Insuring Divorce Settlement and Child Support Payments Against Disability

Designing the Disability Product

DSI has developed a proprietary disability product with Hanleigh Management Inc., Lloyd's of London Correspondent, which can pay most/all of the expenses dictated by the divorce decree (e.g., spousal support, child support, children's medical insurance premiums, private school and college expenses, activity fees, etc.) if the Payor becomes disabled.

- The policy can insure the total settlement payments **the Payor is required to pay as stipulated in the divorce decree** or be issued for less than the total payments dictated by the decree.
- The policy has an owner and a beneficiary.
  1. Whoever "owns" the policy has the right to make changes in the policy, receives premium notifications, past due premium notices, and all correspondence regarding the policy.
  2. The "beneficiary" receives the policy benefits from the insurance company when a claim is paid.
     - The policy can be owned by the Payor and the Payor can be the beneficiary (the Payor continues to pay the Recipient while disabled). There may be some tax advantages to the Payor if the program is set up this way.
     - The policy can be owned by the Recipient and the Recipient can be the beneficiary.
     - The policy can be owned by the Payor and the Recipient can be the beneficiary or the policy can be owned by the Recipient and the Payor can be the beneficiary.
     - The Payor and Recipient can each buy coverage and be the owner and beneficiary of their respective policy.

       Example:

       1) The Payor buys coverage equal to the child support payments, children's medical insurance, college expenses, and children's activity expenses.
       2) The Recipient buys coverage equal to the spousal support payments.
- The divorce decree should include language stating what the Payor's and Recipient's obligations are:
  1. If the Divorce Settlement Policy pays benefits.
  2. If the policy does not pay benefits (the claim is denied or the policy has lapsed for nonpayment of premium).
  3. What each party's premium payment obligations are.
  4. Who are the owner and beneficiary of each policy.

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- The policy can be written to pay a monthly benefit for a maximum of 60 months. If the total obligation to pay extends beyond the 60 month payment period, a lump sum benefit equal to the unpaid balance of the total obligation is payable to the beneficiary after the monthly benefit period is over (see sample case study below). If the obligation to pay is less than 60 months, call Disability Specialists to discuss whether or not the risk is large enough to insure.

- The benefit amounts are not limited like traditional disability insurance benefits. For example, if the Payor's total obligation is $6,000,000 over 10 years, a policy can be written to insure it.

- This coverage can be purchased **in addition to** any personal disability coverage insuring the Payor. The benefits are not coordinated.

- There is no financial documentation needed other than a copy of the divorce decree.

- The policy has a "90 day elimination period," which is the number of days the Payor must be disabled prior to being **eligible** for benefits. The first benefit check is payable from the insurance company **not less than** 30 days after satisfying the elimination period. The Payor must submit proof of disability to the insurance company and the claim must be approved before the first claim check is written.

  During the elimination period, the Payor must continue paying the Recipient from his/her personal funds. So, if the policy has a 90 day elimination period, the Payor has to have sufficient funds to continue paying the Recipient the first 90 days after he/she becomes disabled.

  Once the 90 day elimination period has been satisfied benefits begin to accrue. This means starting on the 91st day the insured is getting credit for 1 day's disability benefit for each day of disability. The first benefit check is written after 120 days of disability. So, the Payor will have choices regarding the payment in month 4, depending on who is the beneficiary of the policy benefits.

Examples:

1. The benefit is payable to the Payor and the Payor is still obligated to pay the Recipient based on the terms of the divorce decree. So, the beginning of month 4 after the onset of the disability, the Payor would pay the Recipient as he or she had in the past and the policy would reimburse the Payor the beginning of the month 5.
2. If the benefit is payable to the Recipient the Payor can tell the Recipient there will be a 30 day delay before the first check is sent and thereafter it will pay monthly.
3. Every disability policy works this way. The elimination period (in this case 90 days) is the number of days the insured must be disabled before becoming eligible for benefits. Starting on day 91 benefits begin to accrue and the first benefit check is mailed at the end of month 4.

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Insuring Divorce Settlement and Child Support Payments Against Disability

- The Payor has to submit proof of disability to the insurance company and the insurance company has to approve the claim (which is a process that takes some time), therefore we strongly recommend the Payor (or his/her representative) notify Hanleigh Management Inc. or Disability Specialists immediately upon becoming disabled.

- As the Payor makes monthly payments to the Recipient, the total obligation of the Payor is reduced. Therefore, the disability policy reduces the payout each month to match the reduction in the Payor's overall obligation. This reduction in benefit results in the **policy premium going down every year**.

Sample Case Study: Divorce with 2 minor children ages 8 and 5

The divorce decree requires:

- $6,000 per month of spousal support payable for 36 months, reducing to $4,000 per month spousal support payable for 24 months.
- Child 1: $1,250 per month of child support is payable 120 months, until the child turns age 18 or graduates from high school, if later.
- Child 2: $1,250 per month of child support is payable 156 months, until the younger child turns 18 or graduates from high school, if later.
- The Payor agrees to pay 50% of college expenses (tuition, room, board, books) not to exceed $20,000 per year, for 4 years, when each child goes to college.
- The cost of the children's medical insurance is $500 per month.

Calculations:

ü Spousal Support: $6,000 × 36 months = $216,000

ü Spousal Support: $4,000 × 24 months = $ 96,000

ü Child 1: $1,250 × 120 months = $150,000

ü Child 2: $1,250 × 156 months = $195,000

ü $500 (medical insurance premium) × 156 months = $78,000

ü Total college obligation $160,000

ü Total obligation: $895,000

Policy Payment Structure

- The policy is issued with a 90 day elimination period so the Payor will have to make the divorce settlement payments from his/her own funds for the first 3 months. This reduces the total amount insured by the policy to $868,000 ($895,000 - $27,000 the amount paid by the Payor the first 90 days of total disability = $868,000).

Insuring Divorce Settlement and Child Support Payments Against Disability

- In this example, if the insured is disabled during the first month after the policy is issued:
  1. The policy pays $9,000 per month for 33 months (the first 3 months the insured pays the $9,000 per month), then $7,000 for 24 months, at which point the spousal support obligation ends.
  2. Then the policy pays $3,000 per month for 3 months ($2,500 child support plus $500 medical premium), so the policy's total monthly payout is 60 months.
- Assuming the Payor is deemed Permanently Totally Disabled from the Payor's regular occupation, after 60 months of payments have been made, the lump sum benefit is payable. In this example, where the Payor was disabled the first month after the policy was issued, the lump sum benefit would be $394,000:

  $868,000 total obligation after the Payor has made the first 3 months of payments - (33 months benefit × $9,000) - (24 months benefit × $7,000) – (3 months × $3,000) = $394,000

How are benefits determined if the Payor is disabled in months 2 or later?

- The policy assumes each month the policy is inforce, the Payor makes a payment to the Recipient, and the total obligation is reduced by the amount of that payment.
  1. In month two, if the Payor becomes disabled, the policy would pay $9,000 for 32 months + $7,000 for 24 months + $3,000 for 4 months, then a $391,000 lump sum benefit.
  2. In month three, if the Payor becomes disabled, the policy would pay $9,000 for 31 months + $7,000 for 24 months + $3,000 for 5 months, then a $388,000 lump sum benefit.
  3. In month four, if the Payor becomes disabled, the policy would pay $9,000 for 30 months + $7,000 for 24 months + $3,000 for 6 months, then a $385,000 lump sum benefit.

A "Schedule of Benefits" will be provided with each policy. The following tables are a sample of the schedule that will be included with each policy to outline the maximum benefits payable. Using the payout structure outlined above, these tables illustrate the policy payout assuming the insured is disabled in months, 1, 2 or 3. The complete Schedule of Benefits will show the payouts for each month of the 60 month term of the policy.

Schedule of Benefits, based on Month of Term in which Disability Occurs

Divorce Settlement -- Accident & Sickness Temporary and Permanent Total Disability

Benefit Schedule for Month 1	
Months 4 through 36	$9,000/mo
Months 37 through 60	$7,000/mo
Months 61 through 63	$3,000/mo
then lump sum at 64 mos	$394,000

Benefit Schedule for Month 2	
Months 4 through 35	$9,000/mo
Months 36 through 59	$7,000/mo
Months 60 through 63	$3,000/mo
then lump sum at 64 mos	$391,000

Benefit Schedule for Month 3	
Months 4 through 34	$9,000/mo
Months 35 through 58	$7,000/mo
Months 59 through 63	$3,000/mo
then lump sum at 64 mos	$388,000

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<Click here> to see a complete Schedule of Benefits for this example, showing the payout for all 60 months of the policy.

Divorce Settlement Disability Policy - Sample Annual Premiums

Premiums decrease every year because the policy's benefit reduces as the Payor's total obligation is reduced with each payment he/she makes to the Recipient. Presently, there is a minimum premium of $1,000 plus surplus lines taxes and policy fee.

The premiums illustrated in the table below are for the coverage described in the example above. The premium schedules below illustrate the premium for the first 5 years, **assuming the policy is purchased at the age indicated**. When the initial policy renews after 5 years, renewal policy premiums will be based on the insured's age, health, remaining obligations as stipulated by the divorce decree, and the carrier's pricing at the time of the renewal. Renewal premiums are NOT shown below. For a detailed explanation of how renewal premiums are calculated visit our website www.gotodsi.com/divorce and click on the "How Renewal Premiums are Calculated" link.

The "Surplus Lines Taxes/fees" vary based on the state the policy is issued in. However, there is not a significant variance from state to state. The illustration below assumes the policy was issued in Oregon.

This is the first 5 years of premium if the policy was issued at age 40

Policy Year	Base Premium	Surplus Lines Taxes/Fees	Total Premium
1	$1,652.00	$257.60	$1,909.60
2	$1,445.00	$252.84	$1,697.84
3	$1,223.00	$247.73	$1,470.73
4	$1,029.00	$243.27	$1,272.27
5	$1,000.00	$242.60	$1,242.60

This is the first 5 years of premium if the policy was issued at age 45

Policy Year	Base Premium	Surplus Lines Taxes/Fees	Total Premium
1	$2,095.00	$267.79	$2,362.79
2	$1,827.00	$261.62	$2,088.62
3	$1,542.00	$255.07	$1,797.07
4	$1,293.00	$249.34	$1,542.34
5	$1,080.00	$244.44	$1,324.44

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This is the first 5 years of premium if the policy was issued at age 50

Policy Year	Base Premium	Surplus Lines Taxes/Fees	Total Premium
1	$2,952.00	$287.50	$3,239.50
2	$2,569.00	$278.69	$2,847.69
3	$2,164.00	$269.37	$2,433.37
4	$1,808.00	$261.18	$2,069.18
5	$1,508.00	$254.28	$1,762.28

This is the first 5 years of premium if the policy was issued at age 55

Policy Year	Base Premium	Surplus Lines Taxes/Fees	Total Premium
1	$3,926.00	$309.90	$4,235.90
2	$3,419.00	$298.24	$3,717.24
3	$2,882.00	$285.89	$3,167.89
4	$2,410.00	$275.03	$2,685.03
5	$2,011.00	$265.85	$2,276.85

This is the first 5 years of premium if the policy was issued at age 60

Policy Year	Base Premium	Surplus Lines Taxes/Fees	Total Premium
1	$5,843.00	$353.99	$6,196.99
2	$5,091.00	$336.69	$5,427.69
3	$4,293.00	$318.34	$4,611.34
4	$3,593.00	$302.24	$3,895.24
5	$2,999.00	$288.58	$3,287.58

This is the first 5 years of premium if the policy was issued at age 64

Policy Year	Base Premium	Surplus Lines Taxes/Fees	Total Premium
1	$7,257.00	$386.51	$7,643.51
2	$6,339.00	$365.40	$6,704.40
3	$5,358.00	$342.83	$5,700.83
4	$4,500.00	$323.10	$4,823.10
5	$3,762.00	$306.13	$4,068.13

Premiums were run for the state of Oregon; occupation class Executive. The base premium is the same for all states; the taxes and policy fees vary by state.

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