

Unique Custom Design Products May Offer a Solution

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From time to time, we come across a situation where there is a special risk need for which a client is unable to get disability or life insurance coverage for one reason or another.

We hear from other professional advisors with whom we work that obtaining large amounts of disability and sometimes life coverage on “hard to underwrite” situations can be a real challenge.

I thought it might be of interest to know that there are potential solutions available when that occurs. In the course of our work, we have established a relationship with a broker/product design firm who have developed a special risk practice. Recently, they sent us a brief list of some of the special risks they have dealt with over the last couple of years.

Here is that list; please let me know if you have any questions on any of the situations or products discussed.

Special Risk Disability (D.I.) Cases:

Key Person Disability (D.I.) – High-Limit

A corporation required \$50M of key person Disability Insurance to protect their \$130M investment. Needed to insure the former owner against 6 months of continuous disability or 6 months total disability in a 12 month period. The insurer issued \$50M lump sum coverage.

Buy-Sell Lump Sum Disability – High-Limit

The CEO and majority shareholder of a public corporation required \$10M lump sum to fund a disability buyout per the shareholder agreement. The insurer issued the full amount with a 12 month waiting period.

Income Replacement Disability - Age 65+

A hospital president with earnings of \$700,000 turned age 65 and lost his group Long Term Disability coverage. The employment contract called for continuation of all benefits. The insurer issued coverage of \$18,000 per month with benefits to age 70 and a 3 year guaranteed term.

Income Replacement - Disability (D.I.) – High-Limit/Unique Occupation

An NHL coach with a multi-year contract and no in-force coverage required high-limit income replacement DI. The insurer issued a monthly benefit based on 85% of after tax earnings, and a benefit period to match the contract term.

Life and Accidental Death Cases:

Specific Risk Accidental Death (A.D.) – Back Country Skiing and Climbing

The president of a real estate development company purchased \$5M of regular market 10 year term life insurance coverage but there were "back country skiing and mountain climbing" exclusions. A second contract was arranged and issued for \$5M of Accidental Death specifically for "back country skiing and mountain climbing" to cover the gap.

Contingent Contract Protection – Current Cocaine Use

A business owner required \$3M collateral life insurance as a condition of a BDCC loan. He was declined for lifestyle history including current cocaine use. The insurer issued \$3M coverage with drug and alcohol exclusions, which satisfied the lender's requirements.

Life Coverage for uninsurable or highly rated clients

In addition, there are two products designed for situations where a client requires coverage for a certain term of years but has been declined or is so highly rated that coverage is not available for practical purposes. These are individually quoted and offer term insurance only, typically up to 20 years. Depending on the client's health there may be limited coverage available or a requirement to reapply every couple of years. This product can be used to insure an obligation (financial settlement/separation), bank indebtedness for business or for shareholder coverage for that one uninsurable "partner".

As you can see, these are not off the shelf products and this is a very specialized market with custom design and individually calculated premiums.

Please let me know if you would like further information or have questions on any of this.