

How to Secure Adequate Protection and Better Rates for Business Owners



Test your business owner selling savvy!

1. Is DI policy pricing for business owners usually more or less expensive than an individual client?
 - a. More expensive
 - b. Less expensive
 - c. About the same
2. What income documentation is necessary for small business owners?
 - a. Last year's tax return
 - b. Two years of tax returns
 - c. Five years of tax returns
3. How does an Earned Income Enhancer change a business owner's DI policy?
 - a. It increases the qualifying income amount by 20 percent
 - b. It allows business owners to qualify for up to \$1,000 of additional coverage
 - c. It slashes the premium owed by 20 percent
4. If a business owner has DI protection, does he/she still need BOE protection?
 - a. No — DI is usually sufficient
 - b. Yes — BOE is necessary
 - c. It depends...



How confident are you that you answered these questions correctly?

If you're like most agents, you may not be sure about some of the finer points. That's OK — D.I. Dan is here to help! But first, take a look at Jake Riley's case ...

One retailer's story

Jake Riley owned and operated a small bicycle shop with four employees. At 42 years of age, and as the sole breadwinner for his family, Jake knew that disability protection was important. What he didn't know was if he could qualify. Jake's agent checked with Disability Insurance Services (DIS) and learned that self-employed income documentation was simple. Those who want benefits of less than \$5,000 monthly must submit one year's tax return. Those who want benefits of more than \$5,000 monthly must submit two year's tax returns. It sounded easy — *but was it?*

Jake told his agent that because of all of the expenses and deductions that he claimed each year, his actual income was much higher than what showed on his tax return. While his tax return showed an annual income of \$50,000, his lifestyle actually required a gross income of \$140,000 or a net monthly income of \$8,516. If his protection level was based on tax returns alone, he would be eligible to receive a monthly benefit of \$2,910 (Modified Own-Occ policy with a 90-day EP; BP to age 67; Non-can, Residual, COLA and SSIB riders) — **leaving him a monthly income gap of \$5,606. Yikes!**

Business Owner Enhancements

Fortunately, Jake's agent called the experts at DIS, who proposed three ways to enhance the DI policy and close the income gap:

1 Business Owner
Earned Income
Enhancer

2 Business Owner
Upgrade

3 BOE

Step One

First, DIS increased Jake's benefit by applying the Earned Income Enhancer to his policy. This allowed him to increase his qualifying income by 20 percent. ($\$50,000 \times 20\% = 60,000$). So, with the same policy he was now able to get a monthly benefit of $\$3,350 - \440 more than before.

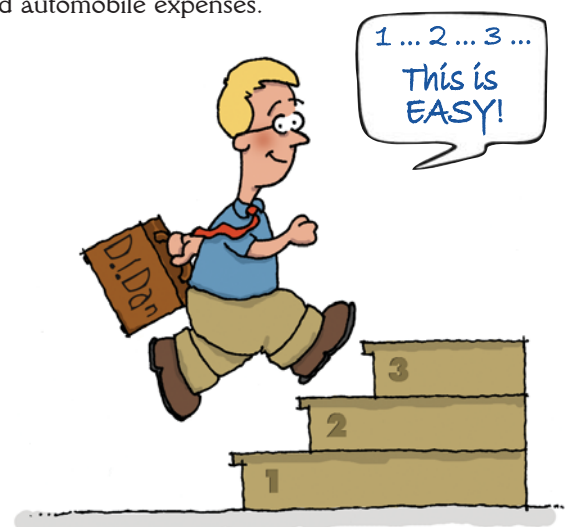
Step Two

Second, DIS took advantage of the Business Owner Upgrade. This meant that Jake was able to move from occupational class 2A to occupational class 3A, lowering his premium. For the benefit amount of $\$3,350$, Jake's premium would have been $\$2,588.70$ but with the occupational class upgrade, the premium decreased to $\$1,663.80$. A simple class change saved him $\$924.90$ (35 percent) per year!

Step Three

DIS offered Jake a Business Overhead Expense (BOE) policy to further bridge the income gap. BOE benefits are based upon expenses — not income. They are especially helpful to business owners whose tax returns do not adequately reflect their income levels due to a high number of deductions. A BOE policy reimburses the business owner for any expense that he/she may have during a period of disability. Typical expenses might include rent, wages, insurance premiums, equipment leases and automobile expenses.

BOE policies have short waiting periods — usually 30 days. Benefit periods are short — usually 12 months. If the owner learns that he/she is permanently disabled, it affords him/her some time to sell or transition the business and cushions the financial hardship. Remember, Jake had stated expenses of nearly $\$90,000$ each year, so the BOE policy significantly increased Jake's disability protection. Plus, the occupational class change that Jake received for the DI policy also applied to the BOE policy, so he again enjoyed a significant savings.



Tools for Success

Back to the quiz ...

Now that you've read about Jake, go back and take the quiz again. Did you do better this time? Here are the correct answers:

1. **The correct answer is B.** Business owners' policies can be much less expensive if the Business Owner Upgrade is used. Note that business owners must own at least 25 percent of the business with two years of documented income to qualify. This upgrade cannot be used by doctors, dentists, veterinarians, podiatrists or chiropractors. Also, as discussed in last week's report, multi-life is another very good way to deliver huge DI savings to small business owners.
2. **The correct answer is A or B — depending upon the client's income level.** Clients with less than \$5,000 of monthly benefits are only required to submit one year's tax returns. Clients with higher benefit levels must submit two years of tax returns.
3. **The correct answer is both A and B.** The Earned Income Enhancer increases the qualifying income level by 20 percent up to a maximum of \$1,000 of additional coverage.
4. **The correct answer is C.** Each case should be individually evaluated. Two key considerations are the level of income shown on the tax return and the amount of expenses that would need to be covered, should the client become disabled. A detailed interview with the client and some advice from DIS will help you determine if both DI and BOE policies are necessary.

What does this mean to you?

- It means that you now have the expertise and knowledge to give your business owner prospects the best protection and the best rates available.
- It means that you no longer have to accept income documentation barriers as the status quo.
- It means you have one more tool for success as a DI agent.

The DIS experts are on your side — Go forth and protect business owners!

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