

**Own-Occ (upation) vs. Loss of Earnings  
-Which is better and why-?**

**By**

**Larry Schneider  
Disability Insurance Specialist**

This article has been especially written in order to give those producers who may not know the not so obvious differences between the aforementioned and who over the years, have been inundated with articles taunting the virtues on one or the other and haven't yet been able to draw a conclusion as to which is better.

I think one of the many reasons for this void, is due to the fact, that so far no one has been able to present a compelling reason for siding with one or the other! Hopefully this article will be able to dispel that void and put the arguments to rest once and for all.

I'll begin by setting the stage with some quantifiable parameters as follows:

1) <b>OCCUPATION</b>	<b>CPA</b>
2) <b>ANNUAL EARNINGS</b>	<b>\$100,000</b>
3) <b>ANNUAL EARNINGS NET AFTER TAX</b>	<b>\$69,000</b>
4) <b>MONTHLY BENEFIT AMOUNT</b>	<b>\$4,800</b>
5) <b>ANNUAL BENEFIT AMOUNT</b>	<b>\$57,600</b>

The first observation that can be drawn from the above, is that the typical carrier, on average, issued tax free, \$11,400 a year less than the annual after tax income. The industry issues a lower amount when compared to net profit (or W-2 earnings) in order to prevent malingering and this shortfall will rear its ugly head as the scenario unfolds.

Camera-Action-Take 2 ( California Terminology) Total Disability strikes. The CPA can no longer prepare taxes or the court room Attorney can no longer argue. These duties represents their material and substantial duties and therefore, with an own-occ policy, for the sake of this article, satisfies the definition for total disability, and as a result, if they care to, or if they are able, can then become gainfully employed in another occupation and still be paid the full monthly benefit amount! Again and for sake of argument, we will also give this own-occ policy, residual and cola as optional benefits. Note: In the Loss of Earning policy, the cost of living adjustment (cola) is already built into the contract as part of the loss of earnings calculation, as it is for the residual calculation as well.

Now let's see how each of the contracts perform e.g. which of the two policy types will generate more benefit income in a total disability claim, by way of the following example:

***Earned income/another occupation***

- Own-Occ Contract: Allows the occupationally disabled person to work in another occupation and earn additional income (with no cap) on top of the \$4,800/monthly

benefit. This \$4,800/monthly benefit amount will increase each year up to the % issued, beginning with the 13th month of total disability as a result of the implementation of the cola option. The additional other "occupation" earnings, can help close the shortfall gap/or can even exceed the \$69,000 annual after tax earnings and the (initial) annual (tax free) benefit amount of \$57,600. Remember, with the Cola option, the monthly benefit keeps up with inflation (up to the issued COLA %). NOTE: Refer to Exhibit A for some examples of own-occ definition differences. These differences are based on occupation classifications imposed by the carrier, based on claims experience and the like.

- Loss of Earnings contract: When the claimant returns to work in *any* occupation and suffers a loss of earnings and the loss is greater than 20% (some carriers require 25%) a proportionate benefit will be paid..... providing the claimant can prove the amount of the financial loss. This loss must be proved *each* month for which benefits are to be paid. This is of course in addition to a doctor's report, which in effect must verify that the disability *caused* the loss (NOTE: not an economic down turn). This is also true for a residual claim under an Own-Occ contract and when contrasted with an own-occ Total Disability claim (which only requires a doctor's statement verifying it's the disability that caused the inability of the claimant to no longer work as a CPA etc.), you'll obviously conclude that own-occ claims are RELATIVELY hassle free (but NOT completely) when compared to a residual claim, which must PROVE loss of earnings etc.

Obviously, there are potential financial advantages in an own-occ contract, in addition of usually not having to submit financial documentation as previously stated. The one advantage that the Loss of Earnings policy (L/E) has over the own-occ policy is, all things being equal, is that the cost for the L/E is usually less.

**Conclusion-** In my opinion and I'll use one of my favorite sayings, ---- "if you're going to take a shower, why put on dirty underwear", simply stated—the lower cost of the L/E depending on the claim, will probably generate a lower amount of total monthly income (from both lower amount earned and from the proportionate loss of earnings benefit amount). *Remember, under a OWN OCCUPATION TOTAL DISABILITY CLAIM;*

- 1) Once the claim has been approved, it usually never requires any additional financial documentation to substantiate the claim.
- 2) Gives the claimant an opportunity to earn additional income (in addition to the monthly benefit) thereby in a sense, replacing what would have been gained as a result of earning a higher income due to a growing practice.

## EXHIBIT A TOTAL DISABILITY.DEFINITIONS

The best definition for total disability is an “own occupation” or pure “own-occ.” definition. Although this definition, which incidentally has a couple of variations, is available for many occupations (but not all), it may not always be necessary, or is it always available for the full benefit period. This definition might be necessary for someone whose skill could be transferred to another occupation, for example, a surgeon. Without this kind of definition, he or she could be expected to teach or become involved in a related field of medicine. As a result, the surgeon might not be considered totally disabled and instead might be paid under the residual benefits provision providing the teaching position paid less than what was previously earned. The other reason is that an own-occ claim is easier to prove vs. a loss of earnings claim and by COMPARRISON is relatively “hassle-free”.

There are basically three “own-occ” definitions and one other type of disability definition. They are from most to least liberal, as follows:

- Own occupation/ full benefit period-This definition pays even if the insured is working (in another occupation). Some carriers offer an own-occ specialty definition. Especially important to the medical profession.
- Own occupation/ not gainfully employed elsewhere- A policy with this definition pays if the insured can't do the duties of his or her occupation for a number of years and then is *not* working elsewhere. Working or not, then becomes the claimant's choice.
- Own occupation/ for a period of time, thereafter *unable* to work/not working elsewhere- This is a split definition that gives true own-occ (see the first definition above) for a period of time (for example, five years), then changes to *unable\*/not working elsewhere*.
- \* By reason of education, training, and experience (and in some instances, prior economic status).
- Note: *Not working elsewhere* gives the claimant a choice, where as *unable to work elsewhere* gives the carrier more control.
  
- Loss of Earnings- This definition has been around for a long time, but some carriers have recently chosen to stipulate this definition in lieu of the own-occ definition. Loss of earnings is the same as the residual (proportionate) benefit option found in an Own-Occ contract. If during a disability, the insured has a 30% loss in income while disabled and under the care of a physician, they'll receive 30% of the monthly benefit. While this policy does pay proportionately, please note that the insured starts off on average, with an initial 40-50% benefit amount shortfall – since participation tables only allow up to approximately 50-60% of pre-disability income to be covered for MOST workers (depending on the income of the insured, their occupation, and where the policy was issued) could also be as low as 30-35 % for high income people. Higher issue limits are

available if the premium is employer paid. However, these benefits are then taxable and are not available to self employed people, unless they are a "C" Corporation.