

Can Your Business Survive Without You?

DSI's advisors talk to thousands of money managers, financial advisors and insurance advisors every year about their Disability Insurance coverage. Like all small business owners, **the risk of becoming disabled by an illness or injury is one of the biggest risks you face**. As long as you are healthy and working you have a chance to overcome any obstacles that are thrown in front of you. *But what if you're not?*

I know what you're thinking ... I hear it from financial services professionals all the time.

MYTH 1: "I don't need Disability Income Insurance" ... "I'm young and in good health so I won't get disabled" ... "If I get disabled I'll just work my way through it" ... "It won't happen to me"

Are you familiar with Lance Armstrong's battle against cancer? I can't think of a better example that youth and/or good physical health are NOT guarantees against a disabling illness or injury. In his books he gives a very candid description of the physical, emotional, and financial struggles he went through battling cancer.

We have over 20,000 financial professionals as clients and have seen hundreds of claims. You are just as likely to get disabled as any other white collar professional that works with their mind and ability to communicate. When it happens, the financial impact is devastating to you and your family, if you haven't prepared for it.

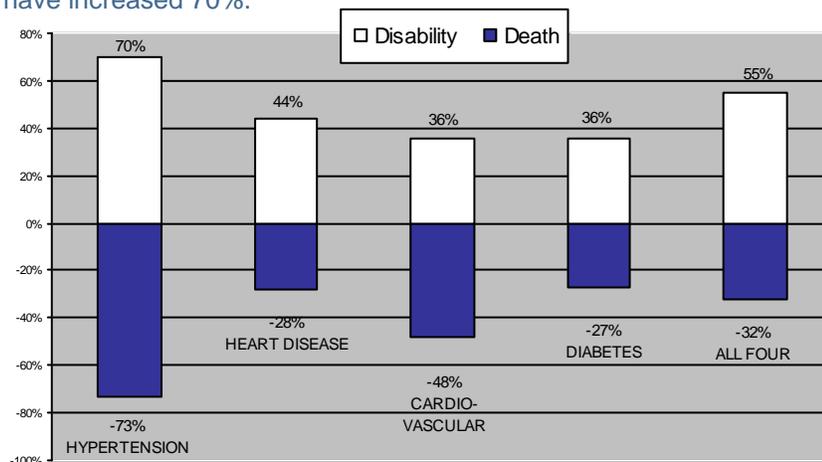
I know statistics are boring. However, as you know from working with your own clients, when dealing with risk management you are best served by making yourself aware of the likelihood of a specific event happening so you can determine how you want to deal with the risk.

During the course of your career, you are **three and a half times more likely** to be injured and need disability coverage than you are to die and need life insurance.

Health Industry Association of America, 2000

Yet, most responsible adults with families have life insurance. Furthermore, as medical technology and treatments improve, people now live through previously fatal illnesses and accidents only to find themselves permanently disabled.

As the following chart illustrates, deaths have decreased while disabilities are up dramatically. For example, the numbers of deaths due to hypertension have decreased by 73%, yet disabilities due to hypertension have increased 70%.



Source: National Underwriter, May 2002, The JHA Disability Fact Book – 2003/2004 Edition – Need for Disability Insurance

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MYTH 2: “I could do my job from a hospital bed with a computer and phone”

We hear this every day. There is no question that technology helps businesses run more efficiently. Laptops, iPads, and smart phones allow us to work from almost anywhere. However, you can't see clients to review their financial plans, investment portfolios or insurance needs from a hospital bed. Furthermore, if you are suffering from a medical problem that is so severe you are admitted to a hospital or are home bound, are you sure you want to risk making recommendations that impact your clients business, retirement plans, and/or investment portfolios?

People who are suffering from a disabling illness or accident are not able to bring the same level of energy and creativity to their business as when healthy. Your focus shifts from taking care of your clients to taking care of yourself and recovering from your illness. The treatments you go through and the drugs you have to take can affect your ability to think clearly and deal with the stress of running your business. So, even if you can work from your hospital bed or home, and your doctor allows it, you won't be able to do the complex decision making required to manage your business.

- Chemotherapy can make you so sick all you do is sleep all day.
- Some of the drugs you take for pain management not only make it unsafe for you to drive, they impact your ability to reason, analyze and communicate,
- What happens when a client calls and you are slurring your words because of the medication you are talking?
- What if your E&O carrier refuses to renew your coverage because of your medical condition and/or the drugs you are taking for it?
- Where do you find the energy to stay current with all the product changes, compliance requirements and regulations affecting your business?

All of these things have happened to our clients. We have over 20,000 financial services professionals as clients. We've seen hundreds of claims, both short term and long term, and these are just a few of the struggles our clients have shared with us while on claim.

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MYTH 3: “My employee(s)/my partner(s)/my spouse can run the business in my absence” ... “My business will continue to be profitable whether I'm there or not”

The financial services business is unique because fee income and insurance renewals are ongoing as long as you provide the services your clients have been promised. So, If you are disabled your business won't disappear overnight, it will start to erode as the word gets out you are disabled.

- If you are a money manager this erosion can happen quickly. If you aren't there to manage your client's investments they won't wait for you to recover...they'll move their money to an advisor that can take care of them.
- If you have an insurance practice the erosion is slower. However, the longer you are disabled the faster the erosion happens and eventually employees will get concerned and look for a new job. Then your business collapses.

If your staff were able to run your business without you, why do you go to work every day? The reason your business is successful, where so many others have failed, is because of the unique talents YOU bring. YOU are not readily replaceable and without YOUR direction the business will falter or fail.

If you have a partner or partners, while you and your partner(s) are willing to cover for each other during vacations and other short term absences, do you really think that carrying a disabled partner, which means a substantially increased work load for the working partner(s), is going to be acceptable or even possible over a long period of time?

Your business agreements should specify how long the working partners have to cover for the disabled partner (usually 90 to 365 days) and what happens to the disabled partner's practice after that period (do the working partners buy it or is it liquidated or sold by the disabled partner's trustees). If you don't have such an agreement you should discuss the need for one with your attorney.

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Myth 4: I can sell my business and live off the proceeds until I die.

Most insurance/money management practices sell for 2 to 2.5 times gross revenue or 4 to 5 times net profit. However, this may be a "best case scenario". Consider the following:

- To get the maximum price for your business you may be expected to continue working for a number of years after the sale. Being unable to do this may make your practice worth less.
- If you are disabled and forced to sell your practice, potential buyers may offer you less because they know you are pressured to sell.
- The longer you wait to sell your practice the more it deteriorates and the more its value declines.
- After you pay taxes on the profit, in most cases, there isn't enough left to support you and your spouse for the rest of your lives.

Be realistic about these issues because if you are wrong in your assumptions there's no way to fix it after you are disabled.

Example

Your business nets \$200,000 a year in profit. You are in a car accident that's your fault, and are left a quadriplegic. You determine you can't return to work and sell your practice for \$1,000,000. After taxes you are left with \$750,000 (who knows what the federal tax laws will be, and it depends if your state also charges capital gains tax, so I'm using a 25% tax rate). If you can earn 6% on your money (which is very aggressive in today's market) **with little risk** (since capital preservation is critical) you have taxable income of \$45,000 plus Social Security (if you qualify) to live on. How are you going to support your family and pay the extra expenses associated with your disability?

Setting up a Disability Income program to support you to age 65, which allows you to invest the proceeds of the sale of your business and allow them to grow until retirement age is an easy solution and it's not very expensive.

There's also statistical data to support the devastating impact of a disability. Here are a couple stats that might surprise you.

- 48% of all mortgage foreclosures are the result of a disability.
Department of Housing and Urban Development Housing and Home Finance Agency, US Govt Mar 2000
- A study by Harvard cites 50% of the bankruptcies of **middle income Americans**, 75% of who had medical insurance, were caused by excess medical bills. Why? They couldn't afford to make the COBRA payments on their medical insurance when their employment terminated or couldn't afford to pay the expenses not covered by their medical insurance.

Saturday, February 12, 2005 by the Miami Herald "Sick and Broke" by Elizabeth Warren

Why couldn't people pay their bills while disabled? They didn't have any or had inadequate Disability Income Insurance and either their employment was terminated or their business failed to produce enough income to support them.

None of us are "bullet proof" no matter how much we want to believe we are. Given the devastating financial consequences of being disabled without adequate Disability Income coverage and the minimal cost to insure against this eventuality, **what logical reason is there for not insuring your most valuable asset ... your ability to earn an income?**

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For a personalized premium quote and a complete summary of the program offering (including the actual policy definitions, details of the MGI qualification requirements and underwriting rules) return to the home page and click on the **Request a Quote** button or call Disability Specialists, Inc. (DSI) at (888) 279-8348 (7:00 am – 4:00 pm Mountain Time).