

# Insuring Divorce Settlement and Child Support Payments Against Disability

## Policy Definitions and Additional Details of the Product Offering

- DSI has a proprietary arrangement with Hanleigh Management, Lloyd's of London's Correspondent, offering people under age 65 and working in high income (\$100,000+), white collar occupations **up to \$1,000,000 of total coverage Modified Guaranteed Issue (MGI)**. High Income blue and grey collar business owners **may** also be eligible for MGI. Click on the "[Medical and Financial Qualifications](#)" link for details.
- Total benefits in excess of \$1,000,000 and insureds age 65 through 69 are medically underwritten. If the insured has medical issues, the policy can exclude those conditions from coverage, be issued with increased rates, or the application may be denied. If the insured has medical issues discuss them with DSI before applying for coverage.
- If the initial coverage is issued MGI, it has a 3/12/12 preexisting conditions limitation. This means if your disability begins during the first 12 months the policy is in force and the disability is caused or contributed to by a preexisting condition not disclosed on the MGI application, the disability will not be covered.
- If the initial policy is issued with normal medical underwriting, the preexisting limitation will only apply to conditions not disclosed on the medical exam and underwritten application.

A preexisting condition means a condition for which: (1) medical advice or treatment was recommended by or received from a physician during the 3 month period preceding the Effective Date of this coverage; or (2) symptoms were present during the 12 month period preceding the Effective Date of this coverage that would cause a reasonably prudent person to seek advice or treatment from a physician.

### The pre-existing conditions limitation does NOT apply to policy renewals.

- Benefits for disabilities caused by or related to mental and nervous disorders and alcohol and drug abuse are NOT COVERED.
- The definition of total disability includes "**Your Occupation**" protection for the term of each policy. This means:
  1. "Your Occupation" is defined as your ability to perform the material duties of the occupation you are working in at the time of claim (e.g., if you are a physician, your occupation is your board certified medical specialty).
  2. The insurance company CANNOT require you work in another occupation, if you are totally disabled from your regular occupation.
- During the **monthly benefit payment period**, in order to qualify for total disability benefits, you must be deemed totally disabled from your regular occupation and **not working in another occupation**. It's your

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choice to return to work in another occupation. If you return to work in another occupation, your benefit **can be reduced** in accordance with the definition of residual disability (see definition of residual disability).

- After the monthly benefit payment period is completed, you are eligible for the lump sum benefit if you are deemed **permanently totally disabled from your regular occupation**. This means you are not expected to recover and return to work in your regular occupation.
- At the onset of disability, if there has been a change in the divorce decree since the policy was issued and the obligation of the Payor has changed, the policy will pay the maximum policy benefit or the payment dictated by the most current decree, **whichever is less**.

- **Examples:**

1. The policy is issued with a \$6,000 per month spousal support benefit and the total monthly benefit is \$9,000 per month. Two years after the policy is issued the Recipient gets remarried and spousal support stops, reducing the monthly obligation to \$3,000 per month. If the Payor becomes disabled the policy would only pay \$3,000 per month. In this example it would make sense to amend the policy when the obligation was reduced to \$3,000 per month, which will reduce the premium.
2. The Payor has two children from the marriage. The policy is issued with a \$1,250 per month child support benefit for each child plus \$500 per month for the children's medical insurance. The Payor's medical insurance premium increased by \$100 per month two years after the policy is issued. The Payor becomes disabled and the total obligation is \$9,100 per month.

The policy only pays \$9,000 per month. The policy benefit could have been increased to cover the increased medical insurance obligation at the time the obligation changed. However, this requires the insured go through medical underwriting (MGI underwriting if the total benefit is less than \$1,000,000) and the policy would be rewritten at the insured's current age, for a new 5 year period. So, it's probably not worth doing for \$100 per month of additional benefit.

- The monthly benefit also includes the **Residual Disability Rider**. The residual benefit reduces the settlement payment the Payor has to pay out of earnings, while working at a reduced income level because of a disability.
- Residual benefits are payable if you are working in your own or another occupation but your ability to work in your own occupation is restricted due to disability and you have a 20% or greater loss of income. The benefit payable is calculated by multiplying the total disability benefit by the percentage income is reduced.

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## Example:

If the Payor's total monthly obligation is \$9,000 per month, the monthly benefit for total disability is \$9,000 per month, and the Payor is working part-time and suffers a 60% income loss:

1. The policy would pay the beneficiary \$5,400 per month (\$9,000 benefit x 60% income loss)
  2. The Payor would be required to pay the Recipient \$4,600 per month from his/her own funds (the remainder of the \$9,000 per month obligation), unless the Payor petitioned the court and was granted relief.
- Residual benefits are only payable during the monthly benefit payment period. So, the maximum residual benefit payment is 60 months.
  - It's possible to be collecting under the residual benefit and still qualify for the lump sum benefit at the end of 60 months of benefits.

## Example

1. The Payor is a physician and is totally disabled from practicing his/her specialty in medicine.
2. The Payor returns to work in a different occupation earning 30% of what was earned as a physician.
3. The policy pays 30% of the benefit for total disability for the balance of the 60 month monthly payout, and then pays the lump sum benefit since the Payor is permanently totally disabled from practicing his/her specialty in medicine

*DSI is not engaged in the practice of law. **This summary is not intended to be nor should be construed as legal or tax advice.** You should consult with the appropriate legal or tax professional regarding all legal and tax questions. To the best of our knowledge, this summary is based upon the most recent information available to us at the time of the creation of this summary. It is not intended to be complete or compare all contract provisions, and does not reflect contract language, which may vary between carriers. Provisions and availability of certain policy benefits and riders may vary by state. Refer to actual insurance policies for additional information.*

*To the best of our knowledge, this summary illustrates how the insurance company administers the portion of definitions described. The actual definitions written in the contracts issued by the carrier will determine how benefits are actually paid. The definitions and carrier interpretations take precedence over any representations made in this proposal.*