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# A Plan of Income Protection

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Your Income Is Your Most Valuable Asset.  
It is the cornerstone supporting your present and  
future standard of living.

A 45 year old earning \$200,000 annually will have  
earned \$5,374,073\* by Age 65

*If you can't earn it, how will you replace it?*

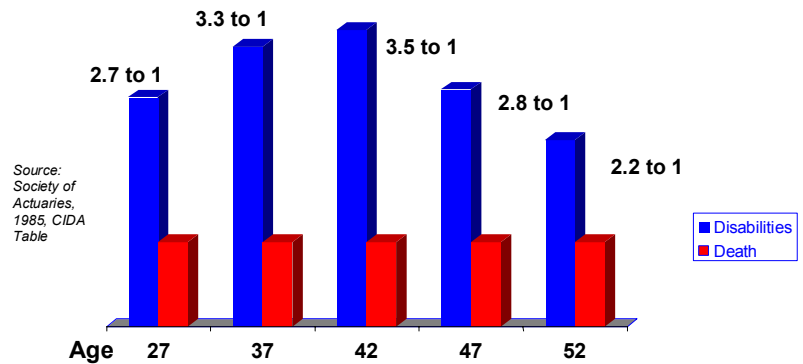
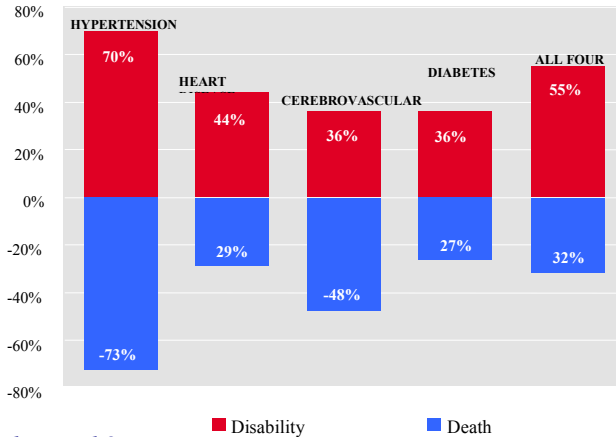
*\*assumes 3% annual growth*

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# Serious disability is a much greater threat than death prior to retirement

*The Good News is, people are living longer....  
The Bad News is that medical conditions that once caused death are now leaving people disabled.*

## Disability is A Reality!



*The result?  
The potential loss of earnings due to disability can be staggering.*

People are more likely to become disabled than to die during their working years.

Source: New Jersey State insurance Department 1989-1992

## Did you know?

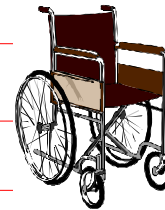


*Nearly half the one million Americans who filed bankruptcy protection last year, did so after being sidelined with an unexpected illness or injury. And, the vast majority of those people had medical insurance.\**

\*New York Post, 4/3/00, "There's No Insuring You Won't Go Bankrupt" by Christopher Francescni.

## Sources Of Income When You Become Disabled.....

- Savings → If you save 10% annually, one year of disability may wipe out 10 years of savings!
- Social Security → On average, 58% of all disability applications over the last 30 years has been rejected by the Social Security Administration.\*
- Sell investments → Will you get the true value?
- Loan → Without an income, who will lend you money?
- Family, friends and charity → Do you want to depend on them?



Source: Social Security Bulletin Annual Statistical Supplement, 2000.

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**Three ways to insure your income in the event of a disabling accident or illness:**

- Group Long Term Disability Insurance plan
  - Individual Long Term Disability Insurance plans
  - Combination Coverage
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## **What are firms doing to protect their Executives' income in this changing environment?**

*They are:*

- Stabilizing rates (when compared to all Group LTD) with cost containment as a priority
- Stabilizing benefits
- Providing higher levels of income replacement
- Guaranteeing contractual features

*How is this being accomplished?*

- Restructure existing income protection programs by integrating individual coverage, along with Group LTD, to stabilize both rates and benefits.
  - Select carriers dedicated to the disability industry.... Carriers that have maintained products and profitability.
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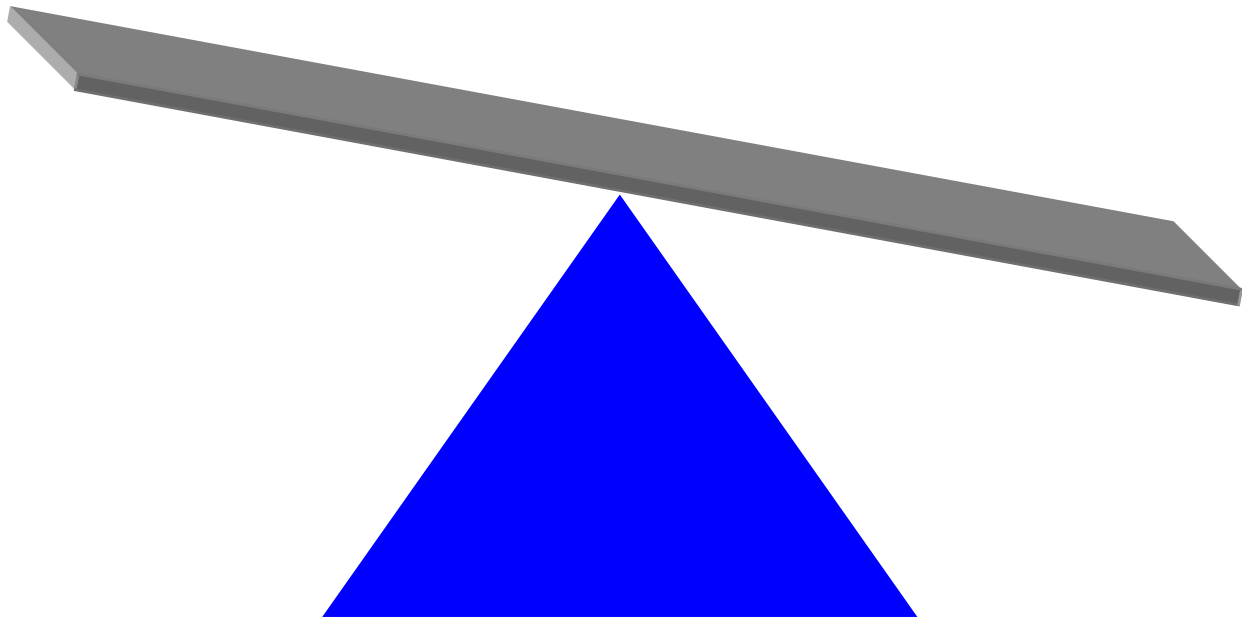
# Group Long Term Disability Plans

## Advantages

- Low cost
- Provides basic coverage
- Usually guaranteed issue coverage
- Easy to administer

## Disadvantages

- Plan is cancelable
- Benefits may be taxable
- All forms of compensation may not be covered
- Inadequate level of coverage because of cap
- Benefits are offset by social security, worker's comp. and state cash sickness
- Plan may have a limitation of benefits for drug/alcohol or mental/nervous disorders, self reported illnesses and soft tissue ailments
- Coverage is not portable if you leave firm



The net effect of these reductions and limitations is a *60% or less replacement* of income in the event of a disabling injury or sickness.

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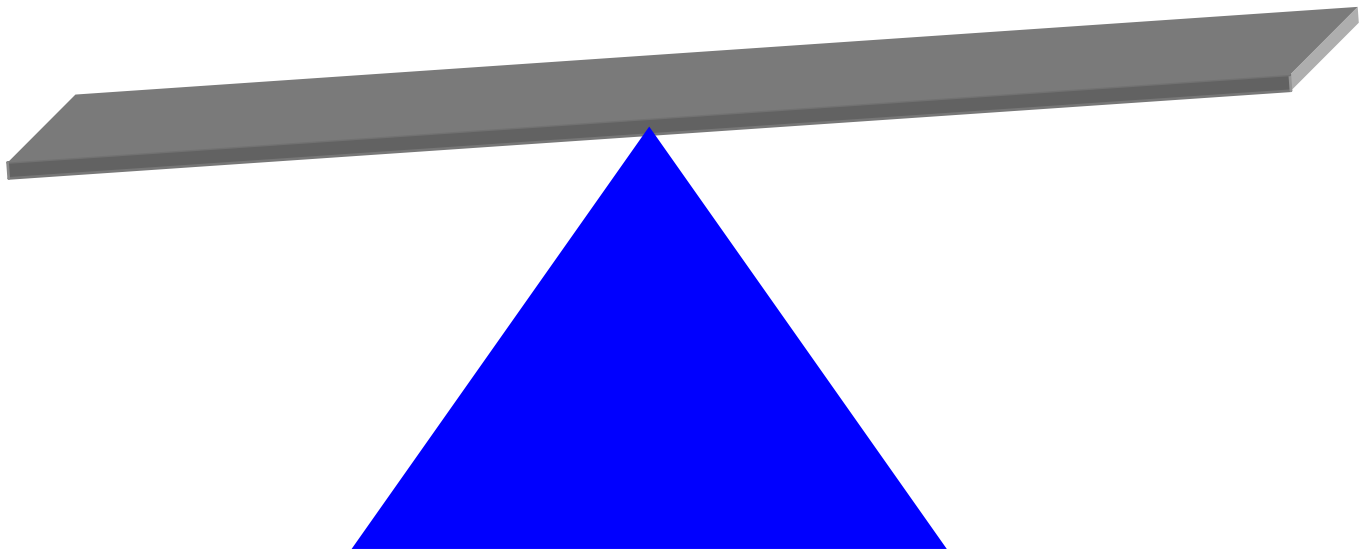
# Individual Non-Cancelable Long Term Disability Plans

## Advantages

- Policy can not be canceled
- Premiums are fixed and guaranteed until age 65
- No offsets for other coverage
- There may be no limitation for self reported or soft tissue disabilities
- Insurance is fully portable

## Disadvantages

- Higher Cost
- Must qualify Medically & Financially



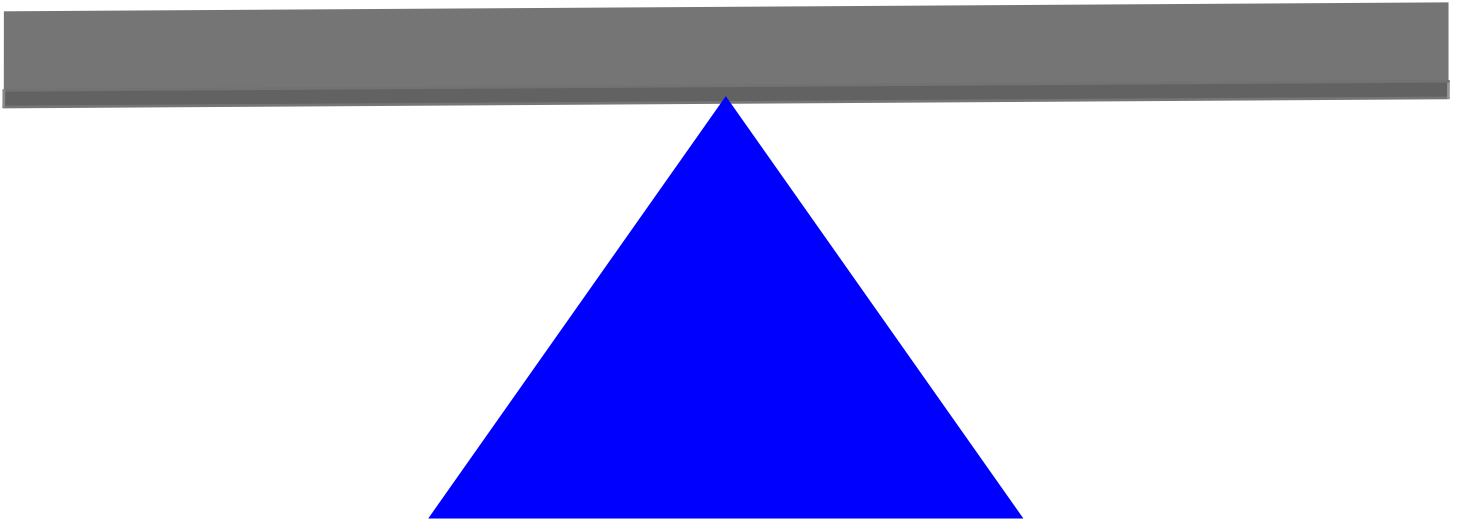
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## The combination approach to complete your disability

- Can help eliminate reverse discrimination
  - Provides portability and flexibility
  - Provides greater stability of LTD Plan
- Replaces adequate level of total compensation

Group LTD

Individual Disability



Group LTD  
[Traditional Solution]

The most cost effective way to protect a broad base of employees

*But....*

LTD does not adequately protect all senior executives and other highly incentivized employees

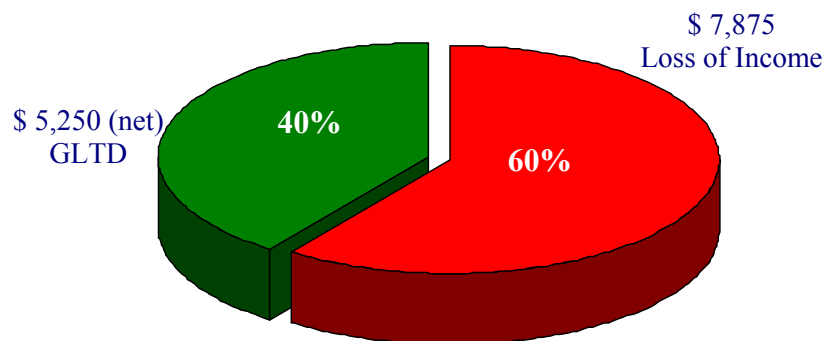
Group LTD performs best, over time, when structured to protect base salary with a maximum monthly benefit of \$10,000

**Current Disability Program**  
(Total Disability Claim)

Assumptions:

	<u>Gross</u>	<u>Net After Tax</u>
Executive earning \$150,000/Annual Salary Plus \$75,000/Annual Bonus	\$18,000./Month	\$13,125.*
Group LTD payable at 60% to a maximum of \$10,000 (base income only)	\$ 7,500./Month	\$ 5,250.*

\*assume 30% tax bracket



\$ 5,250 = 40% of prior net income

Today, protecting income by incorporating both Group LTD and Individual policies in a coordinated plan affords:

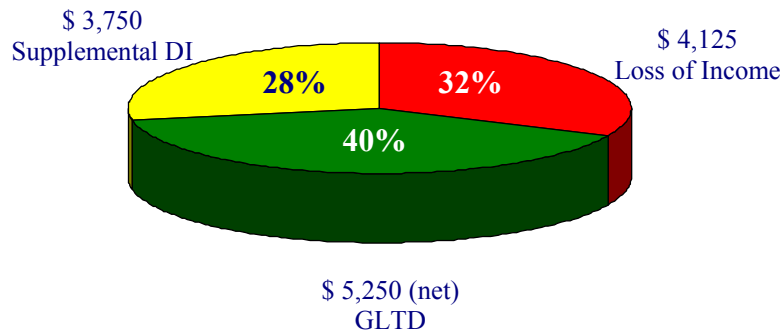
- *exceptional* protection
- *exceptional* overall benefit
- *exceptional* pricing stability

Proposed Plan with  
Supplemental Disability Income (DI) Individual Contract  
(**Total Disability Claim**)

**Assumptions:**

	<u>Gross</u>	<u>Net After Tax</u>
Executive earning \$150,000/Annual Salary Plus \$75,000/Annual Bonus	\$18,000./Month	\$13,125.*
Group LTD payable at 60% to a maximum of \$10,000	\$ 7,500./Month	\$5,250.*
Supplemental DI Contract (Tax-Free)	\$ 3,750./Month	\$3,750.

\*assume 30% tax bracket



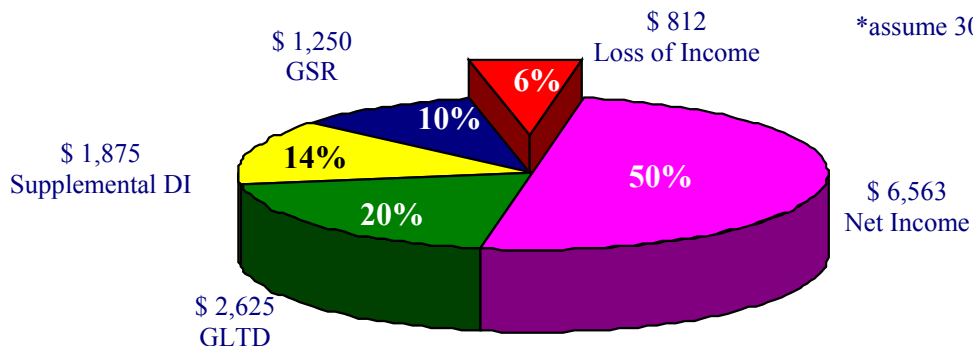
\$ 9,000 = 68% of prior net income

Proposed Plan with  
Supplemental DI Individual Contract + GSR = WRAP  
(**Partial Claim – assume 50% loss of income**)

**Assumptions:**

	<u>Gross</u>	<u>Net After Tax</u>	<u>50% Loss</u>
Executive earning \$150,000/Annual Salary Plus \$75,000/Annual Bonus	\$18,000./Month	\$13,125.*	\$ 6,563.
Group LTD payable at 60% to a maximum of \$10,000	\$ 7,500./Month	\$ 5,250.*	\$ 2,625.
Supplemental DI Contract (Tax-Free)	\$ 3,750./Month	\$ 3,750.	\$ 1,875.
Group Supplemental Rider (GSR) payable after 365 days	\$ 2,500./Month	\$ 2,500.	\$ 1,250.

\*assume 30% tax bracket



\$12,313. = 94% of prior net income

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## **A Plan incorporating both Group LTD and A Supplemental Individual DI Policy:**

- Helps to eliminate reverse discrimination
  - Provides portability and flexibility
  - May provide greater stability of LTD plan
  - Replaces a higher percentage of total compensation
  - Provides total and partial coverage for loss of earnings in your occupation or a new one
  - Focuses key employees on returning to work through “return to work” incentive
  - Plan is more economical than “all individual” plan
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