

The Disability Carve-Out Opportunity



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Carve-out

The practice of excluding certain classes or employees from a benefit plan and providing benefits to them under an alternative arrangement.

OR

The practice of focusing on certain classes or employees in a benefit plan and providing benefits to them under an alternative arrangement.

Group Already Provided

Corporate Question:

- Are you providing disability income replacement for your executives?

Individual Question:

- Are you protecting your income from a disability in your peak earning years?

Typical Answer or Objection:

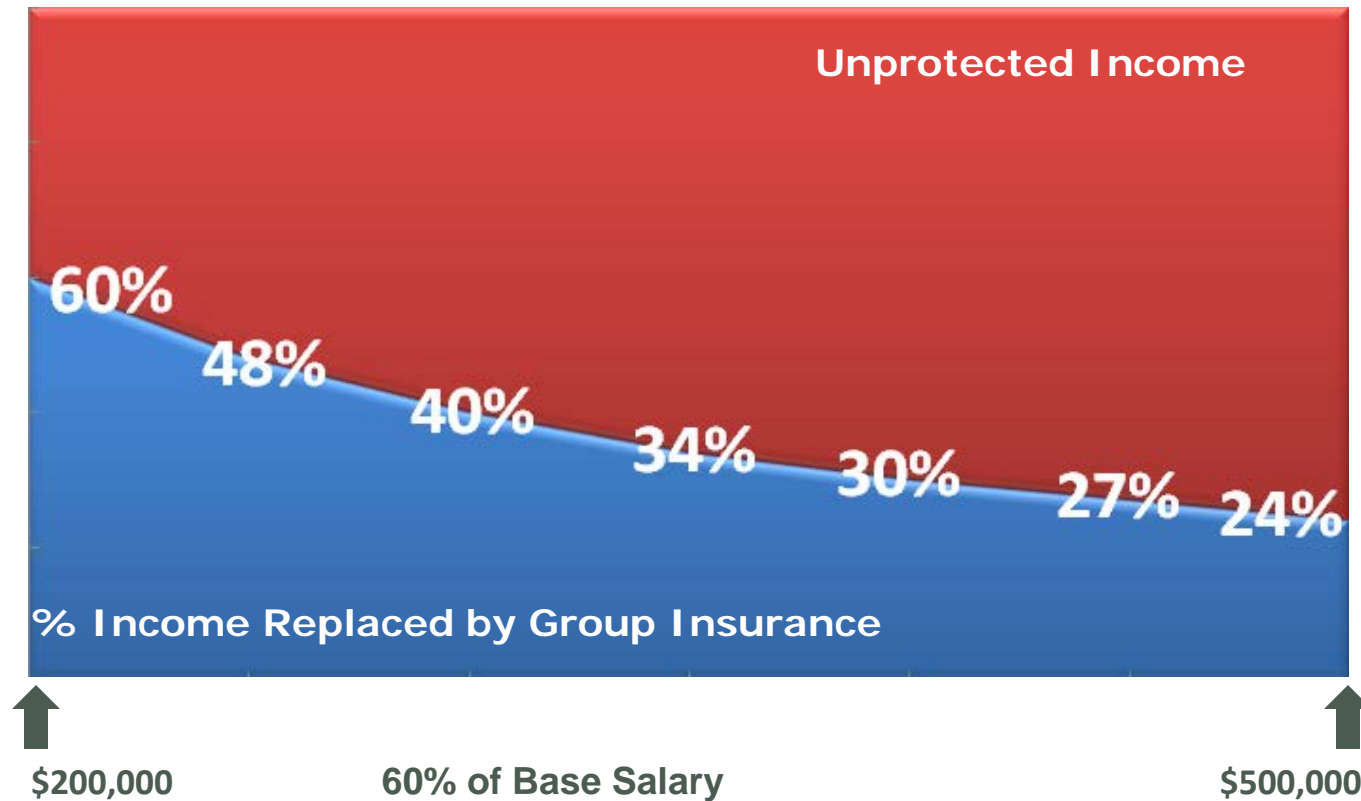
- Yes, (we/I) have a Group plan already provided through work.

Response:

- Many have felt the same way, but then have experienced there are gaps and shortfalls they never new about. Can I discuss them with you?

Current Plan:

The higher the income, the lower the LTD benefit replacement



- Group Long Term Disability benefits begin after 180 days of disability and are payable to Normal Social Security Retirement Age
- Insures up to \$200,000 of compensation (base salary only). Income above \$200,000 is uninsured
- Benefits are taxable

A Closer Look at Executive Income Protection

Current Plan

60% of Base Salary to \$10,000/month - Taxable Benefit

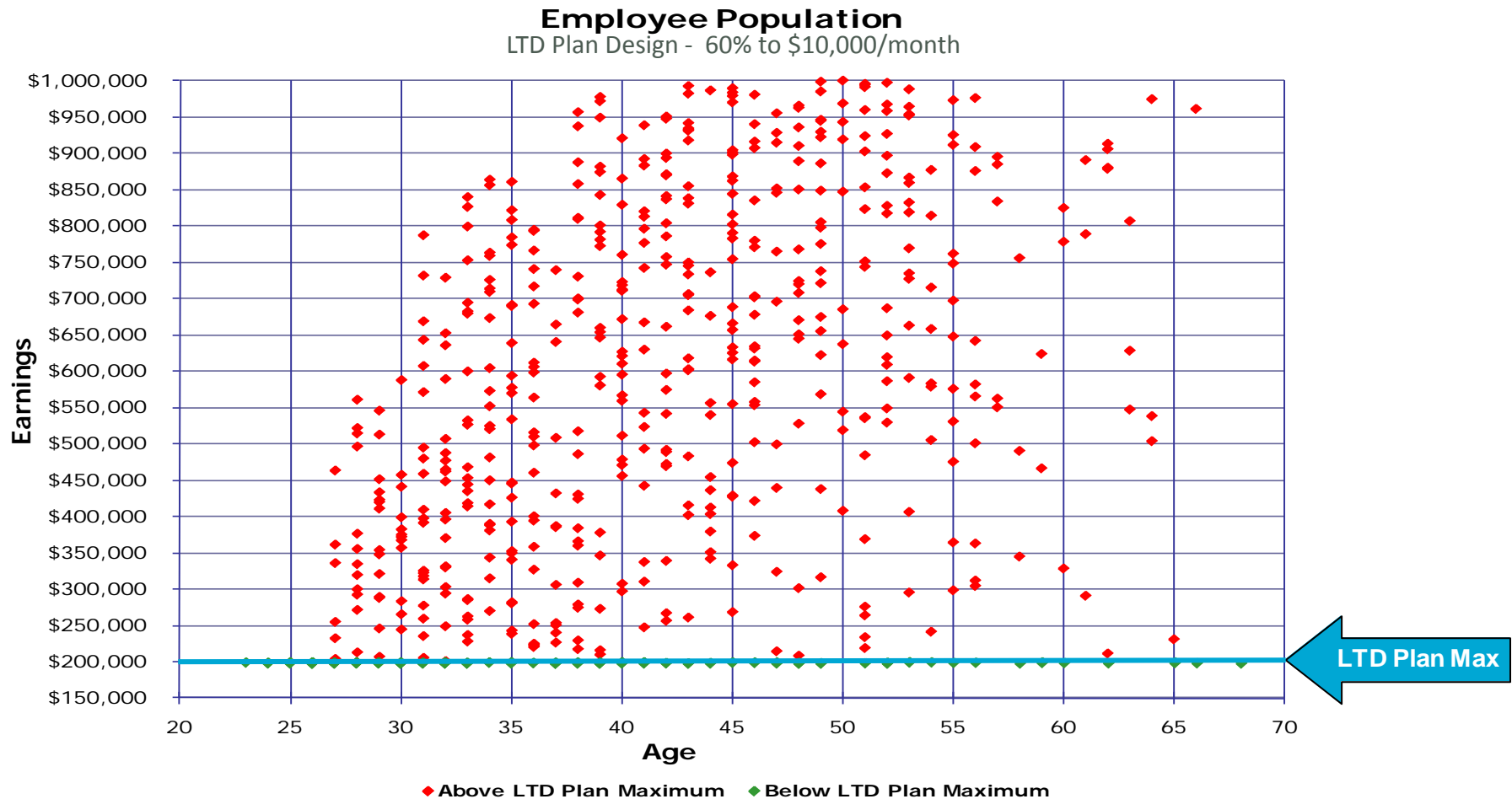
Annual Income (Base Salary Only)	Monthly Income	Gross LTD Monthly Benefit	Replacement Ratio %	Net LTD Benefit ¹	Net Replacement Ratio %
\$250,000	\$20,833	\$10,000	48%	\$6,700	32%
\$300,000	\$25,000	\$10,000	40%	\$6,700	27%
\$350,000	\$29,167	\$10,000	34%	\$6,700	23%
\$400,000	\$33,333	\$10,000	30%	\$6,700	20%
\$450,000	\$37,500	\$10,000	27%	\$6,700	18%
\$500,000	\$41,667	\$10,000	24%	\$6,700	16%

¹ Based on a 33% Tax Bracket

² Based on a LTD plan max of \$10,000

In addition to the above, a Restoration Disability Plan (IDI) will also provide a Catastrophic Benefit up to \$10,000, not to exceed 100% income replacement

Central Problem: Unprotected Earnings



- There are earners above the plan maximum

How Can You Close The Benefit Gap?

Natural Tendency

Raise the benefit maximum of employer provided Group LTD

However:

- Increases cost to company
- Increases reserve liability
- Impacts renewal rate

How Can You Close The Benefit Gap?

Strategic Approach

Provide employer sponsored individual coverage for a specific Carve-Out Group of executives

Employer Funded

- *Increases cost to company*
- Transfers risk and reserve
- Stabilizes rate with fixed premium product

Share Funding

- *Minimal increase in cost to company*
- Transfers risk and reserve
- Stabilizes rate with fixed premium product

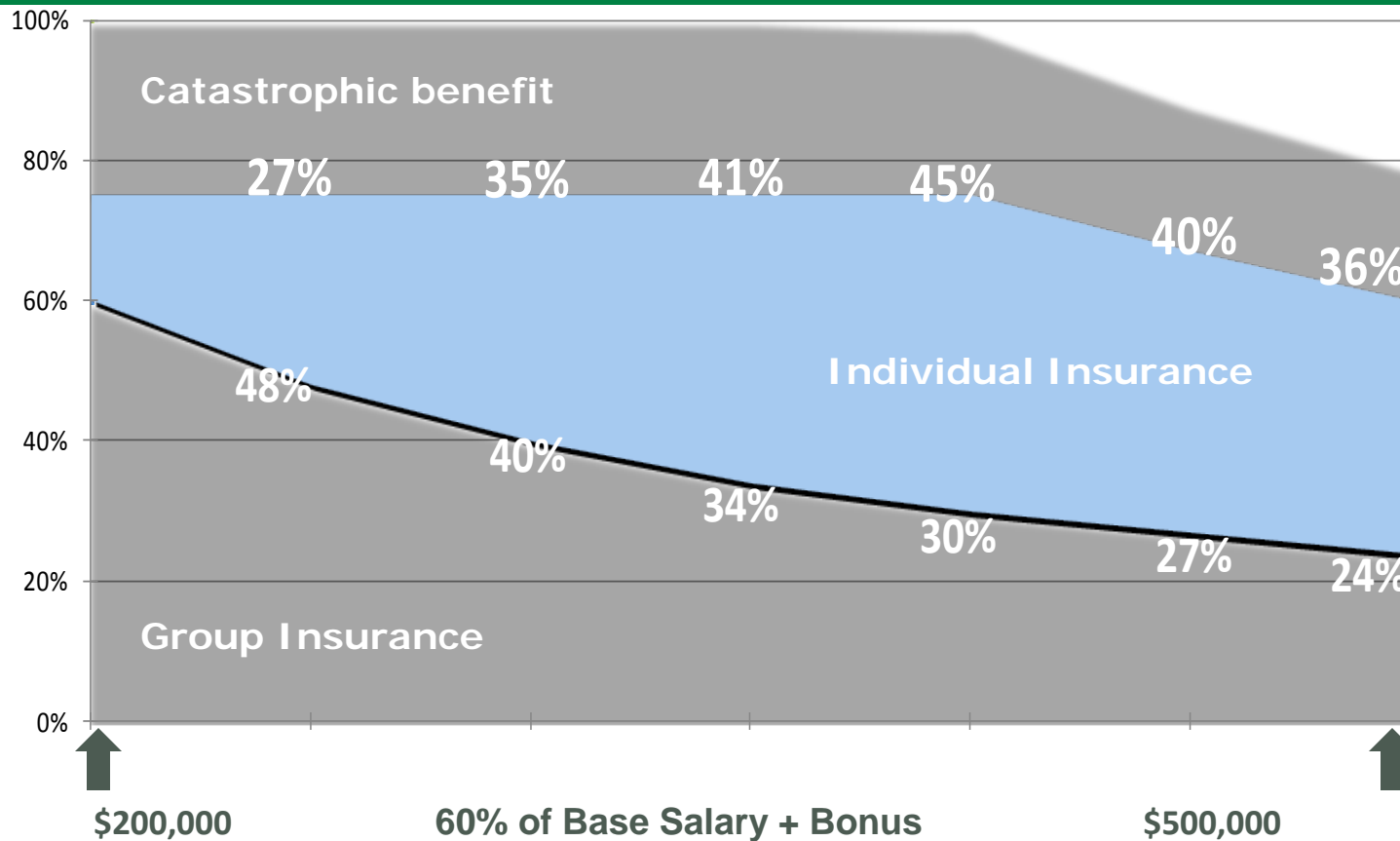
Employee Funded

- *Shifts cost to exec*
- Transfers risk and reserve
- Stabilizes rate with fixed premium product

Advantages of a Strategic Approach

	Advantage Employee	Advantage Corporation
Improves level of coverage for underinsured	✓	✓
Improves awareness of risk	✓	✓
Provides Guaranteed Issue (no medical or financial underwriting)	✓	
Permanent discounts due to corporate sponsorship	✓	✓
Shifts potential risk from company to carrier		✓
No Impact on group experience	✓	✓
Level age based premium rates	✓	✓
Long Term Solution	✓	✓
Portable with no change in rate	✓	✓

“Restoration Plan” Fills the Gap



- Group Insurance benefit is taxable
- Individual Insurance benefit is tax free
- Catastrophic benefit triggered upon loss of 2/6 activities of daily living

Restoration Income Protection Options


Option 1: 75% to \$25,000 Total Benefit

Option 2: 60% to \$25,000 Total Benefit

(Other designs are available based on cost and benefit considerations)

Annual Income (Base and Bonus)	Monthly Income	Gross LTD Monthly Benefit	Replacement Ratio %	Net LTD Benefit ¹	Real Replacement Ratio %	IDI Benefit @ 75% Replacement Ratio ²	IDI Benefit @ 60% Replacement Ratio ²
\$250,000	\$20,833	\$10,000	48%	\$6,700	32%	\$5,624	\$2,500
\$300,000	\$25,000	\$10,000	40%	\$6,700	27%	\$8,750	\$5,000
\$350,000	\$29,167	\$10,000	34%	\$6,700	23%	\$11,875	\$7,500
\$400,000	\$33,333	\$10,000	30%	\$6,700	20%	\$15,000	\$10,000
\$450,000	\$37,500	\$10,000	27%	\$6,700	18%	\$15,000	\$12,500
\$500,000	\$41,667	\$10,000	24%	\$6,700	16%	\$15,000	\$15,000

Maximum
Group
Benefit



\$25,000 Total Benefit

Maximum
Supplemental
Benefit

¹ Based on a 33% Tax Bracket

² Based on a IDI plan max of \$15,000

In addition to the above, a Restoration Disability Plan (IDI) will also provide a Catastrophic Benefit up to \$10,000, not to exceed 100% income replacement