance is to provide financial protection to meet a basic need. As a financial services professional, it is your responsibility to make certain the product recommended is designed to meet the specific needs of the client. The client's basic need for coverage should always remain your focus and not features of the policy..

DI Insurance and the Total Insurance Needs Approach

A disability that causes a person to be unable to work either temporarily or permanently can wreak economic havoc to a person's finances. Even the partial inability of someone to work at his or her job, or inability to work as often or as effectively as the person once did, can cause irreparable damage to his or her financial plans. This is because expenses for food, clothing, shelter, and education continue even though the person's salary has been interrupted totally or reduced by a disability. Because most people take their

incomes for granted, you need to show prospects the exact financial impact that the loss of income will have.

Human Life Value

human life value The human life value concept is useful to calculate amounts of life insurance, and it is also useful to establish the need for DI insurance. Strictly defined, human life value is the capitalized present value of net future earnings of an individual. In a more casual definition, it is a person's economic value. If a person dies, his or her economic value is cut off. The person cannot be replaced, but the economic value can be replaced through life insurance. Many people realize this and turn to life insurance to solve the problem.

Few people realize that disability can be a "living death" following a disabling accident or illness that also reduces a person's economic value. In many ways, it creates a more serious financial problem than that which occurs following a person's death. A disabled person continues to generate expenses and may need care from other family members. If family members must remain at home to care for the disabled person, they will not be able to work outside the home to replace the lost income. If a working family member must remain at home, the income loss is even greater. DI insurance coverage is essential to prevent a disability from leading to financial ruin.

Various forms of insurance exist to protect the insured's financial future. Insurance cannot prevent accident, illness, property loss, or death from occurring, but insurance coverage can prevent these problems from having a negative impact on a person's or business's financial security. It is this need for security that prompts people to buy insurance coverage.

Need for Life Insurance

People need to know that their families will be provided for when they die. Life insurance does not protect against the emotional and personal loss that death causes, but it can reduce the psychological strain associated with it by offering financial security for the family. People buy life insurance to provide for the financial obligations that remain after their death.

Need for Property and Casualty Insurance

The need for financial security also prompts the purchase of property and casualty coverage. Property insurance does not insure against the loss of a car or a home, but it protects against the loss of the financial investment

that the car or home represents. If a home is burglarized, the actual stolen television, stereo, and clothing will not be replaced, but their value will be restored to the insured who can use the funds to replace the stolen items. Accumulated possessions are usually worth much more than the owner realizes. If these possessions have to be replaced with out-of-pocket funds, a family's financial future could be jeopardized. The need to avoid these out-of-pocket losses leads to the purchase of homeowners and auto insurance.

What Would You Do?

"(Prospect), the very essence of insurance is to protect you and your family from a catastrophic or unacceptable loss. If you woke up tomorrow morning in the hospital and were told you would be unable to work for the next six months, *what would you do?* Even more importantly, what would it do to your family? (Pause) What if it were twelve months? (Pause) Never Again? (Pause)

"Disability Income Insurance protects you and your family if you cannot work, (Prospect), and that is why it is so important that we discuss it."

Most Important Asset

"(Prospect), let's say you have a machine in a special room in your home that legally produces \$300,000 per year. Let's further assume that these are the funds you use to support your family and their lifestyle. It is the only machine like it, in the whole world, and it cannot be replaced if it breaks down. Would you consider taking \$10,000 of the \$300,000 it produces annually, to insure it against breakdown?

"(Prospect), to your family and your household, that machine is *you* and the breakdown insurance policy under discussion is actually Disability Income Insurance."

Liability coverage insures against a less obvious possibility of loss. A person may cause an injury to another person or damage to his or her property, and be liable for the loss. This can cause a very real threat to financial security. A moment's inattention at the wheel of a car, for example, can cause thousands of dollars worth of property damage. Even worse, it could cause injury or possibly death to others. Multimillion-dollar judgments are awarded in the courts every day. Such liability could ruin all hope for financial security. Liability coverage is needed to guard against such devastating losses.

Need for Medical Expense Insurance

Medical science today can work wonders, but in most cases, they are very expensive wonders. Health care costs have escalated so rapidly in the

last 20 years that even a minor medical problem could threaten a person's financial security indefinitely. Medical expense coverage is a necessity. The unexpected nature of illnesses and accidents creates a need to know that if either should strike, financial ruin will not be added to the problems that accompany them.

Medical expense coverage designed to pay the costs of medical treatment does not replace income lost while a person is in the hospital or recuperating. In fact, even though medical insurance will usually protect the insured from the financial catastrophe of today's high medical costs, there are still extra costs associated with most hospital stays. Generally, deductibles and copayments must be made, and many incidental costs are not covered by medical expense insurance. Continuing income is essential not only to meet routine obligations, but also to pay the extra expenses, such as ongoing medications, which may not be covered.

With the recent enactment of health care reform legislation, there will be many changes occurring in the area of individual, as well as group, medical expense insurance between 2010 and 2020. As a financial services professional, you are obligated to remain current on these changes as they occur, so you can provide quality advice to your prospects and clients.

Pay Yourself

"(Prospect), your medical expense insurance guarantees that your doctor will be paid if you are sick or injured. What about guaranteeing that *you* will be paid as well?"

Need for Long-Term Care Insurance

People are living longer because advances in medicine, nutrition, and so forth have developed preventions, cures, and treatments for diseases and conditions that were once fatal. Thus, there are more people reaching advanced ages in which dependency on others is more prevalent. As life spans increase, the length of time people will need long-term care (LTC) due to such dependency will almost certainly increase as well. An often quoted statistic indicates that more than 40 percent of all 65-year-olds will spend some time in a nursing home.

The out-of-pocket payments for LTC by people who must pay their care from personal resources can be astronomical. According to The 2010 Sourcebook *Cost of Care*, compiled by The American Association of Long Term Care Insurance, in 2009, the average annual nursing home costs were

approximately \$72,000 for a semi-private room. The average nursing home stay is 2.5 years. By 2030, the annual cost of nursing home care is expected to rise to \$200,000 with comparable increases in home care charges.

Long-term care insurance (LTCI) is a form of insurance that usually provides coverage for personal or custodial care, intermediate care, and skilled care in various settings that may include nursing homes and at-home care, as well as adult day care and assisted-living facilities. The financial reason for purchasing LTCI is to protect a person's assets from being depleted by having to pay for LTC.

Need for Disability Income Insurance

This quote from Solomon Huebner, founder of The American College, is as true today as when he said it over 90 years ago. DI insurance provides the income needed to prevent a disabling illness or injury from becoming a total financial disaster.

"From an economic standpoint, a person has two business enterprises—a family and a life's vocation. Of these the family is by far the more important, the vocation being secondary in the sense that it is being pursued by the income earners with a view of giving the greatest economic advantage to those composing the home.

The home should be viewed as a business. It should be organized, managed and protected as is any other business enterprise. It should be maintained on a solvent basis and should be protected against needless bankruptcy. Yet, in the overwhelming mass of American homes, the difference between ordinary subsistence and actual want is only a matter of a few weeks.

In a majority of cases the only real economic asset behind the family is a potential life value—the health, goodwill, industry and current earning capacity of the income earners.

These intangible personal assets, upon which other lives are dependent, are unrealizable in the absence of adequate insurance. They may have great value today and be rendered worthless tomorrow through death or disability.

DI insurance is business interruption insurance with respect to the family business just as truly as is business interruption insurance in its application to property values. But the function of DI

insurance extends even beyond the indemnification of lost earning capacity. One of the greatest problems of the family business is the conservation of the family fund. In this sense disability insurance is *property insurance*, as necessary to the protection of the family estate as is property insurance."

Solomon S. Huebner

DI Insurance Coverage—the Common Denominator

We have seen that all types of insurance protects against financial catastrophe from any number of different perils. For most people, the values to be protected are generated in one way—from the assets accumulated by their earned income. Life insurance helps replace the income that was once generated by the efforts of the deceased insured. The assets protected by property insurance were purchased with the insured's income, and replacing them if they are lost, destroyed, or stolen would again require current income. Liability insurance protects the insured's income from being subjected to a liability judgment. Medical expense insurance protects the insured's earnings from the high costs of medical care. Long-term care insurance protects assets from being depleted in the likely event that the elderly will require chronic care in the end stage of their lives.

Obviously, income that is the primary source of a family's financial security also needs protection. Disability can put an end to a person's ability to earn an income, and disability is far more likely than death during a person's earning years. Even if a disability were relatively short, an absence of income would put most people in a financial crisis that could affect their lifestyle for a long time.

DI insurance cannot protect people from having heart attacks and car accidents. It cannot prevent disabilities. What it can do, however, is provide financial support to replace income that is lost as the result of an accident or illness. It can also help keep financial worries from being one of the hundreds of new concerns with which a disabled person must deal.

Financial Advisor's Responsibility

It is your professional responsibility as a financial advisor to draw prospects' and clients' attention to the need for DI insurance coverage. Most people realize that medical expense insurance is a necessity. Property and casualty

insurance coverage is required by lending institutions to protect property that is mortgaged through them, and state laws require auto insurance coverage. Many people realize the need for life insurance; however, they usually do not seek to buy it but rather they must be "sold" the necessary coverage. By contrast, relatively few people even know about DI insurance coverage or how the coverage works. Some people think that Social Security will take care of their DI needs. Others may believe that their workers' compensation covers them in every disability situation. Many more people have not thought about DI insurance at all.

As a financial advisor, it is your job to uncover the need for DI insurance coverage and attempt to sell an appropriate product that addresses that need. You must strive to make your prospects aware of the risk of becoming disabled, its financial consequences, and the ways to meet the very real need for income continuation if disability strikes.

As a practical matter, you need to discuss DI insurance to protect yourself. As a professional, you have a responsibility to help your clients understand disability as a threat to their financial security. A failure to do so might be considered a breach of your professional duty.

It is unlikely that many prospects will call you to talk about DI coverage. Therefore, it is up to you to emphasize the need for it and recommend products that meet the need.

The case history "But You Never Asked" at the end of this chapter well illustrates this professional responsibility.

Finding a Product

Not all insurance companies offer DI insurance products. In recent years, with many companies having negative claims experience, a number of carriers have discontinued their lines of DI insurance.

Halfway Measure

"(Prospect), there are not two kinds of lost income, but only one.

"A family will suffer just as much either way—whether the income is stopped by death or disability, and there is no way to tell which will strike first. Your life insurance leaves you only half-insured. I'd like to share some information with you about how simple it can be to complete your insurance coverage."

If you do not have a DI insurance product available to you, discuss your options with your manager or home office. Together, you can examine the various products that are available for you to market. Many companies, including some of the largest, have marketing agreements with one or more of the major DI insurance providers. If yours is not one of these, your manager can help you find a DI insurance company that provides appropriate products.

Disability Income and the Bottom Line

The fact that disability is currently a significant problem in the United States is evidenced by the statistics in the *2010 Long Term Disability Claims Review*, published by the Council of Disability Awareness. According to its statistics, \$8.1 billion in long-term disability claim payments was paid to disabled individuals by CDA Member Companies in 2009, representing a 2.9% increase over 2008. A record 627,000 disabled individuals received long-term disability payments from CDA member Companies in 2009, a slight increase over 2008. The number of disabled individuals receiving disability insurance payments from CDA Member Companies has increase every years CDA began keeping records in 2004.

Your Other Insured Assets	
Your home is worth:	\$ _____
Your homeowners insurance premium:	\$ _____
Your car(s) is (are) worth:	\$ _____
Your auto insurance premium(s):	\$ _____
You spend a great deal of money protecting these two assets. But what about protecting what makes everything possible—your income!	
Your earning power is worth:	\$ _____
The amount you now spend to protect your income:	\$ _____
The only logical solution is to purchase an adequate amount of disability income coverage.	

Also according to Social Security Administration, the number of workers qualifying for Social Security benefits continues to rise. In September 2010, there were over 8.1 million disabled workers receiving Social Security benefits under the strict Social Security definition of disability—that is, (1) the worker was fully insured, and (2) had attained a certain minimum amount of work under Social Security within a recent time period. The average check

received by a disabled worker, from the Social Security disability system was \$1,066.00.

CLIENT-FOCUSED PLANNING

client-focused planning

Because of the nature of the client-advisor relationship, it is both ethically required and financially wise for you as a financial advisor to thoroughly understand the client's needs and act to fulfill those needs as much as possible. There must be what is known as consultative planning or selling. Such client-focused planning requires you to gather as much information as possible from the client about the client's needs, goals, interests, and assets in order to put together an investment or insurance package that will best meet the client's needs. Consultative planning or selling is a sound approach to building good relationships with clients.

The sale of products is essentially client driven. You must approach clients with a willingness to listen carefully. Clients can best provide the information regarding their own needs and goals. Clients may also think that they know which product best fits those goals, but you should keep the client focused on articulating needs and goals so that you can find the best product or service to match those goals.

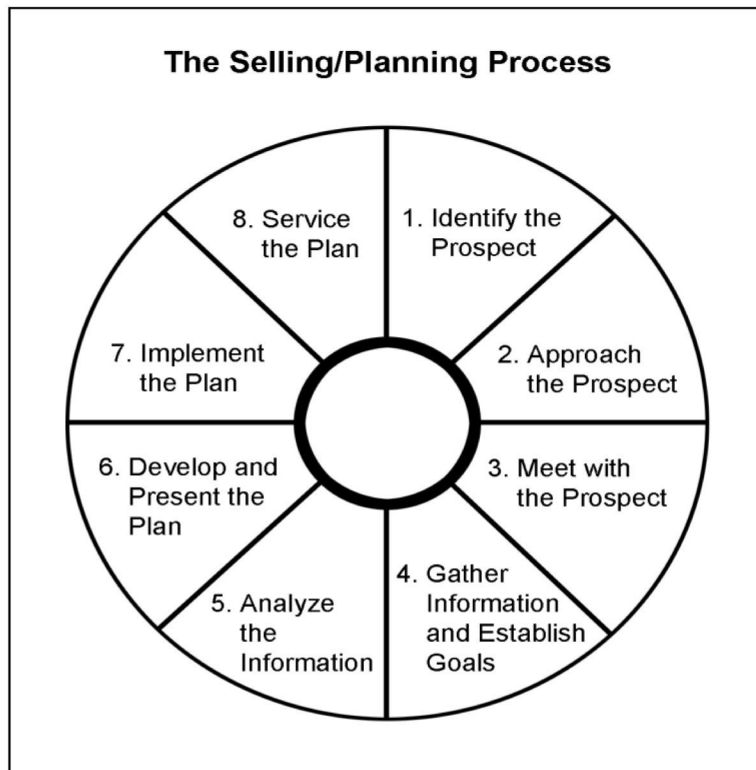
Marketing DI insurance requires the same step-by-step procedure that is necessary for financial advisors to be successful in marketing any other personal financial product. Identifying and selecting prospects for individual planning is the first step in a chronological procedure that you need to identify, adhere to, and understand in order to enhance your competency in all financial services endeavors. In this regard, it would seem appropriate to provide an overview (perhaps for some of you a review) of the universally recognized components of what is generically referred to as the "selling process" or "planning process."

Eight Steps in the Selling/Planning Process

The selling/planning process is based on a planning philosophy. Over the years, many authors have written about selling and planning the "right" way. In doing so, they have used many terms to describe the right way: relationship, client-centered, counselor, consultative, needs-based, values-based; the list goes on and on. We do not recommend any one method. Instead, we

attempt to examine those principles and concepts involved in cultivating a long-term, mutually beneficial relationship with a client.

We have divided the selling/planning process into eight steps. The selling process encompasses the (financial) planning process. Within each sale, the advisor should conduct some type of planning. The first two steps are preliminary marketing steps you must complete prior to actual planning. Steps 3 through 8 are the (financial) planning process. These six steps involve interaction between you and your client. They will be repeated many times because they are the basis for your ongoing working relationship. Knowing what you want to accomplish and why you want to accomplish it will guide your actions in each step of the process. We will briefly explore the necessary actions in the successful completion of the selling/planning process from the financial advisor's perspective.



1. Identify the Prospect

Effective planning begins with getting in front of the right prospect. Not only do you want to identify prospects who have a high probability of needing,

wanting, and affording your products, but you also want to find people who will value you and become a source for repeat business and, more important, referrals. A systematic approach to prospecting that utilizes various preapproach methods can help you find target markets of potential clients and enable you to market efficiently and effectively.

2. Approach the Prospect

This step involves getting appointments. You can do this either on the telephone or face-to-face through seminars. If you are successfully cultivating relationships, you will generate more referral-based business. With the negative feelings people have toward telemarketers, cold calling becomes more difficult, and referrals are that much more critical.

3. Meet with the Prospect

This is where you establish rapport, explain your business purpose, ask some thought-provoking questions, and listen, listen, listen. The importance of listening cannot be overstated; it is essential when building any relationship. You need to gain prospects' trust and agreement to gather pertinent information about them. Keeping the conversation focused on them and what they care about will help you build the trust necessary for developing a relationship and gaining agreement to gather the information you will need to do your job. You must also let prospects know what you can do for them (in general terms) and help them to see your value. You must answer the prospect's question: Why should I do business with you? Your final objective in meeting with the prospect is to gain acceptance to proceed to the information-gathering step.

4. Gather Information and Establish Goals

When you think of the word *interview*, you think of someone asking someone else questions. That is exactly what you want to do with your prospect. Questions help you uncover the prospect's current planning needs, goals, desires, values, and attitudes. It is helpful to discover as much about the prospect's financial priorities as you can. For example, DI insurance may be important to the prospect, but just how important is it? Is it more important than deferring a summer vacation? If it is not and you do not know that, you could be wasting your time.

The key skills in the fact-finding interviewing process are as follows:

- setting expectations and explaining your process. After brief opening exchanges between you and your prospects, review the agenda for your meeting, informing them of what to expect from the meeting and explaining your process.
- questioning. Ask open-ended questions to probe for individual needs, goals, attitudes, and values. Ask confirming questions to clarify.
- listening. Actively listen, rephrase and reflect to ensure that you and the prospect are on the same page. You should be listening during the majority of initial client the meetings.
- uncovering. Provide information or ask open-ended questions designed to help the prospect see the reality of the situation. Be fair and honest, not manipulative.
- taking notes. Jot down numbers, goals, needs, priorities, and feelings.
- summarizing. Review what the prospect has told you and confirm that you have clearly understood him or her.
- acting. Gain acceptance to work together to achieve goals. Before you leave the meeting, ask the prospect or client for a commitment to move forward with disability planning by bringing back optional solutions for their consideration. If the options make sense to them, they will be willing to act on your recommendations.

5. Analyze the Information

Once you have a good idea of the prospect's needs, goals, priorities, and attitudes, analyze his or her current financial situation. Consider the weakness(es) in the client's current plan. Then begin to formulate concepts and products that might best enhance that situation, and organize these into a potential plan, no matter how basic or sophisticated it is.

If your products do not fit the situation correctly, direct the prospect to where the prospect can get what he or she needs. For example, if the person has the money to systematically invest but is not doing so, advise him or her about the benefits of such a course of action. Because of your focus on the long-term relationship, even though the prospect may not do business with you today, he or she will remember that you had his or her best interests at heart. People will only do business with those they trust!

6. Develop and Present the Plan

Develop your product recommendations based on the information that you gathered in the fact-finding interview. Explain the applicability of as many relevant products' features and benefits as you can that address the individual prospect's financial goals. Confirm throughout the presentation that the prospect is in agreement with you so that you can handle any questions or concerns that arise. Clarify any miscommunications or misunderstandings thoroughly. Obtain the prospect's agreement to proceed toward implementing the plan.

7. Implement the Plan

Guide and assist the prospect in acquiring the financial products and services to put the plan into action. Complete the necessary paperwork and applications, and submit them to your company. Advise the prospect of the time frame and any responsibility he or she may have (such as taking a medical exam when applying for life insurance). Use this opportunity to proactively discuss any additional questions or concerns that the prospect may have.

Once the prospect is a policyowner or account holder, your goal is to convert him or her into a client. That process begins with delivery of any planning documents or policies. Delivery can also be accompanied by an explanation of the financial strategy and recommendations that you have assembled for your client. At delivery, it is important to revisit how the client said he or she felt when you originally discussed the need for disability, using their exact words, if possible. Then it is appropriate to review the benefits you are providing and how they address the applicant's financial needs. Reinforce the concept of comprehensive planning and the necessity to periodically monitor the applicant's situation to ensure that changes that may occur as time passes and lives evolve are addressed. You can do this by offering a periodic review—annually or at some other agreed upon time frame.

8. Service the Plan

This is the step in which you convert policyowners into lifetime clients. Ongoing service cements your relationship with each new policyowner, which gives you the opportunity to make additional sales and obtain referrals. Even in the course of performing minor service transactions such as a beneficiary change, you should render excellent service. What differentiates one financial advisor from another is the proactive element of his or her service

strategy. Many clients purchase products and never hear from their advisors again. Proactive servicing strategies, such as monitoring the plan through periodic reviews and sending regularly scheduled newsletters to clients, allow you to stay in touch with them. It is this high-contact service that helps you to build lasting advisor-client relationships. It will also lead to cross-selling opportunities and future referrals.

Practicing the Selling/Planning Process

Practicing and perfecting the skills necessary to execute each of the eight steps in the selling/planning process is evolutionary. It is something that you will do over and over again throughout your financial services career. Making the client the focus of your efforts greatly improves your chances of success.

MARKETING AND PROSPECTING

This section of the chapter discusses the application of conventional target marketing and prospecting concepts used to locate and identify prospects for DI insurance.

We will begin by outlining the general characteristics of a prospect for DI insurance. General qualifying criteria offer a good place to start. These criteria are the primary basis for prospecting in the DI market, which you should use before you apply any specific segmenting characteristics or demographic factors.

Once we have established the general characteristics of a DI insurance prospect, we will examine the four criteria of a qualified prospect. After determining the characteristics of a qualified prospect, the next step is to find groups of qualified prospects by segmenting and targeting markets. Next, we will examine the ideal profile of prospects who, according to a LIMRA marketing study, have a higher probability of buying DI insurance. We will also discuss how to locate individual prospects for DI insurance through several prospecting sources. The chapter concludes with a discussion of why many financial advisors are reluctant to sell DI insurance, along with reasons why they should sell it.

Identifying DI Insurance Prospects

Prospecting Overview

Virtually anyone who depends on an earned income should be a prospect for DI insurance. The objective of DI insurance prospecting is the same as prospecting in any personal market, which is to continually find potential clients. Reaching that goal calls for the same type of organized, day-to-day action as you have used in other personal markets.

prospecting Successful *prospecting* requires that you establish organized and systematic procedures to achieve specific and definable activity goals. It means following these procedures methodically, thoroughly, and regularly. It entails disciplining yourself well enough and consistently enough so that the procedures become habitual for you.

Successful prospecting is a continual process that you should integrate into all of your sales and service activities. Being alert to prospecting opportunities at every phase of the sales process will help you maintain a consistent inventory of high-quality prospects.

Once you establish the habit of prospecting, you should be able to spend less time on poorer quality prospects. As you move toward working with wealthier and more qualified prospects (described below), you will find that your financial rewards will be simultaneously larger and easier to achieve. The result is that you will earn more money in proportion to the work and time you expend.

Identifying Qualified Prospects

The process of selling any insurance or financial product begins with creating a profile of the typical person who will believe in you and buy your products and services. In other words, you need to define the characteristics of qualified prospects.

qualified prospect Generically, a *qualified prospect* is a person who

- needs and values your products and services
- can afford to pay for your products and services
- is insurable
- can be approached on a favorable basis

As a general rule, the more specialized and lucrative the profession, the greater the need for disability income insurance to protect the practitioner.

Let us apply this definition to create a profile of a qualified DI insurance prospect.

Needs and Values Your Products and Services. Who needs DI insurance? For adults of working age, disability is more likely to occur than death. At all ages, disability resulting from sickness or accident can produce an "economic death" that has a harsher impact on a family's economic security than death does. A disabled person cannot earn a living but continues to live, needing funds for living expenses and often for medical bills as well.

As the following table and figure show, statistics indicate that the odds of death during an individual's working years are much less than the odds of a significant long-term disability (one lasting more than 90 days). Furthermore, although the overall probability of incurring a long-term disability during an individual's working years declines (see the second figure below), one study shows that an individual aged 35 is more than twice as likely to have a long-term disability before age 65 than he or she is to die.

Table 1-1 Probability of Disability vs. Death	
Age	Ratio
30	2.31 to 1
35	2.21 to 1
40	1.95 to 1
45	1.69 to 1
50	1.53 to 1
55	1.33 to 1

Source: Commissioners' Disability Individual Table A and CSO Mortality Table

However, no matter how logical the financial reason for buying DI insurance, the prospect must have a strong enough emotional reason to buy it. He or she must value DI insurance more than other competing wants, needs, and desires. In other words, even though it makes sense for a prospect to want the peace of mind in knowing that his or her expenses will be taken care of if disability strikes, does the prospect *feel* that it is worth the premium he or she must pay for DI insurance coverage?

Emotional needs are not easily observable. The best way to uncover them is to ask prospects about their experiences with family members and friends who have needed DI insurance. One experienced financial advisor uses a series of questions to explore a prospect's feelings toward DI insurance:

- Do you know anyone who suddenly became disabled and has needed DI insurance?
- How was that person's financial situation handled?
- How would you want your finances handled if you were facing such a need?

Figure 1-1
Likelihood of Disability vs. Dying

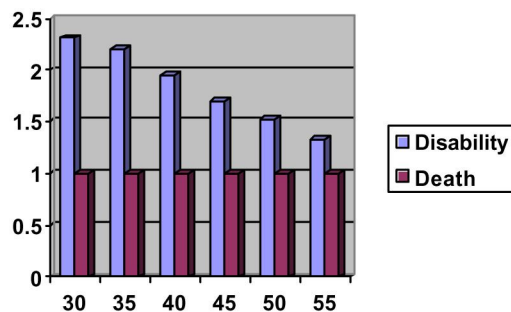
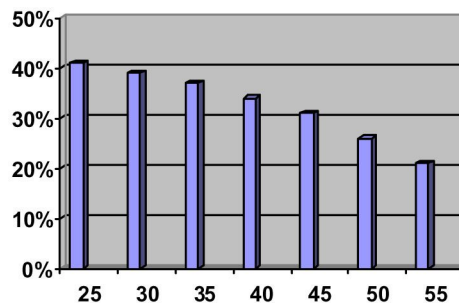


Figure 1-2
Chances of Becoming Disabled for 3 Months or Longer before Age 65



Source: Commissioners' Disability Individual Table A

There are some recognizable characteristics that may indicate that a prospect will value DI insurance. We suggest you compile your own list of characteristics, starting with these examples. Look for people who

- have personally witnessed the financial and emotional toll that a physical disability has had on a close friend or relative, as well

as his or her family. These people may be prime prospects for DI insurance.

- own other insurance products such as life or long-term care insurance. People who own these types of insurance products demonstrate they value the concept of risk transfer.
- are implementing a comprehensive financial or retirement plan or seriously considering one. People who have bought DI insurance consider it to be an important component of their financial and retirement plans.
- work for an employer that offers group DI insurance. In general, people who work for employers who offer DI insurance have greater familiarity with the issues surrounding its need than the general public does.

Can Afford the Premiums. One of the biggest obstacles to the DI insurance sale is cost and commitment. Note that cost and value are interrelated. For example, a middle-aged man may say that the premiums for DI insurance are too high. Yet you discover that he owns a vacation home and a boat. What he is really saying is that he values DI insurance less than his other current needs, wants, and desires.

Therefore, if you have not done so already, identify the income and net worth ranges of prospects that you will target in order to avoid affordability issues. Also, describe any characteristics you will look for that may indicate a prospect's ability to pay DI insurance premiums. For example, you might look for the prospect who

- owns a home
- owns a business
- has supplemental insurance policies in place such as a personal articles floater policy on fine jewelry
- has high liability limits on property and casualty insurance
- owns a personal liability umbrella policy

Is Insurable. There are many people who want DI insurance and can afford to pay the premiums but who are uninsurable because of poor health or their occupation. The worst thing is for a prospect to be declined for occupational or health reasons. When declinations occur, both the prospect and the financial advisor feel bad. In addition, the advisor fears the damage this might cause to his or her business relationship with the prospect. For this reason, many successful advisors recommend that you prequalify the

prospect over the phone. This may avoid an embarrassing situation or at least better prepare you for your interview with the prospect.

As a proactive step, you should target markets where most of the people are healthy enough to qualify for DI insurance. Also, try to target those who work in occupations that will be acceptable risks to your DI insurance carrier's underwriting department. For example, instead of targeting highway construction workers over age 50, it would be preferable to target workers in professional occupations who are in their 30s.

Can Be Approached on a Favorable Basis. Perhaps the most significant factor in deciding whether someone is a qualified prospect is whether you can meet with this person on a favorable basis. Just what is involved in this concept?

The concept is easier to explain by example than by definition, but in general terms, favorable basis means a situation in which you as the advisor are perceived as appropriate (or competent) in the prospect's eyes. It is largely a matter of acceptance and usually implies a good measure of respect, trust, and confidence in your professionalism. It often evidences itself by the prospect's being at ease with you. It is certainly characterized by the prospect's willingness to grant you sufficient and exclusive time to meet with him or her in an environment that is free of distractions.

Rapport with prospects is important even before your face-to-face meetings with them. For example, if you are making calls on the telephone, you need to be able to project a warm and professional image. If a good reputation precedes you within your target markets, prospects will be more responsive to your request to meet with them.

Once you have established a positive atmosphere and a comfortable working environment with mutual respect for each other's time, you have set the stage for the initial interview.

Identifying Market Segments

To identify likely market segments for DI insurance, it may help to ascertain overall characteristics of prospects in the global DI insurance market who may qualify on the basis of certain general demographic criteria. For example, for someone to be considered for DI insurance by a DI insurance carrier, the person would have to meet the following five qualifications:

- be age 18 to 59

- have a gross income of at least \$18,000 annually
- have a history of good health
- work at least 30 hours per week (full-time, nonseasonal)
- not have excessive unearned income or net worth

market segment This, however, would be only a starting point for prospecting in the DI insurance market. To be most productive and maximize your time and effort, you will want to locate an identifiable group of people with common characteristics and needs. This group is known as a *market segment*. You can then further refine the qualifying characteristics and identify the buyer profile of the ideal DI insurance prospect. This involves applying market segmentation and target marketing techniques to your continuing DI insurance prospecting activities.

Targeting Markets for DI Insurance

segmenting You have probably been in the financial services industry long enough to know that success comes from finding groups of prospects with common needs and characteristics, a process known as *segmenting*. The ultimate goal is to find a segment that is large enough that you do not run out of prospects. If you can find a market segment that has a communication or network system that will facilitate the process of identifying prospects, then you have what is known as a *target market*. The communication system can be formal, such as a newsletter or regular meeting, or it can be informal, such as word-of-mouth within a specific community. Either way, the communication system or network provides the means by which your reputation as a professional advisor can precede you. In other words, before you personally meet with any prospects in a target market, they will know about your abilities as a financial advisor.

Market segmentation is a powerful marketing strategy that allows you to customize your approach and presentations based on the common needs and characteristics of prospects in the segmented market.

Benefits of Target Marketing. Targeting a market in one specific industry or profession can have many advantages. You can learn about the target market—its occupational hazards, the level of training required, the income level that can be attained, and the type of disability benefits already available. Resources for the development and expansion of a target

market include the library, the Internet, professional and trade journals, public records of courts, and professional associations.

This specialized knowledge will help you approach the target market with confidence. You will already know a great deal about the industry or profession's need for DI coverage, the work-related hazards involved, and product features that most directly address the needs of this market. Your acquired expertise can earn you the reputation of the most competent and knowledgeable financial advisor to talk with about DI coverage.

Working in a target market can also make it particularly easy to obtain referrals. Because you are an expert in the needs of the industry or profession, clients will be glad to refer you to colleagues who could benefit from your services.

Targeting a Market. Because of the nature of DI planning, DI insurance can be marketed successfully using age-based market segments as "makeshift" target markets (age-based market segments lack a communication system and for that reason do not technically qualify as a target market). Many successful advisors do this by targeting narrow but specific age ranges. For example, one successful advisor targets prospects ages 30 to 39 years old because most of them are probably healthy enough to easily qualify for DI insurance.

An extension of the age-based target market theme is targeting people in a specific, but narrow, age range who are also members of a technical or medical profession, a business association, or a civic organization. The ideal situation occurs when the majority of the organization's membership is in the chosen age range. For example, if you want to target prospects ages 30 to 39, you may consider targeting a professional organization (such as members of the local chapter of the American Medical Association or the local Bar Association) or the same chamber of commerce in the community that has a large membership of people in the desired age range. Besides age range and membership, you could use other common characteristics of the prospect group, such as income range, to help establish a new target market. If you use this method for targeting a market, you will need to develop a list of desirable characteristics or a prospect profile to guide you in establishing the target market. We will discuss this concept in more detail later in this section.

For many advisors, DI insurance is just one of several insurance and financial products they offer, so they position DI insurance in a manner consistent with their current target market's view of them as advisors.

EXAMPLE

An advisor who works as an estate planner for business owners making \$100,000 to \$300,000 per year will want to position DI insurance as an estate preservation tool. Likewise, an advisor whose target market is physicians in a large city will want to position DI insurance as part of a strategy for safeguarding their future income potential and protecting their accumulated assets. Similarly, multiline advisors selling property and casualty insurance will want to position DI insurance as an essential piece of their prospect's overall plan for financial security.

Developing target markets allows you to focus on the unique needs of your prospects. Focusing will enhance your reputation within the target market as an expert in DI insurance exclusively or in financial planning products in general. It will also enable you to better understand your prospect's needs. With this knowledge, you will soon discover the efficiencies of tailoring a marketing strategy for a large number of prospects with common characteristics and needs.

Primary DI Insurance Market Segments

DI Insurance Buyer Profiles. To succeed in today's competitive world, it takes a keen awareness and a thorough understanding of the underlying market forces. Transforming data into valuable insight helps you identify trends and understand DI insurance buyer and owner characteristics, which allows you to leverage the knowledge necessary to develop realistic marketing strategies.

Research organizations, such as LIMRA International Inc., conduct studies of DI insurance buyers to determine profiles of their demographic characteristics. LIMRA studies have compiled information on hundreds of thousands of DI insurance contracts from numerous insurance companies. In addition to demographic information, LIMRA collects attitudinal and financial product ownership information from DI insurance buyers and owners; participating companies represent a mix of large, mid-size, and small DI insurance writers, with in-force contracts sold in both retail and employer-sponsored markets. These reports investigate buyer demographic characteristics such as gender, age, occupational class, and type of policy purchased as they relate to the DI insurance marketplace. Consider the information in Table 1-2 extracted from LIMRA's *The Disability Income Buyer Study: United States, A 2009 Report*.

The statistics in Table 1-2 are meaningless unless you interpret them and use that interpreted information to provide guidance in your own DI insurance

target marketing efforts. For example, if you want to purchase a list of prospects for DI insurance, you can make the following conclusions from the information in the table:

- Roughly six of ten buyers of DI products are men.
- Sixty percent of all individual DI insurance policies are purchased by people aged 30 to 49.
- Ninety-one percent of policies purchased are by people in the top two underwriting classifications.
- Over six in ten policies purchased are noncancelable-type DI insurance policies.

Based on these statistics, it would make sense for you to seek prospects for DI insurance in the higher occupational classes (white-collar professionals, managers, and supervisors) and in the younger age brackets (between 30 and 49 years old) who are either male or female.. (This same data, from the 2004 report, would have had you concentrating on males only. That is one reason to keep current with the demographics surrounding disability.) Prospects in the top two occupational classes have jobs with little exposure to accident hazards and that do not require heavy physical activity. This group also includes persons engaged in trades and services whose duties are light and nonhazardous and persons in superintending, manufacturing, and construction operations. Consequently, prospects in the top two occupational classes would also presumably have higher incomes, and those in these age brackets would have a higher probability of having a favorable medical history than people who are aged 50 and older. Furthermore, because these characteristics fit the profile of individuals who would likely qualify for noncancelable DI insurance, you would be wise to discuss the features and benefits of these products in your marketing efforts.

This type of characteristics-focused approach to marketing will not guarantee your success in selling DI insurance, but it will increase your chances of marketing the right product to the most receptive and qualified prospects. This will enable you to more effectively allocate your time and financial resources into your prospecting and marketing strategies.

Table 1-2 Demographic Characteristics of Individual DI Insurance Buyers	
Percentage of Policies Purchased	
Gender	Percentage
Male	55%
Female	45%
Age	Percentage
60 and over	3%
50-59	16%
40-49	27.5%
30-39	33%
< 30	20.5%
Commissioners Individual Disability Table A (CIDA) Class Underwriting Class	
Class	Percentage
Class 1: the lowest premium class; includes professional, technical and managerial occupations that are generally office duties only	72%
Class 2: supervisory and other skilled clerical and skilled technical people	19%
Class 3: nonhazardous light manual workers	6%
Class 4: hazardous work with heavy manual labor or using heavy equipment	3%
Policy Type	
Policy	Percentage
Noncancelable	61%
Guaranteed renewable	37%
Source: The Disability Income Buyer Study: United States © 2009, LIMRA International, Inc.®	

Demographic Market Segments. Thus, according to the basic qualifying criteria and additional demographic characteristics of the majority of DI insurance buyers, we can identify the primary DI insurance market segments, based on the following demographic selection criteria:

- age
- gender

- occupational class or profession
- income

Prospects within each of the four basic market segments must also have these characteristics to qualify for DI insurance:

- a good health history
- full-time employment
- nonexcessive unearned income or net worth
- no participation in hazardous hobbies (Disability caused by participation in these activities could be limited or excluded using a policy rider.)

Other Market Segments

There are many ways to segment a market; each way may shed new light on how best to approach your prospects more effectively. Segmenting your markets in different ways gives you fresh perspectives about your prospects, leading to new approach and presentation techniques that could help them better understand the need for DI insurance.

Many of the other market segments for DI insurance are based on still another demographic criterion. That criterion is marital status. Although marital status is not a primary selection criterion, it is a useful factor in classifying many of the other DI markets segments.

Traditional Family Units. In the past, most advisors looked for prospects in what were considered "traditional" family units. These units were composed of a breadwinner, a nonworking spouse, and one or more dependent children under age 18.

Approximately 25 percent of all families today fit this profile.¹ They depend on the sole income of the working family member. This family is, of course, an excellent source of DI insurance prospects because the disability of the sole wage earner would cause all earned income to cease immediately. However, today's demographics indicate that a majority of the working population fits into a different profile.

Today, there is a greater variety in what is considered the family unit. Many people choose to stay single longer, marrying and beginning families at a

1. U.S. Census Bureau, Current Population Survey 2009.

much later age than their parents. In the interim, they establish their own homes and need DI protection.

Many married people become "single again." Statistics tell us that almost one in two marriages end in divorce. The result is a variety of lifestyles, all of which require income protection, even though the needs for other types of insurance may be minimal. Female-headed households and single-person households are largely untapped markets for DI insurance. Moreover, as you will learn, many of these people will be more receptive to DI insurance than any other kind of insurance.

The following are some additional examples of other DI insurance market segments.

Single People with No Dependents. Single people with no dependents may not have a great need for life insurance, but they are among the best prospects for DI insurance coverage, and they are often the easiest to sell. Parents may be a potential source of financial support in the event of a disability if they are able and willing to help. Many of them are not able, however, and often singles have little desire to burden their parents with a request for financial support. Their "hot button" may be their pride of independence. They not only want to preserve their independence, but they also see it as a primary need.

The youthful single market is one that both needs and can afford DI coverage. Likewise, you should not overlook more mature single prospects as they accumulate assets and plan for their future retirement. DI insurance coverage should be a part of their financial products portfolio. It can often be the foundation for cross-selling opportunities.

Career/Professional Working Women. Women's entry into the workforce has been called the single most important social phenomenon of the 20th century. The working women's market is enormous. More than half of all women now work outside the home.

The high-income working women's market is growing, too. Women are increasingly moving into professional careers and upper management in large companies. Along with higher income comes a greater necessity to protect it in the event of disability. The professional segment of the working women's market is one that both needs and can afford DI coverage. DI insurance can be a critical component of planning for their financial security.

Two-Income Families. Two-income families constitute a major market segment for DI insurance. More married women now work outside the home than ever before in the history of the United States. Because their contribution to families' financial security is increasing, two-income families are more likely to need and be able to afford DI insurance coverage.

Initially, two-income families may not seem like good prospects for DI insurance. The second income may seem to be enough "insurance." However, a family's lifestyle usually rises to its level of income. Two-income families may have greater obligations because they live a more affluent lifestyle based on the dual income. Both incomes are likely to be essential for mortgage or car payments, or for education expenses. Both incomes are needed and both wage earners need DI protection.

You should point out the consequences of disability on the nondisabled spouse's earning ability to either member of the two-income family. The need to take care of the disabled partner can curtail the other partner's income-producing capacity.

When you consider the high level of personal debt prevalent in this country today, as well as the fact that Americans' per capita savings rate is among the lowest in the industrialized world, it is easy to see that a steady stream of income is all the more vital and must be protected with DI insurance.

A simple test of the need for both partners in a couple to have DI coverage is the answer to this simple question. "If one of you could not work for the next year, could you still pay all of your bills?"

Single Parents. DI coverage for single parents is essential. A sole income that supports a household must be protected. The disruptions to income caused by a single parent's disability can result in economic disaster.

If a single parent is disabled, there is no spouse's income to fall back on. It is likely that there is no one to care for the single parent or to help care for the children in the event of disability. Sufficient DI insurance is needed to make sure his or her financial future will not be threatened.

Divorced Parents. One group of people with a compelling need for DI coverage is recently divorced parents. Divorced parents with custody of a child or children have an immediate need for income protection. Even if they receive alimony, child support, or both, this is not likely to be substantial enough to support the household in case an accident or serious illness ends

earning power. These people, male or female, must learn to do alone what they used to do with a partner. Many people, on their own after many years of marriage, may buy life insurance but neglect DI protection because no one explained the need for it, how it works, and how they can purchase it.

When children are involved, the need is especially acute. If the parent has custody of the children, DI insurance coverage that guarantees income continuation is vital.

If the parent makes child support payments, a disability that eliminates income can cut off his or her ability to make the payments, which can result in both financial and legal problems. Incorporating DI insurance into a separation agreement or divorce settlement may be a viable way for the parent maintaining custody of the children to assure the child support or alimony will be there. In fact, protection of income in case of disability is considered so important that many divorce decrees require DI insurance on the major wage earner, particularly if alimony or child support payments are mandated by the decree.

You can find new prospects in this market segment by developing centers of influence among family law and divorce attorneys. You can also provide a valuable service to your present policyowners who are divorced by making an extra effort to talk to them about their need for DI protection. They consider you their insurance advisor, depend on your services, and expect you to point out any needs in their insurance portfolio.

To reach new prospects who are either recently divorced or single parents, you could prepare a presentation about the need for DI protection, how it works, what it costs, and what it can do. You can offer this presentation at meetings of the many support groups that have been organized in communities for divorced people and single parents. Women's groups, churches, or community centers, which often organize these groups, are always eager to have guest speakers. Insurance matters sometimes seem mysterious to the layperson, and DI coverage can seem even more complicated than other types of coverage. By explaining the benefits to people who need them, you can raise your visibility in the community, meet new prospects under favorable conditions, and market DI insurance (and other financial products) to those who should buy it.

Professional School Students. If one partner is working and the other is in professional or graduate school, the couple may be a particularly good prospect for DI insurance. The working partner's disability could not only

make it difficult to meet the usual household expenses but also seriously jeopardize the student's future as a professional. Not just one but both partners' ability to earn income could be impaired.

Some insurance companies will issue some DI insurance on professional school students and first-year professionals without regard to income. These special plans will be discussed later in the text.

A sale to the student, as well as to the working spouse, puts you in an excellent position to provide more complete DI insurance coverage for the professional once he or she has graduated and set up a practice. You might consider conducting an educational seminar directed at a group of these professional school students.

Business Owners. Business owners have to provide for their own life insurance, medical expense, and DI benefits. Therefore, their need for this coverage is essential. Without it, the business may cease to operate. Also, a business owner has possible tax deduction incentives for purchasing DI insurance. Although there is a tax advantage for any small business owner to purchase DI insurance, the owner or owners of a close C corporation can benefit the most.

There are other disability insurance products that can be useful to business owners besides DI insurance.

DI Insurance Prospecting Sources

prospecting sources

Once you have identified a few target markets or market segments, the next task is to select prospecting sources that will effectively generate a stream of prospects from these markets. In this section, we will review some general sources that you can use to locate and identify prospects for DI insurance. Which ones work best for you will depend on your specific market, as well as on your personality and skills.

There are many different prospecting sources. We pointed out earlier that nearly everyone who earns a living is a prospect for DI coverage. Here, we will give a brief overview of some of the more popular sources that successful advisors have used to market and sell DI insurance.

Existing Clients

The first place to look for DI insurance prospects is among your current clients. You already have a professional relationship with these people so it stands to reason that most of them will be receptive to working with you. They know you and respect your expertise enough to have purchased other financial products from you. Many of them may regard you as their insurance advisor. Offering your current clients the opportunity to discuss DI insurance coverage is a professional responsibility as well as an outstanding marketing opportunity.

Almost every high-income producer has a systematic procedure for contacting existing clients to find out if anything in their financial situation has changed, to follow up on cross-selling opportunities, or to discuss additional needs. You need to review your files continually to determine if your clients are adequately protected. Turn these periodic reviews into opportunities to explore the changing family and financial situation for clients who are still working—update the facts on their existing insurance plans, do an analysis of their needs, and offer them DI insurance if it addresses a need you uncover.

Cross-Selling Opportunities. Changes in your clients' insurance needs or other financial products can also present an excellent opportunity to initiate a discussion of DI insurance with them. A change in their life insurance coverage, a change in homeowners or auto insurance coverage, or changes to an investment program can all signal the need to recommend DI insurance coverage. These are cross-selling opportunities.

Changes in Life Insurance Coverage. A client may want to increase his or her life insurance coverage to cover the added responsibilities of another family member or to provide complete protection as children approach college age. Perhaps the need is to cover a new mortgage or home equity loan. Many of the same expenses that require life insurance need coverage in case of disability.

Point out to the client that disability brings income to an end, just as death does. Stress the need for income continuation in this situation, too.

Changes in Property and Casualty Insurance Coverage. If you sell auto and homeowners insurance, policy changes can present excellent opportunities to discuss DI insurance. The need for changed or increased coverage may indicate a number of changes in the insured's life that signal the need for DI insurance.

For instance, the purchase of a larger home or an expensive car may be the result of a job change, promotion, or salary increase. The purchase of additional coverage for jewelry, furs, or art can also indicate an increase in income. The additional property and casualty insurance necessary for the possessions purchased with the increased income a client is now earning provides a logical transition to a discussion of the need for DI insurance.

Changes in an Investment Program. Often, when clients make changes to their investment programs, they are associated with changes in their financial situations. For instance, if a client purchases a deferred annuity or mutual fund, it may be the result of additional income and/or the desire to enhance his or her investment objectives. By asking probing questions regarding the client's motivation for proposed investment program changes, you may discover that your client has expanded his or her financial goals to include an earlier retirement, college education for children, a bigger house, or enhanced wealth accumulation through greater tax savings on investments. All these goals indicate that your client is planning ahead and willing to allocate greater financial resources to accomplish certain financial objectives.

Changes to clients' investment programs offer an excellent opportunity for you to discuss how disability can create obstacles to achieving their goals. Furthermore, depending on what financial products your clients purchased from you in the past, they may not even realize that you sell DI insurance. Now is the time to make them aware of what DI insurance is and how it can help ensure that they accomplish their financial planning goals.

Natural Market

natural market

Whether you are new in the financial services business or have years of experience, your natural market is a prospecting source that you should not overlook. You are likely to find excellent prospects among people with whom you frequently associate in what is known as your *natural market*.

A natural market is a group of people with whom you already have a built-in affinity. Your friends and relatives are the best example of people within your natural market, but the list extends to other groups as well. Take a moment to think about the members of organizations and civic groups to which you belong. Are you active in a church or religious group? Do you participate in organized sports or belong to a local gym that sponsors organized activities? Are you a member of a social club or community group?

These groups are considered to be "natural" markets because you already have something in common with the members of the group. Your involvement with them as a member of the group gives you a level of credibility that is often difficult to achieve with people you don't know. Often, they already respect your judgment and may be more likely to listen to you when you talk to them about the risks of long-term disabilities and the way DI insurance can protect them.

A good leader is one who leads by example. Therefore, be willing to share with these prospects information about your own DI insurance coverage and why you believe it is important for you.

Referrals from Clients/Prospects

Next to your own clients, referrals are the most valuable source of prospects for DI insurance. The importance of this cannot be stressed enough. Getting referrals should be a part of every interview. The alternative to gathering referrals is "cold calling," and according to Bill Cates, CSP, of Referral Coach International, "Cold calling is God's punishment for not having enough referrals." Get into the habit of incorporating this approach into every interview and appointment.

It is advisable to pave the way for referrals early on in the selling/planning process, preferably during the initial meeting. Create the expectation of receiving referrals if the prospect appreciates what you do for him or her. Then, when you ask for referrals, it will not surprise the prospect.

EXAMPLE

"(Prospect), there are two ways I am compensated for the services I provide. First, if I review your situation and we uncover an additional need for DI insurance coverage, I ask that if you decide to address this need that you purchase the additional coverage from me, and I'll receive a commission from that. Second, if you feel I have done a professional job for you, I'll ask you to give me the opportunity to meet with people you know and care about so that I may help them, too. Does that seem reasonable?"

When to Ask for Referrals. It is important for you to ask for referrals as a natural part of all phases of the selling/planning process. It gives you the opportunity to provide needed DI insurance coverage for the people closest to your clients, while generating greater financial and professional

rewards for you. There is no bad time to ask for referrals, but some of the best opportunities are discussed below.

- *When Closing a DI Insurance Sale.* Ask for referrals after you have closed the sale. The client is still absorbed in the product and how it can solve problems. He or she will more easily be able to think of other people who have similar needs. The client is also feeling good about having taken action to prevent possible personal financial hardships that could result from a disability. He or she may be eager to help friends and acquaintances to make the same kind of decision.

However, even if the prospects do not buy any DI insurance products from you, ask them about the value of the selling/planning process. If they have a favorable opinion of you, your professionalism, and the service you have performed, you can still ask for the referrals.

EXAMPLE

"(Prospect), I know you have decided that you do not need DI insurance at this time. However, may I ask you what, if anything, in this process you found to be of value?" [Wait for a response.] "That's great. I am glad I could help you clarify the issues about group DI benefits and Social Security. Now, may I ask whom you know who might also benefit from this type of service and advice?"

- *When Delivering a Policy.* You should also ask for referrals when delivering a DI insurance policy. At this time, you will likely "resell" the policy to the client by going over its features and benefits and stressing how the policy meets the client's needs. It's a good idea to ask for referrals again at this point. The client has had time to think about friends and associates who may need DI protection, and may have even discussed DI insurance with some of them. This is a great way to use your time efficiently as well as to expand your market.
- *When Conducting a Review Meeting.* Review meetings provide an excellent opportunity to reestablish the value you deliver to your clients and to distinguish yourself from most other advisors by showing your dedication to ongoing, continual quality service. You should reintroduce the problem to the client, explain the solution you have provided and ask the client if he or she feel you added value. If his response is yes, follow up naturally by asking if there

are others for whom they care, who they believe would benefit from the opportunity to evaluate your services.

- *When a Claim Is Paid.* Another excellent opportunity for obtaining referrals is when a DI insurance claim has been paid. Your client will never be more enthusiastic about the product than when his or her lost income is being replaced, just as you said it would be. Referrals made at this time are likely to be particularly heartfelt and well thought out, so be sure to ask for them. When you ask for general referrals (that is, when you do not ask for specific names), try to help the client identify the type of people who would make good DI insurance prospects. Provide such details as
 - age range
 - income range
 - occupation types
 - living situation (for example, single, single parents, childless couples, or couples with children)
 - health (in good health)

As always, remember to follow up on referrals by providing an update to the referrer to let him or her know how the meeting went.

Satisfied clients can also be an excellent, yet often overlooked, source of referrals. Be sure to put a system in place to regularly ask existing clients for the names of people who may be interested in using DI insurance products to help realize their financial planning objectives.

Centers of Influence

center of influence

One of the most effective ways to get referrals is through what are known as centers of influence. By definition, a *center of influence* is an influential person who knows you, has a favorable opinion of you, and agrees to introduce or recommend you to others. However, a center of influence is also a person who believes in you and your product and is willing to use his or her influence to help you identify and meet prospects.

To be most effective, a center of influence will introduce you to prospects either in person or through an introductory letter. This introduction will tell the prospect a little about you and the work you do and will recommend that the prospect take time to meet you.

A client may become an effective center for you, just as a center may become a client, but this is not necessary to the relationship you need to establish.

In general, you will find that a COI

- is active in a community or sphere of influence
- is sought out for advice by those within his or her sphere of influence
- seeks to communicate with others
- is a giver, not a taker

Regardless of their occupation or profession, good COIs know the people in your target markets. However, because certain occupations and professions deal directly with your target markets, finding COIs in these occupations and professions could prove even more profitable. Examples include the following:

- attorneys
- CPAs
- advisors who sell noncompeting lines of financial products (for example, a property and casualty agent)
- health care providers
- clergy
- members of a volunteer organization

Also keep in mind that sometimes your best COI is simply a friend or close relative who comes into contact with a lot of people on a regular basis and is personally interested in helping you to succeed in the financial services business.

Once you have identified some possible COIs, you will need to set up meetings with them. Write and practice a script if you do not know them very well. One strategy for you is to approach the COI by explaining how the meeting will benefit him or her. For example, you might approach a noncompeting advisor as follows.

EXAMPLE

"John, you have a great reputation in the community, and I would feel comfortable referring clients to you. I would like to get together with you to brainstorm ways we can help each other build successful practices. Would breakfast sometime next week work for you, or would a lunch be better? My treat."

It is critical, when deciding to cultivate COIs that you understand the importance of using a slow, steady process to develop trust and belief in you as an advisor, and not simply as a salesperson. Those in the professions have a built in aversion to exposing their clients to anyone who might damage the relationships they have worked hard to develop. Keeping this natural aversion in mind will assist you greatly as you decide who you will approach as you look to build a COI network.

Your meeting with a COI is as important as a sales appointment. Therefore, plan your presentation. You will probably want to ask the COI for names of qualified prospects. Therefore, have a brief written description of how to identify qualified prospects.

Keep your presentation succinct and consistent with your approach. For example, if you are meeting with a community leader, the goal of your presentation is to show the COI just how he or she can help others by referring them to you. Your approach to accomplish this objective may include the following steps:

- Share the impact that DI insurance will have on the people the COI refers to you and on their families.
- Illustrate the impact with any personal disability stories.
- Demonstrate how DI insurance can help prevent financial hardships and emotional distress for many people by providing the income necessary to pay ongoing living expenses.
- Give the COI some practical actions that he or she can take to help.

When using a center of influence, your responsibility is to live up to the expectation he or she has created about you. If your COI tells a prospect you will call, be sure to follow through. Nothing will hurt your relationship as quickly as a failure to deliver what the COI has promised. It is also important for you to keep your COIs informed of the progress you are making and to thank them for their help.

Networking

networking

Networking is the process of continually communicating and sharing ideas and prospects with others whose work does not compete with yours. In turn, they might also share their clients and their clients will become your clients.

Most networking groups have the same general rules. Membership is limited to one person from each type of sales background, whether insurance, real

estate, mortgage brokerage, or some other sales profession. Each person who attends the meeting is required to bring a prescribed number of names. For example, the real estate agent member of the group just sold a house to a young couple located in an new townhouse community that she represents exclusively. She gives you their names as prospects who may be interested in discussing their DI insurance needs. On the other hand, a client of yours may have expressed a desire to live in new townhouse community and thus would be a good prospect to share with the real estate agent.

If you can find an existing networking group in your community, it might be worthwhile to investigate joining it to provide you with a steady stream of prospects.

Personal Observation

Personal observation is a method of prospecting that involves being constantly alert to marketing opportunities in your community surroundings. It can provide a source of names of approachable people who may be in the market for DI insurance.

Hold On to What You've Got

"(Client), congratulations on your promotion/raise/new job! You and your family will enjoy all the things that your increased income will buy, and we've made sure that they are well protected.

"Your income provides your family with necessities as well as luxuries. You expect this income to continue, even to increase. But what if you slip on a patch of ice, seriously injure your neck or back, and are no longer able to earn a living? Luxuries would be a thing of the past; even necessities might have to be curtailed.

"I'd like to share a concept with you that can protect your family from such a disaster."

A careful reading of the business page of the local newspaper for news of transfers, promotions, and new employees may uncover prospects who will be particularly sensitive to the need for DI insurance protection. These people have new responsibilities and more income to protect. A note of congratulations on career advancement and an offer to explain how DI insurance can protect their earning power may bring you a number of new prospects who are highly motivated to buy.

Other sections of the newspaper will announce that young people have graduated from college or professional school and have taken jobs. These

young people, especially those entering professions, will be taking on heavy financial responsibilities as they establish practices and careers, buy homes, and start families. You can send them a note congratulating them on their graduation, welcoming them to the community, and offering to talk with them about the protection that is available for their income.

Even the social pages of the newspaper can yield valuable prospects. Marriage announcements now often include both the bride's and groom's educational achievements, their places of employment, and the address of their new home. In your note congratulating them on their marriage, you can offer to talk to them about insuring their financial future with life and DI insurance.

Lists

Many experienced advisors use this prospecting tool with excellent results. Advisors who have had success with lists note that the key is to select lists that contain prospects who would likely have an interest in DI insurance.

For example, physicians, dentists, lawyers, accountants, and other professionals generally belong to professional organizations. Lists of members of organizations like this can provide many names of people who probably need help protecting their high income level. When you obtain such lists, find out what group coverage is available to members through the professional associations with which they are affiliated. Because many members will have some of this group DI insurance coverage, it is important that you understand its strengths as well as its weaknesses. This knowledge will give you a head start in offering better service to the association members.

Some insurance companies provide lists to their advisors through market segmentation programs; check with your company to see if one is available. Otherwise, you will want to buy a list from a reputable list vendor.

When dealing with a vendor, exercise caution. Here are some points to keep in mind:

- Select lists that reflect your target markets.
- Check to see how recently the data were collected.
- Make sure that the list has current phone numbers.
- Verify the source of the leads.
- Make sure that the list has been "scrubbed." This means that any "do not call" and undeliverable names have been eliminated.

- Check to see if duplicate entries or incomplete names have been deleted.

One final thought on lists: Keep good records so you can evaluate the quality of the leads and compare different vendors until you find the one that gives you the best return on your investment.

Summary

The universe of DI insurance prospects is very large and loosely defined. Thus, prospecting for members of the general DI insurance marketplace will not yield the desired results in relation to your efforts.

Two Job Offers	
Job A	Job B
Healthy, Working	Healthy, Working
\$100,000 Income	\$97,000 Income
Disabled, Not Working	Disabled, Not Working
\$-0- Income	\$60,000 Tax-free Income
Which Job Would You Rather Have?	
<p>Virtually everyone I have interviewed over the years has picked job B. The tax-free income is provided by a DI insurance policy. Unfortunately, the catch to job B is that last year in this county, over half a million people who wanted it couldn't get it because you have to qualify for it before becoming disabled. Would you be interested in seeing if you can qualify?</p> <p>Facts: The \$3,000 cost covers a \$60,000 annual DI or a \$5,000 per month benefit to age 65 with a 90-day elimination period for a nonsmoking male aged 45.</p>	

To become more effective at prospecting, you must segment the DI marketplace to locate prospects according to demographic characteristics that will increase prospects' probability of buying DI insurance products and qualifying for their issuance. Target marketing enables you to develop specialized knowledge about the problems and needs of a specific industry or profession, thus further enhancing your prospecting effectiveness.

Advisors' Resistance to Selling DI Insurance

If you are like many advisors, you have not sold much DI insurance—if you have sold it all. You may have some of the following preconceived notions that may inhibit your DI insurance marketing activities:

- It is a difficult product to sell.
- Underwriting is too complex.
- Life insurance is a more urgent need.
- Compensation for DI insurance is relatively low.

All of these notions are more attitude than fact. Each can be addressed with product knowledge and a good grasp of company procedures to reduce your resistance.

It Is a Difficult Product to Sell

DI insurance can be an easier product to sell than life insurance for many prospects. It has been called a "self-preservation" product because clients benefit directly when benefits are paid. A purchaser for DI insurance is anticipating his or her own financial needs as well as the needs of the family.

The peril that DI insurance covers is often easier for prospects to visualize happening to them. People can see themselves becoming disabled in the foreseeable future more readily than they can imagine their premature death.

Underwriting Is Too Complex

Underwriting for DI insurance is thorough and comprehensive, but it is not necessarily complex. As with all underwriting, advisors need to collect complete, accurate information. It is true that there can be more scrutiny in terms of medical examinations, blood work, and inspection reports to evaluate an applicant's health and character than in most life insurance applications. However, this is because the financial risk the insurance company that underwrites the DI insurance policy assumes is often hundreds of thousands of dollars greater than that assumed in a life insurance policy. Furthermore, because the amount of coverage available is based primarily on earned income, detailed financial information is also required. Many companies require copies of an individual's income tax returns for the last few years as a way to verify income, but these should be readily available from the prospect.

Life Insurance Is a More Urgent Need

During their working years, most people need both life insurance and DI insurance protection. The truth is that during a person's working years, the probability of becoming disabled is greater than that of dying. The problem is that we do not know when we will die or whether we will become disabled. Because we do not know, we must help prospects plan for both

contingencies. Doing this may require adjusting the amount of premium they allot to life insurance coverage by combining some permanent and some term life insurance coverage to free up dollars to purchase DI insurance.

Compensation for DI Insurance Is Relatively Low

Depending on the age and occupational classification of a DI insurance applicant, the first-year commission may be lower than that of a life insurance sale. However, according to a 2010 LIMRA International individual DI insurance survey, the average premium paid for a newly issued noncancelable DI insurance policy was \$2,026.² This is a 17% increase in premiums since the same data was reported in 2006. Of course, the sale of DI insurance products in addition to other life insurance products will generate first year and renewal commissions that you might not otherwise have earned.

Furthermore, DI insurance policies historically have excellent persistency. According to a joint study sponsored by LIMRA International and the Society of Actuaries in 2004, the latest year for which the data has been gathered, noncancelable individual DI insurance policies enjoy lower lapse rates than life insurance in virtually every policy year considered.³ With good persistency, DI insurance sales will continue to earn money for you long after you made the original sale.

Reasons to Market DI Insurance Products

Prospects' Awareness of the Need for DI Insurance

The public is becoming increasingly aware of the necessity of good health to enjoy life and earn a living. People take up running or join health clubs to fend off ill health. News stories of breakthroughs in the treatment of heart or kidney disease and reconstructive surgery keep people aware that a major disability can strike at any age. The need for health insurance has been and apparently will continue to be a major political issue. This awareness often makes marketing DI insurance easier than marketing life insurance because you can emphasize that it is a solution to a potentially devastating financial problem.

2. U.S. Individual Disability Income Insurance Issues and In Force Survey. © 2009, LIMRA International, Inc.®

3. Individual Disability Income Lapse Experience. © 2004, LIMRA International, Inc.®

EXAMPLE

Dramatize the need for DI income coverage by referring to the possibility of the prospect's undergoing open heart surgery, which is fairly common now. Point out that although this treatment does indeed save lives daily, it can also result in a long period away from work. Explain why recuperation from major surgery is much more successful without the financial strain that results when income stops during a medical emergency.

Simpler to Sell than Life Insurance

When you understand how DI insurance products operate to provide financial stability to working individuals, and after you have learned to identify and uncover the prospect's need for it, the sale of DI insurance coverage can be less complicated than a life insurance sale. This is because DI insurance addresses one problem—replacement of a certain percentage of income. Life insurance, on the other hand, provides dollars to beneficiaries for a variety of lump-sum cash needs at death, as well as the replacement of a person's income thereafter. The calculation of the amount of life insurance required to address someone's financial, charitable, and estate planning objectives can be very complex. However, the motivation for purchasing DI insurance is relatively simple and personal—to provide an adequate and affordable amount of income replacement necessary to pay the ongoing expenses a person will have if he or she is sick or injured and unable to work.

Added Value for Clients

The primary reason to sell DI insurance is because your clients have the need for it. Like any other insurance sale, DI insurance should be sold to protect your prospects against financial disaster. As a professional advisor, you have a responsibility to include DI insurance protection among the products you recommend. Failure to do so is the equivalent of providing a homeowners policy that does not insure against fire. In the changing and volatile world of financial services, it is wise to be prepared to offer a variety of financial products. Doing so will help you adjust to changes in the marketplace, adapt more easily to those changes, and keep your production diversified and your income growing.

It is a well-known fact that it is easier to market products to a client than to a new prospect. Your current clientele consists of qualified prospects for DI insurance coverage who already know and trust you enough to have bought other financial products from you. You can leverage your relationship with your current clients to market DI insurance coverage that many of them need.

Providing more than one product to a client greatly increases the persistency of the business. Insurance company studies have shown that clients with more than one insurance product purchased from the same advisor are much more likely to keep the insurance in force than clients who purchase only one product. Marketing DI insurance to current clients will solidify your relationship with them and enhance their loyalty and trust in your ability. As their needs change and grow, you will have additional opportunities to cross-sell more life insurance coverage, investment products, and property and casualty insurance. By being their full-service advisor, you provide the kind of added-value advantage that can help prevent the competition from reaching them.

Enhanced Referred Leads

Referrals received from clients who purchased DI insurance from you and are satisfied with the quality of service you performed for them, generally produce excellent prospects. However, referred leads from satisfied clients who have received benefits from the policy they bought are particularly good prospects. A person whose DI policy has continued his or her salary, just as you said it would, believes strongly in your competence and your company's reputation. A testimonial letter from a person who has received benefits from a DI insurance product is a powerful tool that you can leverage to enhance your marketing efforts. Such a client, who is living proof of his or her own good judgment in buying the policy, will be anxious to tell others about what DI insurance did for him or her.

Greater Product Understanding That Builds Confidence

Many advisors are intimidated by the fear of misunderstanding DI insurance and possibly doing their clients a disservice in selling it. Studying the DI insurance products and working with them can overcome this fear. One simple way to gain confidence in your company's disability product is to read through a specimen contract, cover to cover. In addition, always take the opportunity to review the in-force policies of your prospects and clients. This will better prepare you to compare features and benefits of your contract to your competition's contract, for the benefit of your client. Your completion of this textbook is an important step in understanding these products and learning how to explain them to prospects. By working with DI product consultants and with your insurance carriers' underwriting departments, you will gradually begin to feel more comfortable in selling DI insurance to your prospects and clients.

Another way to develop confidence in your ability to understand and explain DI insurance products is to work with an experienced advisor, especially if you are in the early stages of your career. Ask a fellow advisor if you can observe him or her making a DI insurance presentation, or offer to share one of your cases with him or her. Sharing a case or two is an inexpensive tuition for the knowledge and experience you can gain from watching a seasoned producer in action and having him or her guide you through the DI insurance sales and service process.

Many companies also have DI consultants who will work with you on a large or complex case. These people are experts in the technical aspects of DI insurance products and can help you learn how to market them effectively throughout the entire selling/planning process.

CONCLUSION

Today's DI insurance products offer a variety of policy provisions, including various definitions of disability, income, and benefits. The loss of income through disability is substantial, and the DI insurance industry plays a major role to protect against that loss.

Experienced DI insurance salespeople stress the usefulness of DI insurance as a door opener with prospects. Many prospects are more willing to talk about income protection than life insurance because DI insurance is a "self-preservation" sale in that the insured will be able to partake of the benefits. A DI insurance sale gives you an opportunity to get to know the prospect, understand his or her needs, and pave the way for possible future sales. The extensive fact finding required to develop and quantify the need for DI insurance will frequently uncover the need for other financial products.

There are a number of excellent reasons why you should market DI insurance to existing clients. Providing DI insurance to protect present policyowners' income will strengthen your relationship and protect the other business you have placed with them. Satisfied DI policyowners can also be an excellent source of referred leads.

Most important, selling DI insurance to clients and prospects will provide them with coverage that can save them and their families from financial disaster if disability strikes.

CASE HISTORY: "BUT YOU NEVER ASKED"

Sam Sloan, CLU, was at a loss for words. Jack Walker, a friend and client for nearly 20 years, had just called in search of hope.

Three weeks before, Jack, at the age of 45, had suffered a severe heart attack. After 50 desperate days in intensive care, he had rallied and seemed on the way to recovery. The doctors had determined that stress had played a large part in his attack, and they had prescribed that Jack spend at least 6 months away from the pressure of his real estate firm.

It wasn't easy for Jack to relax. One afternoon, while flipping through a magazine and worrying about what was happening at his office, Jack happened to see an ad for DI insurance. The company was the one Sam represented, so Jack reached for the phone.

"I was just wondering, Sam, when you reviewed my insurance program last April, did we talk about coverage for anything like this?"

Sam blurted an answer before realizing how it sounded. "But, Jack, you never *asked* me about disability income insurance!"

It was true—Jack had never asked for income protection. Yet Sam was ashamed of that answer and searched for ways to soften it, but nothing sounded right. The answer could not be retracted. There was no other answer to put in its place. And no help would be available for the economic crisis ahead. "Well, I was hoping that you might have taken care of it for me. I guess we'll work something out. Thanks anyway, Sam. Goodbye."

Sam hung up the phone slowly and sat staring out the window, two thoughts returning again and again: his answer, "*But you never asked me*" and Jack's reply, "*I was hoping that you might have taken care of it for me.*"

Jack's plea for help stayed with Sam the rest of the day. Sam was licensed to sell DI insurance and had done so for other clients in the past. But Sam never brought the subject up with Jack in all his years of reviewing and updating his life insurance and business coverage. Jack's words echoed: "*I was hoping that you might have taken care of it for me.*"

Sam remembered the first sale to Jack—just after the real estate office had opened. Jack realized the risks involved in starting a business and wanted to be sure that his family was protected. Sam had worked hard to come up with a life insurance plan that offered the maximum protection for the money

available. Jack appreciated the service, and more sales followed over the years as the business grew and the children approached college. Every time Sam had pointed out a need for additional protection, Jack purchased it.

Now Sam wondered what effort would have been required to sell Jack disability income coverage. Sam tried to rationalize an answer but the truth was clear. Jack would not have knowingly put his family or business in jeopardy. If the need had been discussed and the solution offered, Jack would have purchased the coverage.

Another disturbing memory intruded—of a conversation with Doug Adams, another advisor. Doug had approached Jack about insurance and Jack had politely said, "Sam Sloan has been handling my business for a number of years now. I really don't feel the need to discuss insurance with anyone else." Doug was impressed and told Sam, "That's the kind of client every financial advisor wants."

The memory raised a question: What kind of insurance agent did Jack Walker *deserve*? His kind of loyalty deserved the best. Jack had put his trust in Sam to take care of his insurance needs. If Jack had died, no one would have criticized the job Sam had done. The family's future would have been secure. His personal and business life insurance coverage were in excellent order. The economic impact of Jack's death would have been minimized.

But Jack didn't die.

CHAPTER REVIEW

Key Terms and Concepts are explained in the Glossary. Answers to the Review Questions and Self-Test Questions are found in the back of the book in the Answers to Questions section.

Key Terms and Concepts

disability	qualified prospect
earned income	market segment
disability income insurance	segmenting
noncancelable	target market
guaranteed renewable	prospecting sources
human life value	natural market
client-focused planning	center of influence
prospecting	networking

Review Questions

1. Identify and summarize the two types of perils for which DI insurance has indemnified its owners throughout history.
2. List several definitions of disability in today's DI insurance policies.
3. List the four categories of disability in DI insurance contracts currently being marketed.
4. Explain the role of DI insurance in the total needs approach to insurance planning.
5. Describe the financial advisor's responsibility as it relates to the need for DI insurance coverage.
6. List the eight steps in the selling/planning process.
7. List five demographic qualifying criteria to identify market segments for DI insurance prospects.
8. Identify eight "other" market segments that may be prospects for DI insurance.
9. List seven sources from which to obtain DI insurance prospects.
10. Identify four preconceived notions about DI insurance that may inhibit your DI insurance marketing.
11. List five reasons to market DI insurance products.