

Why Agents Are Reluctant to Sell Disability Insurance

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"Are consumers really given adequate and reliable information to properly guide them through the product maze in order to make the best choice?"

Is this what American consumers need to hear when insurance agents knock on their door? "Apply for this; no, apply for that. No, not that, this. No, what you really need is this..." Is it any wonder why working Americans are insurance-poor and may not realize they could be without the type of coverage they really need the most?

To further confuse the consumer, there are many different types of coverage available (examples include life, health, auto, home, annuities, long-term care, critical illness, group, and individual disability income, just to name a few), with sales pitches coming from multiple agents. Consumers are bombarded through work, direct mail, financial planners, agents, friends, news articles, television and radio, maga-

zines, or from some other source, all saying, "Apply now." Unfortunately, most people respond to the information overload by doing nothing.

The Most Important Coverage of All

Take life insurance for example. There's term, whole life, universal life, variable life, all with variations, so which one is the right product for a person's specific needs? Are consumers really given adequate and reliable information to properly guide them through the product maze so they can make the best choice? Are they actually getting the coverage they really need? (I'm talking about *all* coverage, not just life insurance.) I don't think so, because if they were getting the right coverage, far fewer people would be

without the most important coverage of all: disability insurance (DI), which in essence can normally replace a substantial portion of lost income when people are disabled and unable to work.

Having this form of coverage enables people to pay for all or most of their other policies, which would probably otherwise lapse while they are unable to work. Without income protection, it can become a domino effect — what about paying for other necessities, such as food, rent, electricity, etc.? Where does the money come from for these expenses? Will the family help? Will the banks loan money to a disabled person? Will that person's employer continue to pay his or her salary? I don't think so!

The Question Is, Why?

Financial planners have always said, "protecting one's income is the cornerstone of all financial planning," and if this is true, why don't more workers have this form of protection? Why don't more financial planners

Chart 1: Do Agents Recognize Appropriate DI Selling Opportunities?

1. Individual/group
2. Supplementing group coverage (tax issues/cap, etc.)
3. Business overhead
4. Key person
5. Buy-sell
6. Split dollar
7. Retirement
8. Loan indemnification
9. Previously turned down (health/age/income/occupation/other)

either sell or recommend DI? Why don't more agents sell it? Why don't more employers offer their employees this "cornerstone"?

Let me provide some possible reasons why:

1. Employees don't believe they will get disabled, when in fact, mortgage foreclosure is 16 times greater due to disability than due to death.

2. Employees believe their em-

ployers will continue their salary, but this can't be done since salary can only be paid for services rendered.

3. Employees haven't been told this coverage is available (whose fault is this?).

4. They believe this form of coverage is too expensive.

5. They haven't been told it can be customized to make it affordable.

6. They haven't understood how disability insurance can help when disabled. A 30-year-old, earning \$50,000 a year, stands to lose \$2.1 million over a 35-year period.

7. Employees believe they will be paid under Social Security disability insurance, when in fact, Social Security has an approximate 72% denial rate because of a very strict definition of total disability.

8. Employees believe that their employer has given them long-term disability coverage, when in fact, they may not have. Even if they have, and a disabled employee ultimately collects benefits, he or she may not realize that it is taxable income and is subject to offsets (Social Security and worker's compensation). Also, he or she may have been discriminated against as a result of being highly compensated.

In fact, because of the split definition of total disability, the employee may only be paid for two years rather than up to age 65. Also, group coverage usually isn't portable, nor does it typically cover income from bonuses, or pay claims based on mental/nervous causes of disability

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Chart 2: Comparison of Underwriting Requirements by Product

Underwriting Characteristic	Disability Insurance	Impact On: Health	Impact On: Life
Financial Documentation	√	N/A	Min
Medical - Physical	√	√	√
Medical - Mental	√	Min	Min
Occupation Duties	√	Min	Min
Bankruptcy	√	N/A	Min
Working in Home	√	N/A	N/A
Age	√	√	√
Amount	√	N/A	Min
Product Complexity	√	Min	N/A
Exclusions/Ratings	√	√	√
Claims	√	√	Min
Total No. of Issues:	11	4	3

Chart 3: Reasons To Sell DI

1. Can you face your client if he/she becomes disabled without coverage?
2. Daytime activity
3. Market opportunity (four out of five need it, but are without!)
4. Prospecting efficiency
5. Builds fences
6. Great door opener
7. Competition is almost non-existent
8. Persistency
9. Due diligence
10. Renewals

longer than two years.

Behind the Reasons

What's behind all these reasons for the lack of proper coverage? Let me give you another set of reasons:

1. Agents are reluctant to sell disability insurance (see reasons below).

2. Financial planners are reluctant to sell disability insurance.

3. Carriers have not done enough to educate their distribution systems, agents, or the public for that matter, on the need for income protection.

4. State insurance departments appear to have gone overboard in their requirements to get agents licensed in their non-resident states.

The commissioners have gone too far with their bureaucracy, thus forcing some carriers to withdraw from the marketplace, which reduces the

number of agents educating prospects — sounds like a self-destructive and counterproductive policy to me, and it is the consumer who suffers! Why can't there be an optional national license for agents who wish to sell on a national basis, with each state sharing in the fees?

"Disabilityphobia"

Why are agents afraid or reluctant, or simply unwilling to sell disability insurance? Some reasons could be:

1. Fear of rejection, exclusions, ratings, or not being able to rebut an objection. I call this "disability-phobia."

2. Lack of sales, knowledge, or opportunities (chart 1, on page 68).

3. Too many other products competing for an agent's time.

4. Too many other products that are available and are easier to sell.

5. Too tough to get the application through underwriting and issued (chart 2).

6. Too many policies issued with exclusions and/or declined, thus affecting agent/client relationships.

How can the carriers/insurers help to overturn all these negatives and rejuvenate sales of this necessary form of coverage? Here are some possible solutions for the carriers to implement:

1. Streamline some of the underwriting and other key procedures.

2. Provide more agent training. (And, I might add, train their own home office staff so that they are more knowledgeable about their own products. I hate to say how many times I have called a home office for contract and product information and gotten wrong answers!)

3. Further improve the somewhat generous commission structure, which is better than for most oth-

"Why can't there be an optional national license for agents who wish to sell on a national basis ...?"

er products. Example: assume first-year commission of 50% on placing a \$2,000 annual premium case with 10% lifetime renewals. Now imagine if you sold 10 policies a year rather than just one — do the math, it adds up!

4. Create more consumer awareness on the need to protect income.

5. Create incentives for existing and new agents to sell disability insurance.

6. Bring new agents into the mar-

ketplace (chart 3, on page 70).

7. Announce real product commitment to the marketplace; too many carriers have exited in the last 10 years, giving rise to agents' fears.

In conclusion, with the goal of rejuvenating this vitally needed but undersold product, what else can be done to educate agents and make consumers more aware of their real needs? For starters, join with others who believe in the importance of disability income insurance. The International Disability Income So-

ciety (IDIS) was formed a few years ago for carriers, producers, trainers, and regulators who want to be in on the cutting edge of all new DI information. Pass this information along to your co-workers and tell your home office to attend the next meeting. Of course, plan to attend yourself; you won't be disappointed! For more information, visit the society's Web site: www.internationaldisociety.com.

Larry Schneider has specialized in disability insurance since 1973 and has published more than 30 articles on DI in industry publications. He has lectured to many national associations, financial planners, CPAs, and other groups. Mr. Schneider is also an expert witness/consultant for DI claims that have been inappropriately denied. His company, the Disability Insurance Resource Center, is a national resource for hard-to-place or declined applicants and provides national brokerage for standard applicants.



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