Learning Objectives

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

3-1. Discuss the typical financial needs of individuals and families that should be considered in developing a financial plan.

3-2. Explain the budgeting process and how it can be used with a client.

3-3. Describe the distinguishing characteristics and needs of the four subsegments of the young adults segment.

3-4. Explain the importance of having disability income insurance.

3-5. Describe the policy features and riders common to disability income policies.

This chapter focuses on the common financial needs most people face. It then provides an overview of the young adult life-cycle segment. The chapter closes with a discussion of disability income planning, examining the disability income need and the corresponding insurance products available to satisfy this need.

FINANCIAL NEEDS

For most people, income and assets are limited. A dollar of life insurance premium is a dollar that cannot be spent meeting other financial needs. That is, there is a high level of integration and dependency within a prospect’s overall financial situation. It is important to consider the prospect’s overall financial picture to ensure that recommendations to address one need do not supersede or conflict with a more important one. To help understand this integrated approach, financial planning has been divided into different areas, including the following:
Techniques for Exploring Personal Markets

- general principles of financial planning, including budget planning
- retirement planning
- estate planning
- investment planning
- employee benefits planning
- income tax planning
- insurance planning and risk management

Those advisors who do not conduct comprehensive financial planning still have an obligation to propose recommendations regarding their products within the context of the prospect’s overall financial situation and needs. For example, a life insurance agent should not recommend utilizing all of a prospect’s disposable income to buy permanent insurance if the prospect has other financial needs, such as disability income insurance and retirement savings. This is an integrated planning approach.

For those areas that you lack expertise, consider referring prospects to non-competing advisors who can assist them. You may even form a team of specialists and serve as its manager, coordinating the team’s efforts as well as contributing your expertise in your field of specialization.

Financial planning is a process that determines an individual’s financial problems and/or financial goals, and develops a plan to solve the individual’s problems and/or achieve his or her goals. In most cases, you will be addressing only one or a few of the most important financial needs for the client at your initial and subsequent meetings. Although some clients could benefit from comprehensive financial planning, they are unwilling typically to invest the time and money that it requires. In fact, except for the wealthy, most clients cannot afford or need to have a comprehensive plan. Many people find it difficult to deal with the totality of their financial problems and/or goals all at once. Instead, they prefer the single-purpose or multiple-purpose approach to financial planning because they have to concentrate on the most pressing of their problems. If these clients participate in several multiple-purpose planning meetings over a period of years, they will eventually have a comprehensive plan in place.

This planning approach might be called sequential financial planning. It encompasses a series of multiple-purpose planning sessions that generally take place over a period of months or years as the client progresses through his or her financial life cycle. Whatever approach is used in planning, it must follow the selling/planning process or financial planning process: develop a client-advisor relationship, determine goals and needs based on fact finding, analyze the information, and develop a plan that fits the client’s circumstances and goals. In the following section, we will review some of the needs and processes covered in the financial planning process.

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Budget Planning

There is no exact method for determining what someone can afford, but you should offer solutions that will not require clients to forego other needs that are at the same level of priority. This is the purpose of budget planning. You may address the budgeting planning process directly with a prospect, or make recommendations based on your knowledge of this process and the prospect’s financial situation. In many cases, a lack of good budgeting habits leads people to financial problems. This section will take you through the budgeting process as it fits with the insurance and financial products you sell.

The Budget

Budgeting and cash flow management are the most basic tools of financial planning. Clients often resist the cash flow management process even though it is critical to reaching a goal. Communicating the importance of these processes and helping clients use them can be among the advisor’s most valuable services. These processes are always useful and especially beneficial when the client needs to accomplish specific financial objectives.

The Benefits. Proper budgeting can help the client obtain adequate insurance protection, savings, or retirement funds. Although you may not be involved in implementing all of these solutions, financial products are not sold in a vacuum. Doing what is best for the prospect or client will ensure the type of relationship that will provide future sales and referrals.

Budgeting is the means not the ends. Most people do not like budgeting because it often is not linked to financial goals they are trying to achieve. When meeting with prospects, you will often get a sense of their goals and objectives, their needs, and their attitudes and values. If not, you can ask.

Personal Goal Planning. Start by understanding the clients’ goals and vision of the future. Goals can be wants, needs, desires, and objectives. Clients should set short-term, intermediate, and long-term goals, prioritize them, evaluate alternatives, and decide upon a plan of action to reach them. They must then take action to accomplish their plans. Without these steps, goals are nothing more than wishes. Goals must be realistic, be as concrete and specific as possible, and yet allow for flexibility. In your role as a financial advisor, you can provide valuable assistance in helping clients and prospects through this process.

Consider long-term goals first. These are 5-10 years and longer. They set the course and determine other goals. Intermediate goals are those for more
**Sample Cash Flow Worksheet**

**INCOME**

<table>
<thead>
<tr>
<th>Source</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Your salary</td>
<td></td>
</tr>
<tr>
<td>Your spouse’s salary</td>
<td></td>
</tr>
<tr>
<td>Commissions</td>
<td></td>
</tr>
<tr>
<td>Tips</td>
<td></td>
</tr>
<tr>
<td>Bonuses</td>
<td></td>
</tr>
<tr>
<td>Interest</td>
<td></td>
</tr>
<tr>
<td>Dividends</td>
<td></td>
</tr>
<tr>
<td>Rental property</td>
<td></td>
</tr>
<tr>
<td>Royalties</td>
<td></td>
</tr>
<tr>
<td>Social Security</td>
<td></td>
</tr>
<tr>
<td>Pension benefits</td>
<td></td>
</tr>
<tr>
<td>Profit sharing</td>
<td></td>
</tr>
<tr>
<td>Annuities</td>
<td></td>
</tr>
<tr>
<td>Life insurance benefits</td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td></td>
</tr>
<tr>
<td><strong>Total Income</strong></td>
<td>$ ___________</td>
</tr>
</tbody>
</table>

**EXPENSES**

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fixed</td>
<td></td>
</tr>
<tr>
<td>Housing</td>
<td></td>
</tr>
<tr>
<td>(rent, mortgage payments)</td>
<td></td>
</tr>
<tr>
<td>Household maintenance</td>
<td></td>
</tr>
<tr>
<td>(fuel, utilities, and so on)</td>
<td></td>
</tr>
<tr>
<td>Food</td>
<td></td>
</tr>
<tr>
<td>Clothing</td>
<td></td>
</tr>
<tr>
<td>Transportation</td>
<td></td>
</tr>
<tr>
<td>Medical/dental care</td>
<td></td>
</tr>
<tr>
<td>Insurance premiums</td>
<td></td>
</tr>
<tr>
<td>Life</td>
<td></td>
</tr>
<tr>
<td>Health, DI, LTCI</td>
<td></td>
</tr>
<tr>
<td>Homeowners</td>
<td></td>
</tr>
<tr>
<td>Automobile</td>
<td></td>
</tr>
<tr>
<td>Taxes</td>
<td></td>
</tr>
<tr>
<td>Income</td>
<td></td>
</tr>
<tr>
<td>Property</td>
<td></td>
</tr>
<tr>
<td>Business (use Schedule C form)</td>
<td></td>
</tr>
<tr>
<td>Variable</td>
<td></td>
</tr>
<tr>
<td>Entertainment/recreation</td>
<td></td>
</tr>
<tr>
<td>Restaurant</td>
<td></td>
</tr>
<tr>
<td>Charitable giving</td>
<td></td>
</tr>
<tr>
<td>Personal/miscellaneous</td>
<td></td>
</tr>
<tr>
<td><strong>Total Expenses</strong></td>
<td>$ ___________</td>
</tr>
</tbody>
</table>

**Difference**

$ ___________

(Total Income minus Total Expenses)
than a year but less than the long-term goals. Short-term goals are those for this week, month, or year.

As your prospects or clients set goals, they also have to prioritize them. Then you must help them estimate the dollar value of each goal. How much will it cost? Some family concerns are universal and provide the basis for specific goals. Typical concerns include the following:

- the necessities of life
- a comfortable standard of living
- a nice home
- a good education for the children
- a family vacation every year
- a secure retirement income

**Universal Needs.** Universal needs are the basic needs that determine a family’s goals. Some family goals will create a need to save. If a family has a goal to buy a vacation home, it would require them to accumulate funds to make a down payment. Other goals will create a need for insurance. For example, a young family should insure the income earners’ lives to protect the survivors’ desired standard of living. Some goals create a need for accumulation and insurance. For instance, clients may really want their children to attend college and feel strongly enough to save for the associated costs. They also may feel it is important enough to purchase insurance, ensuring that a college savings fund is created even if they die or become disabled. In general, universal needs in this case deal with risk management, and most of them are found in the foundation of the financial planning pyramid. They include the following:

- protection against loss in the event of dying too soon
- protection against the long-term costs of living too long
- protection against the loss of income in the event of disability
- protection against personal property loss and liability claims
- protection against health or hospitalization expenses
- funds to cover unexpected emergencies
- funds to take advantage of opportunities

Each of the family’s goals should be prioritized. When a family identifies any of the listed financial needs, it creates powerful planning possibilities. Many of these financial needs can be satisfied through life insurance or related products and services.
Techniques for Exploring Personal Markets

Budget Guidelines

- Creates awareness of total income and anticipated expenditures.
- Provides an accurate picture of where your money goes.
- Allows you to decide what you can or cannot afford.
- Provides a sense of control and promotes real economic freedom.
- Discourages buying on impulse and spending on things you do not need.
- Facilitates saving to attain goals.
- Allows you to decide how best to protect against adverse financial consequences.
- Encourages peace of mind, thus reducing stress and conflict.
- Develops opportunities to make investments.

The Budget Process

Now the family is ready to create a budget. The sample “Household Budget Summary” sheet will help illustrate this process.

Estimating Income. First, the family should estimate total income. Look at all sources; consider earned income, unearned income (interest, dividends, and so on), and other income potential. It is better to underestimate than overestimate if earnings are irregular.

Estimating Expenses. Next, the family should estimate expenses. Determine where money will likely go based on past experience.

Fixed Expenses. Start by listing all fixed expenses. These expenses are recurring and unavoidable. Some are regular and are the same amount each month, such as rent, mortgage payments, taxes, and regular installment payments. Others are recurring but variable. Examples include items such as food, clothing, utilities, and transportation.

Discretionary Expenses. Once fixed expenses have been determined, the prospect should budget for discretionary expenses (expenses that can be prevented or timed through proper budgeting). An expense like dining out can be decreased, and a purchase of a new car can be timed.

Special Consideration Expenses. Also think about special consideration expenses such as seasonal spending, private education needs, special medical needs, and emergency funds. Consider money being set aside for intermediate and long-range goals. Finally review the household budget summary and family financial needs checklist shown below. These tools can be used in various ways to stimulate discussion about expense levels and

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priorities. This checklist has frequently been used as a preliminary fact-gathering device.

<table>
<thead>
<tr>
<th>Household Budget Summary</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>INCOME:</strong></td>
</tr>
<tr>
<td>Personal Income Expected $</td>
</tr>
<tr>
<td>Spouse Income Expected $</td>
</tr>
<tr>
<td>Total Other Income Expected (list)</td>
</tr>
<tr>
<td>1. __________________________ $</td>
</tr>
<tr>
<td>2. __________________________ $</td>
</tr>
<tr>
<td>3. __________________________ $</td>
</tr>
<tr>
<td><strong>Total Expected Income</strong></td>
</tr>
<tr>
<td><strong>EXPENSES:</strong></td>
</tr>
<tr>
<td>Fixed:</td>
</tr>
<tr>
<td>1. Food $</td>
</tr>
<tr>
<td>2. Home (mortgage, rent, taxes, repairs, utilities) $</td>
</tr>
<tr>
<td>3. Taxes (excluding taxes on principal home) $</td>
</tr>
<tr>
<td>4. Medical expenses (doctor, dentist, prescriptions) $</td>
</tr>
<tr>
<td>5. Clothing and cleaning (total of family) $</td>
</tr>
<tr>
<td>6. Transportation (gas, parking, maintenance, public transit, and so on) $</td>
</tr>
<tr>
<td>7. Debts (budgeted debt liquidation, credit card payments) $</td>
</tr>
<tr>
<td>8. Property and liability insurance (auto, homeowners, and so on) $</td>
</tr>
<tr>
<td>9. Life and individual health insurance (disability, long-term care, and so on) $</td>
</tr>
<tr>
<td>10. Current education and childcare expenses $</td>
</tr>
<tr>
<td><strong>Discretionary:</strong></td>
</tr>
<tr>
<td>11. Vacations $</td>
</tr>
<tr>
<td>12. Home improvement and furnishings $</td>
</tr>
<tr>
<td>13. Entertainment and recreation $</td>
</tr>
<tr>
<td>14. Charity and gifts (church, donations, holidays, birthdays, and so on) $</td>
</tr>
<tr>
<td>15. Savings $</td>
</tr>
<tr>
<td>16. Investments $</td>
</tr>
<tr>
<td>17. Education fund $</td>
</tr>
<tr>
<td>18. Miscellaneous (list) $</td>
</tr>
<tr>
<td>1. __________________________ $</td>
</tr>
<tr>
<td>2. __________________________ $</td>
</tr>
<tr>
<td>3. __________________________ $</td>
</tr>
<tr>
<td><strong>Total for Household Expenses</strong> $</td>
</tr>
<tr>
<td><strong>ANTICIPATED NET PROFIT (LOSS)</strong> $</td>
</tr>
</tbody>
</table>
In compiling lists of fixed, discretionary, and special consideration expenses, your prospects or clients should look at their past records, receipts and canceled checks to make estimates based upon experience. They should
then consider what may be cut or what may be increased in the future. If they
don’t have records, they should track expenses for three to six months to
provide accurate estimates for budgeting.

Major expenditures are usually best handled if anticipated and saved for
in advance. This avoids mounting debt and unnecessary loans. The critical
difference is interest—the cost of money. Do they want to earn interest or
pay interest? This major philosophical decision is more important in
budgeting than any other single factor.

It is normally advisable to clear debts, pay off bills, and get spending
under control before embarking on intermediate or longer-range
accumulation goals. An exception is participating in a qualified retirement
plan where employers match some percentage of employee contributions.
Clients should also set up a cushion for emergencies. Planning for the
unexpected will take a lot of stress out of life and prevent setbacks to their
budget from emergency expenses.

<table>
<thead>
<tr>
<th>Budget Guidelines</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Spend less than you make.</td>
</tr>
<tr>
<td>• Make a commitment to be a saver and pay yourself first.</td>
</tr>
<tr>
<td>• Limit the use of credit.</td>
</tr>
<tr>
<td>• Shop around for the best price on big-ticket items.</td>
</tr>
<tr>
<td>• Keep good, complete, accurate records.</td>
</tr>
<tr>
<td>• Review your budget regularly.</td>
</tr>
</tbody>
</table>

**Putting It All Together.** Once they have listed and prioritized expenses,
the family can balance their income and expenses to properly allocate funds
among various needs and goals. This balancing act requires commitment and
willpower.

Look for ways to trim the largest fixed expenses first, and then see where
discretionary expenses can be cut. Try not to assume obligations or acquire a
more expensive lifestyle than income allows. The key to sound financial
management is living within one’s means. This means cutting expenses to
less than income or increasing income to cover all expenses with some
surplus.

The budgeting process is the key to marketing needs. By discussing a
prospect or client’s financial goals, you begin to uncover the need for
insurance and other financial products. The budget also helps you determine
how serious prospects are about addressing their insurance and other
financial needs. Budgeting is a valuable tool to help your clients and
prospects attain and maintain their financial dreams.
Retirement Planning

Clients should clarify how they want to live during retirement and what financial resources will be available to support the desired lifestyle. Like budgeting, retirement planning is largely developing a plan based on anticipated income and expenses, and reconciling and balancing them. Retirement is ideally the achievement of economic independence. It is a threshold that clients often cross with a changed outlook on life, certain post-retirement lifestyle assumptions, and modified financial planning objectives. How much money will your client want or need during retirement? The answer to this question varies with your clients and depends on the following factors and assumptions:

- your client’s target retirement age
- the number of years your client will spend in retirement
- a target income based on your client’s lifestyle expectations for retirement
- an assumed inflation rate
- the total financial resources available to the client
- the amount of interest earnings on savings and assets earmarked for retirement
- your client’s projected amount of savings by his or her retirement age
- how long your client will live

Estate Planning

Estate planning involves both conservation planning and distribution planning. This entails structuring the assets in the client’s estate for lifetime and testamentary transfers of property to best achieve the client’s overall estate distribution objectives.

Investment Planning

Investment goals should be identified and prioritized. All securities in your client’s investment portfolio should be listed. The portfolio should then be analyzed with respect to its marketability, liquidity, diversification, and overall performance. The suitability of the investments in relation to your client’s goals, financial ability to sustain a loss (risk tolerance), and personal management capabilities must be addressed.
Employee Benefit Planning

The plan should review the current status, use, and cost of your client’s employee benefits. It should address the likelihood that these benefits will be modified or terminated in the future. Also, the plan should analyze the types of benefits available and their relationship to other plan components such as insurance coverages, retirement planning, and estate planning.

Income Tax Planning

Income tax planning includes an analysis of your client’s income tax returns for the current year and for recent past years. It should also include projections for several years into the future. Projections should show the nature of the income and deductions in sufficient detail to permit calculation of the tax liability. The analysis should identify the marginal tax rate for each year and any special situations, such as the alternative minimum tax, passive loss limitations, and other issues that may affect your client’s tax liability.

Education Planning

The plan should analyze any future capital needs that your client might have for special purposes such as funding college educations for children. The analysis should include a projection of resources expected to meet these needs and the time horizon required for funding each goal.

Insurance Planning

Insurance planning involves risk management, accumulation, maintenance, and protection of financial assets. Insurance planning is a part of the overall financial plan, regardless of whether your client or prospect has a formal plan. While you must not call yourself a financial planner until you have the proper authority and permission from your company, it is important to know where insurance planning fits into this bigger picture. This will help you position your products and services more effectively and see opportunities should you decide to specialize in a specific planning area or market.

Peace of mind and love are examples of motives to purchase insurance products. Financial needs are the logical expression of a prospect’s emotional desire to protect his or her family. What are these financial needs?

Insurance and Accumulation Needs

There are seven common insurance and accumulation needs described below. They determine how much money a person will have available to
spend on life insurance products you sell. For example, by law everyone is required to carry auto insurance. Mortgage companies require fire or homeowners insurance. What is left over in the person’s insurance budget purchases health, life, long-term care, disability, and other insurance products.

<table>
<thead>
<tr>
<th>Insurance or Accumulation Need</th>
<th>Appropriate Product</th>
</tr>
</thead>
<tbody>
<tr>
<td>Protection against personal property loss and personal liability claims</td>
<td>Auto, Fire, Personal Liability, Umbrella, Personal Article, and so on</td>
</tr>
<tr>
<td>Protection against health or hospitalization expenses</td>
<td>Health</td>
</tr>
<tr>
<td>Protection against loss in the event of premature death</td>
<td>Life</td>
</tr>
<tr>
<td>Protection against the long-term costs of living too long</td>
<td>Long-Term Care, Annuities, Mutual Funds</td>
</tr>
<tr>
<td>Protection against the loss of income in the event of disability</td>
<td>Disability Income</td>
</tr>
<tr>
<td>Funds to cover unexpected emergencies</td>
<td>CDs, Money Market, and so on</td>
</tr>
<tr>
<td>Funds to take advantage of investment opportunities</td>
<td>Mutual Funds, Stocks, Bonds, and so on</td>
</tr>
</tbody>
</table>

**Life Insurance.** As a financial advisor, you have the ability to create solutions that can mean the difference between a family having to struggle to make ends meet and having a solid financial foundation upon which to pursue their dreams. While many occupations have a significant impact upon a family’s financial security, few have the ability to deliver more at the time of need.

After a loved one dies, those left behind can face many financial problems such as

- paying for final expenses resulting from death
- maintaining a desired standard of living
- replacing the missing income
- paying on or liquidating the mortgage
- paying for education costs
- paying estate and other taxes
- ensuring the continuity and security of business interests

Life insurance can help to solve all of these problems. Through the products you sell, you create money in situations where money did not previously exist or would not otherwise have existed. You create an
immediate estate, or money when it is needed the most. Insurance provides time for people to recover emotionally from a tragedy without the need to cope with a financial burden as well.

Understanding these needs makes it easy to understand why life insurance is an emotional purchase. Probably the most common reason for buying it is the love someone has for those who may survive him or her. Insurance provides the money so heirs can maintain a lifestyle to which they have grown accustomed. Insurance provides income after death to keep people from suffering the loss of a loved one compounded by an unnecessary loss of income.

Unlike property insurance, life insurance does not replace what it insures. A human life is irreplaceable. Instead, it replaces what the insured would have been able to provide had his or her life continued. It is the creation of capital by installments. No matter what happens, as long as the installments (i.e., premiums) are made, the capital is guaranteed. It is more than insurance—it is comfort, lifestyle, education, peace of mind, assurance that life for a person’s loved ones can continue successfully after the insured’s death.

There is an old expression in the life insurance industry: “Life insurance is not bought—it is sold.” This does not imply that high-pressure sales tactics are ever appropriate. However, while people can generally sense a need for life insurance, they seldom think about it without your help, and they often underestimate their need. While we must not coerce people into buying life insurance, the advisor’s job is to help people identify and understand their needs and motivate them to take action. For customers who decide to address their needs, your job is to implement and monitor an appropriate insurance plan.

Income Replacement. When a wage earner dies, the family will usually need to replace the lost income to meet continuing and future financial needs. This is the most common purpose for the purchase of life insurance.

Every person has an economic value in life, much of it associated with potential income. Each income source should be considered, and any shortfall at death properly insured when someone depends on that income for financial security. Note that most life insurance companies will normally insure a healthy applicant for up to 20 times his or her income. Thus someone earning $50,000 per year can qualify for $1,000,000 of death benefit. Certainly, most of your prospects are seriously underinsured!

Do not overlook the need to insure a homemaker. Although he or she does not earn an income, there is definite value to the work that he or she does. Without the homemaker, would there be a need for domestic services such as a maid? Would daycare costs cause financial stress on the surviving spouse?
Example: Barbara is a physician, while her husband Phillip is a stay-at-home dad for their two small children. Barbara recognizes that if Phillip died, she would need to continue working, and she would need domestic help and extensive daycare for the children. Based on her objectives and costs in their area, Barbara and Phillip decide to apply for a $250,000 20-Year Level Term life insurance policy on Phillip.

Final Expenses. There are always expenses related to dying. Some examples of final expenses are costs related to burial, medical bills, probate costs, and estate taxes. Life insurance is an excellent way to pay these expenses when no other capital is available or when the prospect desires to allocate existing assets for family income.

Emergency Fund. If there was not one prior to death, an insured may want to provide a death benefit to create a fund for unexpected expenses. One common rule of thumb is to set aside three to six months of normal household expenses.

Adjustment Income. Prospects may desire to provide money that enables survivors to adjust to the death of a parent or spouse. Life insurance can establish a cushion to keep a newly single parent at home for a few months to care for children, consider career alternatives, or reduce the pressure to make quick decisions.

Mortgage Liquidation or Payment. A prospect may want to use life insurance to liquidate a mortgage or establish a fund for future mortgage payments. Families who rent may consider establishing a fund for future rent payments. Doing so ensures housing for survivors or, in the case of homeowners, prevents the need to sell quickly and below fair market value.

Debt Repayment. Most of us do not hesitate to use credit because we are confident that we can repay our debts from future earnings. Short-term debt, such as credit cards and auto loans that can be paid off in a relatively short time, should be paid when the insured dies.

Education Fund. A common concern for families is their children’s post-secondary education. For most families, these costs rank second only to the mortgage on their home. Parents who want to provide college or other post-secondary education for their children must plan carefully for these costs.
Life insurance cash values can assist with future bills, and the death benefit guarantees the money to fund the education if the insured parent dies.

*Bequests.* Religious bequests and charitable gifts to special organizations or causes are as common in estates as philanthropy is during a benefactor’s lifetime. Advisors can assist with planning gifts to charities, but you will usually recommend that other financial needs and obligations—especially to the family—be met first. Many individuals wish to leave money or property to family members, and life insurance can provide the funding or replace those funds directed elsewhere.

*Estate Taxes.* Sizable estates will have taxes to pay, and taxes cannot be postponed. Regardless of the circumstances, estate and final income taxes must be paid before other creditors and survivors get their shares. Estate taxes under current law affect only approximately one percent of estates, but other estate expenses affect a much larger segment of the population.

For example, if the family’s only asset were their farm, insurance proceeds could help pay taxes and protect the land and equipment from being sold to raise necessary cash. Assets such as stocks, bonds, vacation homes, or even the family’s primary residence are also protected from forced sale, perhaps below their full market value, by the use of life insurance in estate conservation planning. When there is sufficient liquidity in an estate to pay taxes without insurance, a prospect can use life insurance to keep the estate whole.

*Business Continuity.* Business interests may be significantly devalued at the death of an owner. The deceased’s family may assume it can rely on the business to help financially. The business, however, will have its own problems coping with the loss of an owner. Life insurance can provide the cash needed to preserve the business whether it is retained for the family, run by a hired manager, or sold. Life insurance can ensure that both the heirs and any surviving owners receive full value for their interests in the business.

*Supplemental Retirement Income.* Permanent life insurance plans can offer the added living benefit of supplementing retirement income. Although not a primary source for income, the cash value can assist with unforeseen expenses or increases in standard of living during retirement.

*Connecting the Financial and Emotional.* A person must have financial needs in order to buy life insurance. However, many people have financial needs and still do not buy life insurance. The emotional bond between family members opens the doors for life sales. The primary motive for most purchases of life insurance is love. You may hear an experienced advisor say, “Insurance is not bought unless somebody loves someone.”
**Ask and Listen.** Find out your prospect’s goals for him- or herself and for their family. Many times the conversation can be as simple as asking, “What are your dreams? What do you wish to see happen with your family in thirty years?” Find out what is truly important to them by asking something like, “Which of these would you like to see happen even if you were not alive?” Determine how they envision that their dreams will still happen by asking, “How do you feel you can make that happen?” In the event that they do not have a viable solution, insurance is there.

**Medical Expense (Health) Insurance.** Medical expense insurance used to pay medical bills as a result of accidents or illness is arguably the most important type of insurance protection to most Americans, and the one that causes the most anxiety if lost or unaffordable. It is an expensive form of insurance if the client must purchase it, but many people have medical expense insurance as an employee benefit, where the employer pays some or all of the cost. It is important for an advisor to help a client determine if their coverage is adequate, and if not, assist them in obtaining full medical or supplemental coverage.

**Disability Insurance.** While the need for life insurance receives a great amount of attention, the need for disability insurance is often ignored and rarely discussed. Studies show that

- a 30-year-old has a 24 percent chance of being disabled for at least 90 days before reaching age 65
- at age 45, the chance of suffering a disability is only reduced to 21 percent
- a person disabled for 90 days will probably remain disabled for at least four years

Despite these statistics, very few people have adequate protection against long-term disability. The public may purchase life insurance for their family’s protection but they have largely neglected their own income protection, even though the odds are far greater for a working-age person to become disabled than to die. Disability income insurance is discussed later in this chapter.

**Long-term Care Insurance.** Long-term care has become an important consideration in risk management planning, and this topic will be discussed in detail in Chapter 6. The likelihood that a person will need to enter a nursing home increases with age. The out-of-pocket payments for long-term care by individuals who must use personal resources can be astronomical. Today, average nursing home costs are over $75,000 for private
accommodations. It is becoming more difficult for families to provide long-term care, and most private medical expense policies and Medicare exclude convalescent, custodial, or rest care.

**Property and Liability Insurance.** A financial plan that does not include property/liability insurance and risk management potentially leaves a client’s entire asset base at risk. Failure to carry appropriate and adequate property and liability coverage can result in a severe uninsured loss that can ruin an otherwise sound plan for capital appreciation and preservation. Property and liability insurance is complicated, and exposures and policies must be thoroughly analyzed to determine if the client is adequately protected. If you do not provide this type of service, it is essential that your client consult with someone who does.

### The Financial Planning Pyramid

One method for organizing all of these financial needs is the financial planning pyramid. The financial planning pyramid uses four levels: wealth foundation, wealth accumulation, wealth preservation, and wealth distribution. The pyramid in its entirety represents an integrated and comprehensive financial plan. The individual blocks illustrate how most people feel comfortable building their financial plans—one or a few blocks at a time. The term building-block approach is used to describe this incremental approach. Some pieces, like auto and homeowners insurance, are easy to change and can be put in place without too much integration with other blocks. However, other blocks, such as life insurance, are more difficult to change because they require new evidence of insurability (the client’s insurability could change) and may result in higher premiums (due to increased age). Such products require more understanding of other current and potential needs the client may have concurrently or in the future.

Although each person sets financial goals throughout his or her life cycle, most people need to address five basic financial objectives:

- Protect against risk.
- Provide for financial security.
- Develop a comfortable life style.
- Provide for a comfortable retirement.
- Plan for the distribution of assets.
The various levels provide some guidance as to a general order in which to address financial needs. The first level represents the foundation, the basic needs that should receive primary attention as they apply. Failure to address these needs leaves any savings and investments vulnerable if an uncovered loss occurs. Thus basic insurance products, a simple will, and an emergency fund form a wealth foundation.

Once the foundation is in place, a person can begin buying products in the wealth accumulation level such as CDs, stocks, bonds, mutual funds, real estate, and so on. Once assets are acquired, wealth preservation tools are needed. When the accrual of assets reaches a threshold, a person will need to consider products such as umbrella liability and long-term care insurance to preserve assets from lawsuits or the potential need for long-term care. Most likely, with increased wealth will come additional property needing to be insured, such as a summer home, a boat, a jet ski, and so on. At the wealth distribution level, products are needed to manage retirement income to ensure it will last. In addition, estate planning tools are used to conserve the estate for heirs, provide for an orderly distribution of wealth, and provide for charitable causes.

Once products are in place at a lower level, it does not mean they can be forgotten. Financial and life situations and goals change over time. It is
important to review them periodically and make any necessary adjustments. For example, a divorce will mean that assets are divided and a new will is necessary.

**LIFE CYCLE: YOUNG ADULTS**

This section will look at the young-adult market segment, which includes men and women who fall into the group between the ages of 20 and 37. Obviously there is a lot of variation between characteristics and needs in a segment this broad. Therefore we will examine this segment by grouping them into the following subsegments:

- single—individual with no partner and no kids
- dual income with kids—individual with a partner and kids
- dual income with no kids—individual with a partner and no kids (referred to as DINKs)
- single income with kids—individual with a partner and kids where the partner is not employed outside of the home. Also included in this grouping are single parents.

**Young Adults in General**

Before looking at the nuances found in each subsegment, we will review the young-adult market segment in general.

**Common Characteristics**

This segment will experience many firsts: first car, first house, first marriage, first child, first divorce, and so on. More life events create more financial and insurance needs. Life changes and milestones typically are times when life insurance needs become prominent. Because of the variety of situations you will find in this segment, we will discuss common characteristics of all the groupings as we examine each one.

**Common Needs**

As we look at the subsegments, you will see more differentiated needs. The following are some needs common to young adults.

**Final Expenses.** This is a need in every market. Final expenses cover burial, probate and estate administration costs, any state inheritance or federal estate taxes that are due, and any medical costs associated with the death.
**Emergency Fund.** This is the recommended three to six months of living expenses needed to keep a person financially solvent in the event of losing a job, being disabled, or facing a financial emergency. For a single person, three months would be adequate while six months would be more appropriate for those individuals with children. The stability and reliability of continued income would also be a consideration in the size of the emergency fund. The amount should be at least enough to get a person through the elimination period on a disability income policy.

**Debt Liquidation.** Often, credit card debt begins to mount during this phase. It begins early because most young adults have not been educated on how to use a credit card responsibly. You could provide some wise counsel regarding the advantages of paying off these balances and providing for their liquidation at death. Vehicle or personal loans also fall under this category. Generally budget planning is a need for members of the young-adult market segment.

**Disability Income.** Protection against loss of income due to disability should be addressed as soon as a person begins earning an income. For young adults, it now becomes a pressing need.

**Retirement.** It’s never too early to begin saving for retirement. Many people make retirement a low priority until it is too late. Systematic saving over a working lifetime is a key to supplementing other retirement programs. The old rule of thumb is still valid when it comes to saving: if you tuck away 10 percent of annual income, financial independence can be attained. Young families with even modest incomes should start with something, even if they cannot make a total commitment to this 10 percent guideline at first. This is more important if any kind of employer-match on retirement savings is available.

**Will.** This is the point in life when most people should have a will drawn. The financial advisor can help the new career person plan the financial aspects of his or her will.

**Singles**

**Common Characteristics**

People in this stage of life are typically young, healthy, and energetic. They are in a position to have more freedom and more cash. They have a zest for life. We find most entering this phase of life have carefree attitudes carrying forward from the family home. This is when new responsibilities are
undertaken and maturity begins to replace irresponsible actions of youth. It can be a major transition in a young person’s lifestyle.

**No Constraints.** Singles may have a problem facing new responsibilities and challenges. While they need sound advice and counsel, they are often not receptive to new ideas. Some young adults view new responsibilities as threatening because they feel constraints are being imposed on them and that their new freedoms may be restricted. Even though they often have discretionary income, they probably have not established savings plans or cash reserve funds for an emergency.

**Time Is on My Side.** A feeling of indestructibility and immortality is characteristic of those in their early 20s. The prevailing thought is, “Time is on my side,” which is true if young people plan properly. Unfortunately, young singles tend to make poor choices regarding their financial needs. They may be used to putting off decisions. Consequently it may be difficult to convince them to begin planning for their future.

**High Debts.** Single young adults are likely to be concerned with debts and paying obligations such as student loans acquired in the process of getting to this life stage. One of the other causes of debt is the misuse of credit cards. Unfortunately, we find this a characteristic in all segments.

**Common Needs More Unique to Singles**

In addition to the needs common to the entire segment of young adults, the following needs are more common to singles.

**Savings.** There may be an increased need for life insurance at this life stage, however the need to save money is more pressing. Saving has typically been ignored up to this point, as education costs or excessive spending have prevented it.

**Debt Liquidation.** The debts caused by credit cards, car loans, and school loans will be a priority for many in this segment. You can approach them by educating young clients about the financial burden their death could have on parents or others who may have cosigned a loan for them. You can also assist them in budgeting to pay off debts and teach them how to build a financial future.

**Disability Income.** Members of the single/never married life stage are among the best prospects for DI coverage. Without dependents, disability will generally affect the single person and his or her family (parents and siblings) financially more than death. It is far more likely that younger
workers will become disabled than die during their working years. Disability income insurance will partially replace income when an insured worker is ill or injured and unable to work.

**Future Insurability.** For those who have no debt and no other immediate insurance need, ask about their future. Do they expect to find a partner or have children? If so, you can discuss a life insurance program that will protect their future insurability with guaranteed purchase options.

**Marketing Approaches**

Your greatest challenges in working with single adults will be their sense of living in the present and lack of concern about the future. The good news is that the spotlight on Social Security solvency has made young adults more aware of a need for retirement planning, which will help you talk to them about insurance planning. Point out to the single adults that if something were to happen to them, someone else might have to settle their bills, debts, and final expenses.

<table>
<thead>
<tr>
<th>The Advantages of Starting a Life Insurance Program Early</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Provide for guaranteed, immediate financial security now.</td>
</tr>
<tr>
<td>2. Lock in lower premiums available at a younger age.</td>
</tr>
<tr>
<td>3. Qualify for lifelong protection while you are insurable regardless of later conditions of health, avocations, or occupations.</td>
</tr>
<tr>
<td>4. Begin building cash reserves for emergencies and for new opportunities.</td>
</tr>
<tr>
<td>5. Allow compound interest to work over a longer period of time with greater rewards.</td>
</tr>
<tr>
<td>6. Enable more choices and greater flexibility later, when status changes.</td>
</tr>
<tr>
<td>7. Funds become immediately available to pay off debts and honor bequests in the event of early death.</td>
</tr>
<tr>
<td>8. Larger cash values at retirement are available if a plan is started at a younger age.</td>
</tr>
<tr>
<td>9. Secure the qualification for additional coverage and additional benefits at the most favorable rates in the future with guaranteed purchase options.</td>
</tr>
<tr>
<td>10. Enjoy great pride, satisfaction, peace of mind, and a feeling of well being for taking positive actions now.</td>
</tr>
</tbody>
</table>

**Illustrating the Cost of Waiting.** In presenting solutions to single, young adults, it is important to stress the advantages of wise planning, saving money on a systematic basis, and beginning immediately. Successful advisors use a concept known as the cost of waiting to overcome apathy and procrastination in prospects. The cost of waiting concept compares a life insurance or retirement plan started immediately and one started three to five years in the future. For example, an illustration can show the large difference in accumulated savings in 25 years for someone starting immediately,
compared to the amount 25 years in the future for someone who waits another five years to start saving. Although the idea is straightforward and logical, most people fail to recognize the enormous increase in value for those who begin to save early in life.

For life insurance, some advisors find it effective to go back in age, to a point three to five years earlier, showing what the cost of waiting has already done to premiums or savings. By waiting, the premium will be higher, the cash value growth over the prospect’s life will be smaller, they will be without the protection, and they could lose their insurability in the interim. These are all good reasons to buy life insurance today.

Dual Income No Kids (DINKs)

Common Characteristics

It often takes longer than the traditional four years for many young adults to complete college. In addition, many careers are open only to those with graduate degrees or advanced educational experience. The pursuit of a master’s degree or doctorate often leads to delays in marriage, children, and the formation of a family. There are many cases in which both spouses work, and they delay having children or do not plan to have any.

Higher Household Discretionary Income. Without children, DINKs will have higher discretionary incomes because no money is being diverted to daycare, food, diapers, and other expenses created by children. They should have more money to invest and purchase necessary insurance and other financial products.

No Budget or Plan. While they make more money, DINKS also tend to spend more freely. Without the constraints created by dependents, they tend not to have a budget. Spending without planning and failing to prioritize needs often put this segment into a vulnerable position, and they find themselves in debt with little savings.

Possibly a Temporary Situation. For many couples, this life-cycle status is a transition between being single and having children. For those in transition, anticipating the needs that will arise when they do have children should be a top priority. This includes deciding whether both parents will continue working, estimating costs associated with daycare, and assessing the cutback in income should one or both parents alter their work.
Common Needs Unique to DINKs

Income Adjustment. Survivors may need a sum of money to help them adjust to the death of their partner. These funds can provide a temporary cushion to give the survivor time to adjust to his or her new situation, to consider career alternatives, and make informed, rational decisions. Additional death benefits earmarked for this purpose should be considered.

Future Insurability. Like their single counterparts, DINKs may not have a large, immediate insurance need. Ask them about their expectations for the future. Do they expect to have children or take care of an elderly parent? If so, you can offer a life insurance program that will protect their future insurability.

Marketing Approaches

Seminars and workshops on money management, insurance planning, or other specific financial topics can be successful with members of this lifecycle market segment. There are substantial quality business opportunities with dual income no kid families. Consider their situation as a precursor to either accruing a lot of wealth or having children, either of which increases the need for insurance.

Dual Income Young Families

Common Characteristics

Over 50 percent of the families in the United States have two or more income producers. The majority of households earning over $40,000 annually are two-income families.

High Desired Standard of Living. The trend towards dual-income families is partly due to the increase in a family’s desired standard of living. Combined incomes are essential to develop and maintain the financial security and lifestyle these families want. The loss of either income would jeopardize the family’s financial well being.

Shared Roles and Responsibilities. The roles and responsibilities of husbands and wives are similar. In two-income families, there is more sharing of household chores. Both marriage partners must balance the needs of work and home, so sharing becomes necessary.
**Hard to Save.** Even with two incomes, couples still find it hard to save. The dual income family is a financially complex situation. They often pool resources to enhance their standard of living and to achieve financial independence. The desire for a wealthy lifestyle brings with it increased taxes and can create a very challenging situation. While spending and savings patterns vary considerably, families with two incomes tend to save less. Two-income families may view that second income as insurance against loss of the first income, creating a false sense of security.

<table>
<thead>
<tr>
<th>Human Life Value</th>
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<tbody>
<tr>
<td><em>(Prospect), if you had an incredible money-making machine that could make hundreds of thousand of dollars over the next 40 years, and you knew that it could be lost, stolen, destroyed by fire or other hazards, but you could insure it against loss, would you insure it?</em></td>
</tr>
<tr>
<td>“For how much?”</td>
</tr>
<tr>
<td>“Have you considered the amount of money you will earn in your lifetime?”</td>
</tr>
<tr>
<td>“Shouldn’t you insure the risk of losing this incredible money-making machine?”</td>
</tr>
<tr>
<td>“Let me show you how.”</td>
</tr>
</tbody>
</table>

**Common Needs**

**Income Replacement.** For a family with dependent children the first priority is adequate protection against losing the income of a wage earner through premature death.

**Mortgage.** The desire to provide funds for liquidation or payment of a mortgage is another significant goal of many young families. A mortgage is the largest obligation most families face. Leaving a mortgage-free home (or money to pay the mortgage) is fundamental to maintaining a desired standard of living and preventing additional disruption to the family unit.

**Education.** Another priority for young families is to build adequate funds for college. The need for education is clear. College graduates earn more money, enjoy better lifestyles, and generally have more rewarding careers than people without a college education.

The cost of tuition is increasing at a rate far exceeding increases in the general cost of living. It is essential that every young couple desiring to send their children to college start a substantial savings plan as early as possible. Giving compound interest an opportunity to work is crucial to the success of any long-term savings plan. Saving in a tax-favored vehicle is also a major consideration in today’s tax climate.
Additional education to acquire new or better skills is often a consideration of one or both partners in a young family. The death of one spouse can increase the need for additional education for the surviving spouse. Again, life insurance can provide funds to obtain an education, leading to a job, which a surviving spouse can use to maintain the family’s lifestyle.

**Accumulation.** Most young families will also have a need to accumulate funds for future purchases such as a vehicle or down payment on a home. They should be encouraged to accumulate at least three to six months of living expenses as an emergency fund.

**Retirement and Savings.** There is a temptation to delay or downgrade savings for retirement to fund children’s education needs. This is generally a bad decision. As a minimum, each spouse should contribute to an employee-sponsored retirement plan, to the extent of any employer match. Many young couples can also benefit from a Roth IRA. In addition, there should be at all times an adequate emergency and savings fund available to take care of unexpected needs for funds, as well as needs that have been planned, such as replacing a vehicle or repair bills. Having adequate savings can eliminate or minimize stress and the need to go into debt for these expenses.

**Single Income Young Families**

**Common Characteristics**

It appeared in the 1990s that the single income with kids segment would disappear. However, in the late 1990s many young professionals began to re-evaluate their situation. For a variety of reasons, more families today are deciding to keep one parent at home, at least for the first few years after children arrive. Families often find that the money from the second income is negligible after paying child-care and other work-related costs. This is especially true when one parent has a low-paying job.

**Greater Dependence on One Income.** The most obvious financial challenge is a greater reliance upon one income. This forces single-income families to live more frugally than their dual-income counterparts because they have less discretionary income. This may also increase the exposure of the family in the event of disability or death.

**Stay at Home Dads.** The greatest change in this market is the number of men who have become the homemaker in the family. We may see this trend increase as many women now earn more money than their husbands. From a
Chapter 3  Financial Needs, Young Adults, and Disability Income

financial perspective, this makes a father staying at home with the children a more logical choice.

**Temporary Situation.** In many cases, families plan to have the spouse re-enter the workforce to provide extra income. This will usually occur at one of three junctures: when the youngest child enters grade school, when the youngest child enters high school, or when the youngest child graduates from high school. At this point, these families will have more discretionary income.

**Single Parents.** Some young families have one income because only one wage earner is available. The majority of single parents are female, and their need is more acute than their two-parent family counterparts. In addition, their ability to pay is often further limited by lower income and the additional expense of childcare that the two-parent single income family does not have.

**Common Needs More Unique to Single Income Families**

- **Income Replacement.** As with their dual-income counterparts, the first priority is adequate protection against losing the income of the primary wage earner through premature death or disability. One asset and insurable risk that is commonly overlooked in this scenario is the value of the homemaker. While no outside income is earned, family expenditures for daycare and housecleaning are reduced or eliminated. It’s good to point this out.

- **Mortgage.** This is the same need as described for the dual-income family.

- **Education.** This is the same need as described for the dual-income family.

As you can see, the Young Adult segment is diverse. Breaking it into subsegments enhances your ability to customize your approach, as each subsegment has some distinguishing characteristics and needs.

As a whole, you will find this to be a market with which you can grow. Remember, many life events increase one’s insurance and financial needs. The longer a person is your client, the more opportunities you will have to assist him or her through life events as their insurance planner.

**DISABILITY INCOME INSURANCE**

In this section, we will review the needs, the available products, and the markets for disability income (DI) insurance. We will end with a discussion
on approaches. We will also discuss how to position disability income with life insurance so they support each other.

**The Need for Disability Income Insurance**

We have seen that insurance protects against financial catastrophe from many different perils. Life insurance helps replace the income generated by the efforts of the deceased insured. 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 depletion in the event that people 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 to occur than death during a worker’s earning years. Even if a disability is relatively short, the loss of income puts most people in a financial crisis that affects their lifestyle for a long time.

Disability income 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 lost as the result of an accident or illness. It can also help keep financial worries from adding to the hundreds of concerns that a disabled person must face.

**Establishing the Need for DI Insurance**

The art of establishing the need involves some basic principles. The first is to focus approaches and discussions on relevant needs. Then in a non-manipulative manner, help the prospect or client weigh the costs of doing nothing against the cost of acting immediately to secure the protection and benefits provided by the products you are selling.

**Using Life Stages to Identify Potential Needs**

One of the underlying themes in this textbook is that of using life-cycle segmentation to help identify potential needs. Life-cycle segmentation can provide a starting point to guide your marketing and selling efforts with regard to the DI insurance need.

**Singles.** Members of the single/young adult market segment are among the best prospects for DI coverage, and they are often the easiest to sell. Without dependents, disability will generally affect the single person and his or her family (parents and siblings) financially more than death. Even if a young person were disabled and qualified for Social Security Disability
Insurance, he or she would likely need additional help to maintain even a modest standard of living. 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. The hot button for most singles/young adults will be either an unwillingness to be an emotional and financial burden on their family or the desire to preserve their independence. Thus DI insurance will typically be a higher priority than life insurance.

Established singles (ages 30 to 49), especially those who want to remain as such, are the ones who need this coverage the most and should have the easiest time affording and qualifying for it.

Marrieds. Most members in the young adult married market segment do not yet have dependent children, and both spouses usually work outside the home. Initially, with two incomes, that may seem to lessen their need for DI insurance. However, a couple’s lifestyle usually rises to its level of income. The advisor should do an analysis to compare current income to projected income if one spouse becomes disabled. Often couples need both incomes to cover all of their obligations such as a mortgage, any other long-term debts, car payments, credit card repayments, and utilities. It should also be noted that the disabled spouse’s condition could curtail the other spouse’s income-producing activity. A good way to begin the conversation is to ask, “If one of you could not work for the next year, could you still pay all your bills?”

Families. The majority of families are dual-income families. Unlike their childless counterparts from the young adult married market segment, they have dependents that create expenses but typically no income. In general, children create markedly higher financial obligations while the family earns less income (in many dual-income families, the second wage earner may work part-time). Thus a disability would wreak a greater amount of havoc on the dual-income family than the childless couple.

For single-income families, the need for DI insurance on the wage earner is still crucial. While the non-working spouse may eventually find employment, it may be difficult in a tight job market.

DI coverage for single parents is essential. A sole income that supports a household must be protected. The economic disruptions caused by a single parent’s disability can result in disaster because there is no spouse’s income to rely 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. Of course, the challenge is finding the funds to pay the premium.
Explaining the Need for DI Insurance

Once you determine that DI insurance is the prominent need, you must help the prospect consider the financial problems and emotional aspects associated with becoming disabled. Then examine the adequacy of personal financing alternatives and government programs, and demonstrate how DI insurance is the best solution for this potentially devastating financial problem.

Discuss the Risk of Disability. If prospects have not experienced disability, they may not feel that they need DI coverage. There is a common tendency to think that accidents or illness always happen to someone else. Using some of the disability statistics available may help point out to prospects that income interruption by disability is a real possibility for everyone.

Out of 1,000 people, the number who may become disabled before age 65 is substantial (see Table 3-1).

<table>
<thead>
<tr>
<th>At Age</th>
<th>Probability of Disability</th>
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</thead>
<tbody>
<tr>
<td>25</td>
<td>40 percent</td>
</tr>
<tr>
<td>30</td>
<td>39 percent</td>
</tr>
<tr>
<td>35</td>
<td>37 percent</td>
</tr>
<tr>
<td>40</td>
<td>34 percent</td>
</tr>
<tr>
<td>45</td>
<td>31 percent</td>
</tr>
<tr>
<td>50</td>
<td>26 percent</td>
</tr>
<tr>
<td>55</td>
<td>20 percent</td>
</tr>
</tbody>
</table>

Source: Commissioner’s Individual Disability Table A.

In addition, while the probability of becoming disabled before age 65 decreases as you age, the average duration of disability increases (see Table 3-2).
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).

**The Need for Income.** Even after talking about the strong statistical possibilities of disability, some people may feel that they have enough DI coverage with Social Security, workers’ compensation, and/or by self-funding using personal financial resources.

You must show prospects that an insurable need to continue income during a disability may still exist for them. It is only after a prospect acknowledges everyone has a potential need for DI that you can concentrate on the specific amount of income he or she will need. Prospects may consider the shock that an illness or injury might cause, but fail to understand that it could lead to an ongoing crisis made worse by financial chaos. Disability can cause unimaginable change in a family’s lifestyle.

**Financing Alternatives to DI Insurance**

**How to Pay Monthly Expenses During a Disability.** A helpful technique for selling DI insurance is to ask, “How would you pay your bills if you were disabled?” Many prospects will exhibit a total lack of knowledge concerning this topic. There are many misunderstandings and myths regarding DI and the resources available for financing a period of disability. As a financial advisor, you need to educate your prospects on the shortcomings of the various personal financing alternatives to DI insurance and any applicable government programs, such as Social Security.
**Personal Financing Alternatives.** Using personal savings, taking loans, converting assets to cash, and even Social Security DI payments are usually incomplete solutions to the need for disability income.

**Savings.** The first place most people would look to replace income if they became disabled would be savings. The savings put away for the rainy day could help temporarily to replace lost earnings, but most people do not have significant savings. Even if they have saved money, a family’s savings earmarked for other specific uses such as children’s educations or retirement would cause those financial goals to be put in jeopardy.

**Loans.** Loans from family and friends can be considered charity—especially if the disability is permanent or lengthy. The lenders could not expect the loan to be repaid if the disability drags on and on. For the same reason, no financial institution is likely to loan money to a disabled person who has no current income or the prospect of any income in the foreseeable future. Borrowing to get through a period of disability can be virtually impossible.

**Converting Assets to Cash.** People may rely on expensive homes and cars, vacation homes, and collections of art, jewelry, or other valuable objects to get through a period of earnings losses from disability. This tangible property would have to be converted to cash, likely on short notice, to replace lost income. Few types of property can yield their full value if they must be sold in a hurry to raise cash. Not only would these people be giving up the property itself in order to get by, but also would likely suffer a loss on the sale.

**Social Security.** The prospect may believe that Social Security DI payments would be sufficient to cover a period of disability. You can help your prospects define what they need by showing them the approximate Social Security Disability Income Insurance (SSDI) dollar amount they can expect to collect if they qualify for benefits. These figures are available on the prospect’s own annual Social Security benefits statement. This may convince the prospect just how inadequate SSDI benefits will probably be for him or her.

Remember, a disability must be total and permanent before a person can qualify for Social Security benefits. Fewer than half of those who apply for benefits are accepted initially. Furthermore, nearly one-third of approved applicants were denied benefits initially and then appealed the decision (a process that can take a year or more to complete). Social Security benefits should be considered when analyzing DI coverage, but the prospect needs to know that Social Security is not a basis for a secure DI plan. Rules for
eligibility are strict, getting approval may require lengthy (and costly) legal actions, and benefits may be inadequate for higher income earners.

**Workers’ Compensation.** People may confuse workers’ compensation plans with disability protection. Workers’ compensation plans, which fall under the regulation of individual states, pay monthly benefits to workers who are disabled by on-the-job or job-related injuries or sickness. The amount received is a percentage of wages up to a maximum monthly benefit set by the state.

Workers’ compensation pays no benefit for injuries or sickness not related to the job. A disability arising from a sports injury on a weekend outing would not be covered. Further, the maximum amount paid under a valid workers’ compensation claim may be less than the amount required to meet the individual’s needs.

**The Logical Solution: DI Insurance**

This leaves DI insurance as the most viable option for most prospects. The only sensible answer to financing the expenses associated with disability is to transfer the risk to an insurance company. This solution provides many advantages:

- A reasonable investment of present income can be budgeted for DI insurance premiums to ensure the continuation of that income during a disability from an illness or injury.
- DI insurance reduces the burden of constant worry about money to pay bills without borrowing, depleting savings, or selling assets.
- DI insurance protects personal assets from the ravages of a long-term disability, and avoids forced liquidations.
- Living standards can be maintained for all family members.
- An insurance company offers freedom in choosing DI insurance options.
- Wealth that has accumulated is preserved for the benefit of a spouse, children, charity, or other purposes.

**The Disability Income Insurance Product**

Disability income (DI) insurance is a financial product that indemnifies its owner for the lost capacity to earn income resulting from an impairment caused by either accident or illness. In other words, DI insurance replaces lost earned income that results from the insured’s becoming disabled.
Defining Total Disability

A DI policy’s definition of disability is central to DI insurance. It provides the basis for determining whether benefits will be paid. For life insurance benefits, death is a fact that can be verified. The disabling nature of an illness or injury to trigger the payment of DI benefits is open to a variety of interpretations. Furthermore, there are several levels of disability—total disability, presumptive disability, partial disability, and residual disability. All of these can be either short- or long-term in duration. As the definition of disability determines when coverage is triggered, it is very important to understand your DI insurer’s definitions. Compare your DI insurer’s definitions with the descriptions that follow.

The total disability concept generally refers to the inability to do the duties of one’s job. We will examine total disability definitions and then consider other definitions that developed in response to the limitations of the total disability definition.

Any-Occupation Definition of Disability. The most narrow and strict definition of total disability is the any-occupation definition of disability which is “the inability to perform the duties of any occupation.” Defining total disability in this way means that a person capable of doing anything at all, even selling magazine subscriptions, would not be considered disabled. Obviously a definition like this severely limits the number of people who would qualify for benefits. Fortunately, private DI insurance carriers no longer use such a narrow and restrictive definition of disability.

Unrestricted Own-Occupation Definition of Disability. Some insurance companies use an unrestricted own-occupation definition of disability (also known as own-occ). An insured is considered totally disabled if that individual is unable to perform the substantial and material duties of his or her regular occupation, that is, the occupation at the time of disability. Even if the insured returns to work in another job while remaining unable to perform his or her own regular occupation at the time the disability occurred, the person is still considered totally disabled for benefit purposes. In-force policies containing this liberal provision are common, but the current trend is toward a more restrictive definition of disability provisions.

Dual or Split Definition of Disability. The dual or split definition of disability restricts the own-occ provision to a specific time limit (typically two years). During the first 24 months of a total disability, benefits would be paid if the insured is unable to perform the material and substantial duties of his or her occupation. After the first 24 months, benefits would continue only if the person continues to be unable to work in any occupation for which he or she is reasonably suited by education, training, or experience.
Partial Disability. Partial disability can be defined as the inability to do some of the specific duties relating to a job or profession. Its original purpose was to pay limited benefits to an insured who was attempting to return to full-time work after a period of total disability. It could be defined in terms of the number of hours that can be worked. It typically requires a period of total disability prior to receiving partial disability benefits.

Residual Disability. Residual benefits in disability policies represent a further refinement in the partial disability definitions. Under residual disability coverage, benefits are proportionate and based on a percentage of lost income. If needed, they are usually payable for the contract’s entire benefit period instead of the limited time available under a partial disability definition. Thus the residual benefit encourages the disabled to return to work. The definitions are numerous, some even incorporating various qualification periods as trigger dates to enact benefits. Study these details to fully understand the policies you sell, or are selling against.

Presumptive Disability Provisions. DI insurance policies typically include provisions setting forth specific losses that qualify for permanent total disability status. They are referred to as presumptive disability provisions because the individual is presumed to be totally disabled even if he or she is able to return to work or gain employment in a new occupation.

Presumptive disability provisions generally include loss of sight, loss of speech, loss of hearing, or the total loss of use or severance of both hands, both feet, or one hand and one foot. As with other DI insurance coverage, the presumptive disability benefits cease if the insured individual recovers to an extent that he or she no longer qualifies for the presumptive disability. However, under the presumptive disability clause, contract benefits will last for the length of the policy’s basic benefit period, regardless of whether the person is working or earning an income, as long as the disabling condition endures.

Presumptive disability provisions typically will waive the regular elimination period required, and pay basic policy benefits as of the first day presumptive disability requirements are met.

Policy Definitions

It is important that you know precisely how the terms of your DI insurer’s policies are defined. Here is a brief list of some of the more important definitions:

- sickness
- injury
- capital sum
Techniques for Exploring Personal Markets

- earnings and prior earnings
- premiums
- recurrent disability
- concurrent disability

Exclusions

Normally, exclusions are found only in a section clearly labeled as “exclusions” or “limitations of coverage.” Frequently, policies will exclude preexisting conditions for some period (for example, 12 months). Other common exclusions include disabilities resulting from war, self-inflicted injuries, illegal substance abuse, acting as a pilot or aircraft crewmember, or driving under the influence of alcohol or other controlled substance.

Policy Features and Riders

Renewability. The ability to renew the policy is one of the most important features of the product. The most favorable renewability option is the noncancelable policy. As long as the policyowner pays the guaranteed premium specified in the contract, the policy cannot be cancelled or changed in any way. Noncancelable policies are available to the best risk occupational classifications.

A guaranteed renewable policy will be renewed as long as premiums are paid. Premiums are not guaranteed and can be raised, but not selectively on individual policies. The premium may be raised, with approval of state insurance authorities, for all insureds who own a particular class of policy or who are in a specific underwriting class. A noncancelable policy will cost more than a similar guaranteed renewable policy, as the noncancelable policy is more advantageous for the insured.

Elimination Periods. The period the insured must be disabled before benefits are payable is called the elimination period (or waiting period). This may range from 30 days to one year (although 30-60- and 90-day elimination periods are common). The elimination period reduces the cost of a DI policy by requiring the insured to self-insure during the period before DI payments begin. The longer the waiting period for benefits, the lower the premium will be.

Benefit Period. The length of time the company will pay benefits under the contract is known as the benefit period. Some policies distinguish between illness and accidents while others do not. Plans are available that pay benefits for one year, two years, five years, or to age 65 or later.
Level of Benefits Payable. All DI insurance policies specify the amount of monthly benefits payable during periods of total disability after the elimination period has been satisfied. The amount of benefit issued is determined by three factors: the company’s issue limit, the insured’s income, and other disability coverage in force. The larger the benefit is, the higher the premium. Companies limit maximum benefit amounts because they may be received tax-free and are worth more to the insured than pretax income. Further, giving a disabled employee an income comparable to his regular earnings encourages absenteeism and diminishes the incentive to return to work. Thus a person with a $5,000 monthly income may only qualify for a $3,000 monthly benefit.

Cost-of-Living Adjustment Rider (COLA). The benefit provided by cost-of-living adjustment rider attempts to adjust the base amount of coverage to reflect cost-of-living changes due to inflation. The insured usually must be disabled for at least 12 months before the COLA is applied to the benefits. Some companies offer a flat percentage of the base amount while others tie the payment to the Consumer Price Index. The cost-of-living rider is used only at claim time. When the insured recovers, benefits return to the original level unless a special rider is provided, at extra cost, to maintain the increased level of benefit.

Future Increase Option. The future increase option (FIO) rider in DI contracts provides guaranteed physical insurability. Coverage can be increased to the limits provided in the option without future evidence of medical or occupational insurability. The insured must still show that his or her earned income qualifies for the increased protection.

Social Insurance Offset (SIO) Rider. Many insurance companies offer an optional provision in the form of a social insurance offset (SIO) rider. It requires an extra premium to cover additional benefits that are payable when the insured is disabled under the base policy and does not initially qualify, or only partially qualifies, for social insurance benefits. These social insurance benefits could be Social Security disability income, workers’ compensation, state temporary disability benefits, and so on. The supplemental benefit from the SIO rider is paid in addition to the base DI benefit of the policy, but will not exceed the insurance carrier’s issue and participation limits.

Waiver of Premium. Most DI policies automatically include a waiver-of-premium provision as part of the base policy. For other policies, it is an optional rider for which the insured pays an extra premium. Most companies waive premiums after 90 days of disability, while other companies waive premiums after 60 days. Some policies waive only those premiums after the waiver-of-premium elimination period has been satisfied. Other policies
Techniques for Exploring Personal Markets

retroactively waive prior premium payments made after the onset of disability but before the waiver-of-premium eligibility requirements have been met.

Once the insured recovers and DI benefits stop, the insured must resume making premium payments. Premium waivers generally do not continue beyond age 65 even in policies which provide benefits to a greater age.

Taxation of Individual DI Insurance

The tax implications of individual DI insurance coverage are relatively simple and are different from the taxation of employer-provided coverage. The insured cannot deduct from income the premiums paid for personal DI policies, and benefits received from them are not taxable income to the insured (IRC Section 104). This tax treatment is another powerful argument for using DI insurance coverage to provide funds when earnings are lost through disability. Your prospects will see that personally owned DI insurance protection is a bargain. The premiums for the coverage are minor compared with the amount required to accumulate a sinking fund for protection against loss of income. Additionally, even if the prospect could eventually accumulate the needed amount of savings, he or she would risk having a disability before the fund is fully established. Only DI insurance can provide coverage when it is needed, promptly, reliably, and economically.

Designing the Plan

Your objective is to help the prospect get the best value for his or her money through an effective plan design. Plan design is a balancing act between the prioritized coverage needs of the prospect and his or her premium commitment.

The steps involved in designing the plan include the following:

- Identify goals.
- Gather quantitative information.
- Quantify needs.

Identify Goals

If you are conducting a financial and insurance planning interview, you should have identified some, if not all, of the prospect’s goals. Even so, there may be some specific goals related uniquely to disability income planning. Thus it is a good idea to ask the prospect, “If you experience a long-term disability, what do you want for yourself and your family (if applicable)?” Here are some possible responses:
I want my family to retain roughly the same lifestyle as before my disability.

I want to keep my home.

I do not want to burden my family with having to take care of me. (This could show an interest in long-term care insurance.)

If you do not know the prospect’s other financial goals, ask about them as well. For example, the prospect may want his or her children to go to college, and would like to save for it even if disabled. The point here is not whether all of the prospect’s goals will be achieved. Some may not be feasible. Your role should be to help the prospect prioritize and focus on meeting the most important, achievable goals.

Gather Quantitative Information

Advisors typically use a compliance-approved fact finder (see an example below) that helps organize the process and ensure that recommendations appropriately reflect the prospect’s financial situation and goals. In addition, a fact finder can help you reinforce the need for DI insurance and begin collecting data to complete the application. You will need to determine the following:

- current expenses
- current household income
- estimated market value of assets

Using these figures for the client’s situation, the “Estimate of Financial Need during Disability” worksheet will help you calculate the coverage required in a DI policy.

The amount of the policy’s parameters (elimination period, monthly benefit amount, and so on) will obviously affect the cost of the policy. You must determine the precise amount of these benefits that match the client’s individual needs. To determine a starting point from which to develop an individual DI insurance policy, ask the client to prioritize the available benefits (a shorter elimination period, larger monthly benefit, longer benefit period, and so on). Later, as you fine-tune the plan to fit his or her budget, you can adjust the parameters accordingly.
### Estimate of Financial Need during Disability

<table>
<thead>
<tr>
<th>Regular Continuing Expenses Each Month</th>
<th>Guaranteed Income Sources to Pay Monthly Expense</th>
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<tbody>
<tr>
<td>Mortgage/rent payment......................$</td>
<td>$________________</td>
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<tr>
<td>Food...........................................$</td>
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<td>Utilities ......................................$</td>
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<tr>
<td>Clothing......................................$</td>
<td>$_______</td>
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<tr>
<td>Required installment payments...............$</td>
<td>$_______</td>
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<tr>
<td>Car payment ..................................$</td>
<td>$_______</td>
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<tr>
<td>Gas, oil, and car maintenance .............$</td>
<td>$_______</td>
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<tr>
<td>Taxes...........................................$</td>
<td>$_______</td>
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<tr>
<td>Children’s school expenses ..................$</td>
<td>$_______</td>
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<tr>
<td>Insurance premiums ..........................$</td>
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<tr>
<td>Other expenses ................................$</td>
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<tr>
<td>Total Income Needed Each Month ..........$</td>
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</tr>
<tr>
<td>Less Guaranteed Income Sources (from next column) $</td>
<td>$_______</td>
</tr>
<tr>
<td>Net Additional Monthly Income Needed ..........$</td>
<td>$_______</td>
</tr>
</tbody>
</table>

#### Obtain a Premium Commitment

Obtain a commitment from the client concerning the amount that he or she can afford to spend on DI insurance premiums. It does not have to be a dollar figure. It may be best to get a range of affordability in terms of monthly or annual cost. In any event, you will want to make sure that the premium commitment does not strain the client’s budget. While all the...
financial information is still fresh in everyone’s mind, you may want to say something like this to the client:

"Mr. or Ms. Client, as you agree you have a need for $_____ of monthly income in the event of a disability, and you want DI coverage, how much could you comfortably afford per month to address that need? I don’t expect you to have an exact dollar figure in mind, but if you can give me a good idea of what you can afford, I will customize a DI insurance plan that fits your budget. Does this make sense to you?"

Advisors who are relatively new to selling DI insurance should strongly consider setting up another meeting to present the plan. This approach will enable the advisor to get help from a mentor or a home office person to analyze the client’s information and develop a viable plan. As advisors gain more experience in conducting analysis and developing plans, they may forego the follow-up appointment.

Preapproach and Approach Strategies to Market DI Insurance

Once you have identified a few target markets or market segments, the next step is to select some general preapproach strategies to identify yourself to prospects and precondition them so you can approach them about DI insurance. This section discusses the use of these preapproach and approach strategies for prospects within several segments of the DI insurance market.

Preapproaches

The purpose of a preapproach is to create awareness of who you are and to generate an initial interest in your products and services. You need to precondition your prospects to agree to meet with you when you call them. They will be less likely to meet with you if they do not know you or have no idea what you can do for them.

Using the preapproach to make your prospect curious and more receptive to listening to your subsequent approach can be done in several different ways. We will discuss some direct-mail preapproaches. The ones you use will depend on your target market, your prospecting methods, and your creativity.

Direct mail is one of the most common preapproaches because it is an easy and relatively inexpensive way to precondition prospects. It allows people to see your message who otherwise might not look in the telephone book or your website. Furthermore, direct mail can customize your message to your target markets, such as two-income families, single parents, and so on.
The preapproach is an important part of the selling/planning process. In DI insurance coverage, prospects must be aware of their risk from disabilities before their interest in the product is aroused. The entire process will go more smoothly if your prospects have already thought about the financial problems associated with disability and if they know who you are.

**Approaches**

Generally advisors use the telephone to approach prospects for sales appointments. This section will review some of the basics of effective telephone, pivoting, and face-to-face approaches to prospect for DI insurance.

**Telephone Approach.** Using the telephone effectively remains a key to success for financial advisors. You must learn to make telephone appointments with prospects who are not on the national do-not-call registry or who have requested information and consented to your contacting them. Phone scripts help you feel more comfortable and enable you to project a more confident phone personality. They free you to focus on the prospect and listen for clues to his or her level of interest. Scripts also help you repeat success and diagnose failure. A good script is short and creates interest. You must practice it until it sounds very natural and unscripted.

Below is an example of a follow-up to a preapproach mailing.

<table>
<thead>
<tr>
<th><strong>Follow-up to a Mailing to Single Prospects</strong></th>
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</table>
| "Hello, this is John Gray from XYZ Insurance Company. I recently sent you some information on how DI insurance can keep you financially independent if an illness or injury prevents you from earning a living."
| "As a DI insurance specialist, I would like to meet with you and explain how this product can support your financial security and guarantee your lifestyle if you can't work. People in situations similar to yours have found it useful to learn how DI insurance can protect you."
| "Are evenings good for you, or do afternoons work better?" |

**Pivoting Between DI Insurance and Other Financial Products.** An effective approach is to pivot or transition from one product to another using previously shared information to ask a question relevant to another product. The *pivoting approach* can be used with almost any type of other financial product sale to pivot to DI products.

How and when to pivot are going to depend on factors such as what type of product the prospect purchased from you (or did not purchase), the client’s level of satisfaction, and so on.
For example, life insurance and DI insurance are closely related. Both protect financial security by providing funds if the ability to earn is interrupted. Both are an essential part of comprehensive financial plans. The progression from one subject to another is logical in a sales situation. Many prospects purchase life insurance to assure that premature death does not destroy their financial plan. This objective also indicates the need for good DI insurance coverage. Here is a sample pivot:

**Example:**

“(Prospect), you’ve purchased life insurance to be sure that even your death will not destroy the financial security you want for your family. However, there is another threat to that financial security that could be even more devastating than your death.

“What would happen if you are too ill or injured to work and your income stops? That situation could destroy your financial security even more surely than death. Fortunately, there is an easy way to make sure that will not happen. Can we get together next week or another time convenient for you to discuss how?”

**Face-to-Face DI Insurance Approach Talk.** An effective opening or pivoting presentation contains a series of good sales ideas that lead the prospect to a positive decision. Below is an example of a quick, thought-provoking approach to get prospects thinking about the financial impact that a disability can create. It should take no longer than five minutes to present.
“(Prospect), would you say you are rich? Except for rich people, most of us have a financial picture that looks like this:

(At this point, draw two horizontal lines—not too far apart. Label the top line “normal income” and the lower line “normal expenses.” See illustration below.)

<table>
<thead>
<tr>
<th>The Impact of Disability on the Wage Earner</th>
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<tbody>
<tr>
<td>Healthy… Working</td>
</tr>
<tr>
<td>Normal Income</td>
</tr>
<tr>
<td>Savings/Profit</td>
</tr>
<tr>
<td>Normal Expense</td>
</tr>
</tbody>
</table>

“Most of us manage to keep a little of what we earn after expenses are paid. The difference between income and expenses—savings—may not be much. But as long as the income line is above the expense line, we'll be all right. Do we agree so far?

“Now, suppose something comes along to change the directions of these lines. One something that will surely do this is a disability. Notice how the income line heads south and the expense line goes up, like this:

(Draw income line down toward bottom of page, expense line up.)

“Savings are eaten up in a hurry—not just by excess medical bills, but by routine living costs. The difference between income and expenses now is not savings, but debt.

“What do you do? There is a limit to what people will lend to someone totally disabled and out of work. Relatives and friends would help some, but they have their own problems, and wouldn’t they rightfully expect you to use up your own financial resources before they begin contributing theirs?

“You could possibly sell your car or even your home, but I’m sure you wouldn’t want to do that. Banks won’t loan you money if you have no income. Fortunately, there is a better way to solve the problem.

“In a manner of speaking, the better way is to be rich enough—not rich in the usual sense, but in the sense of having an extra source of money when earnings stop, a source of money to mitigate the disability problem. Let me show you how easily it can be arranged.”
CHAPTER THREE REVIEW

Key terms and concepts are explained in the Glossary. Answers to the review and self-test questions are found in the back of the textbook in the Answers to Questions section.

Key Terms and Concepts

- integrated planning approach
- budgeting planning
- fixed expenses
- discretionary expenses
- special consideration expenses
- financial planning pyramid
- building-block approach
- young-adult market segment
- disability income (DI) insurance
- total disability
- any-occupation definition
- unrestricted own-occupation definition
- dual or split definition
- partial disability
- residual disability
- presumptive disability
- provisions
- guaranteed renewable
- elimination period
- benefit period
- cost-of-living adjustment rider
- future increase option (FIO)
- social insurance offset (SIO)
- waiver of premium
- pivoting approach
- guaranteed renewable
- noncancelable

Review Questions

3-1. Describe the integrated planning approach and identify the major planning areas for which this planning approach accounts.

3-2. Explain the budgeting process and how it can be used with a client.

3-3. Discuss the financial planning pyramid and how it can be used with a client.

3-4. Describe the characteristics and needs of the four subsegments of the young-adult market segment.

3-5. Discuss the need for disability income insurance.

3-6. Define the following terms in a disability income insurance policy:
   - total disability
   - elimination period
   - residual disability
   - cost-of-living adjustment rider (COLA)
   - future increase option

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Self-test Questions

Instructions: Read Chapter 3 and then answer the following questions to test your knowledge. There are 10 questions. Choose one answer for each question, and then check your answers with the answer key in the back of the textbook.

3-1. Which of the following definitions of disability applies when an individual is paid disability benefits based on a percentage of lost income?
   (A) residual disability  
   (B) presumptive disability  
   (C) partial disability  
   (D) total disability

3-2. An emergency fund is normally recommended to cover what period of living expenses?
   (A) 1-2 months  
   (B) 3-6 months  
   (C) 6-12 months  
   (D) 1-2 years

3-3. Which of the following is the first step in establishing a budget?
   (A) Estimate anticipated total income.  
   (B) Estimate discretionary expenses.  
   (C) Consider money being set aside for intermediate and long-range goals.  
   (D) Consider what might be cut or what may need to be increased in the future.

3-4. Which of the following best describes the unrestricted own-occupation definition of disability?
   (A) the inability to perform the duties of any occupation  
   (B) the inability to perform the substantial and material duties of one’s regular occupation  
   (C) unable to work in any occupation for which one is reasonably suited by education, training or experience  
   (D) inability to do some of the specific duties relating to a job or profession
3-5. Which of the following statements concerning personal financing alternatives when a worker becomes disabled is (are) correct?

   I. Most workers will be able to use their emergency funds (savings) to get through a period of disability.
   II. For most workers, Social Security DI payments will be enough to cover a period of disability.

   (A) I only  
   (B) II only  
   (C) Both I and II  
   (D) Neither I nor II

3.6. Which of the following statements about life insurance planning is (are) correct?

   I. Life insurance can help solve most of the financial problems facing the survivors of a deceased insured.
   II. The most common reason for buying life insurance is the love a person has for his or her survivors.

   (A) I only  
   (B) II only  
   (C) Both I and II  
   (D) Neither I nor II

3-7. Which of the following statements concerning disability income insurance is (are) correct?

   I. The definition of disability changes according to each disability.
   II. The definition of disability can vary greatly from one policy to another.

   (A) I only  
   (B) II only  
   (C) Both I and II  
   (D) Neither I nor II
3-8. All of the following statements regarding a noncancelable disability policy are correct EXCEPT

(A) Coverage cannot be cancelled if the premiums are paid as due.
(B) Premiums can be increased if claims exceed expected levels.
(C) Benefits cannot be modified by the company based on employment or income.
(D) Premiums are guaranteed not to increase until the end of the policy period.

3-9. All of the following are advantages of starting a life insurance program early EXCEPT

(A) lock in lower premiums at a younger age
(B) qualify for lifelong protection while you are insurable
(C) larger cash values are available at retirement if a plan is started at a younger age
(D) cash values are immediately available to pay off debts and use for investment

3-10. All of the following statements concerning Dual Income Young Families are correct EXCEPT

(A) The majority of families in the United States have two or more income producers.
(B) The loss of either income will usually jeopardize the family’s financial strength.
(C) With two incomes, families find it easier to save money to meet financial goals.
(D) While they make more, two-income families tend not to have a budget.