

Lloyd's of London Lump Sum Policy

Hanleigh Management Inc. Lloyd's Correspondent

The lump sum disability policy is a surplus lines product underwritten by Lloyd's of London. The policy includes the following features:

- The benefit maximum is 10 times your annual NET earnings; the minimum MGI benefit is \$250,000 and maximum \$2,000,000. You may apply for additional coverage with proof of medical insurability.
- Premiums are discounted for Financial Planners and Insurance Specialists 25% and 10%-30% for all other eligible occupations.
- The definition of disability includes "**Your Occupation**" protection to age 65...the insurance company CANNOT require you work in another occupation, if you are totally disabled from your regular occupation, even if you are qualified based on your education, training, and experience. If you cannot perform the material duties of **your regular occupation** you are considered totally disabled.
- The policy is renewable every 5 years. Premiums will go up on each renewal, the policy is not guaranteed to be renewed and policy provisions can change on each renewal.
- There is a 12 month pre-existing condition limitation. This means if you become disabled the first 12 months your policy is in-force by any condition that existed within 12 months of the policy date, you are not eligible to collect benefits for that disability. This limitation does not apply to the policy renewals, only the initial 12 months you are covered under the policy. Disabilities that begin 12 months after the policy date are covered, even if they are caused by a pre-existing condition.
- Benefits for disabilities caused by or related to mental and nervous disorders and alcohol and drug abuse are NOT COVERED.

You can choose one of two ways to receive the benefits:

Lump Sum Benefit

- The benefit is payable in one lump sum payment after 365 days of total disability. In order to collect the benefit you must be considered **permanently totally disability from your occupation**. This means you are not expected to recover and be able to return to work in your occupation.

Monthly Benefit and Lump Sum Combo

- The maximum monthly benefit is 75% of earnings (net business income if you are self-employed) minus inforce disability insurance coverage (not to exceed \$10,000 per month of Lloyd's coverage).
- The elimination period is 180 days, with a 36 month benefit period. During this period, in order to qualify for Total Disability, you must be deemed totally disabled from your regular occupation and **not working in another occupation**.

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- The monthly benefit also includes the residual disability rider. This rider pays benefits 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. Example: If income is reduced 50%, then 50% of the total disability benefit is payable.

Example:

1. Your monthly benefit is \$10,000 per month and the total benefit is \$1,000,000.
2. After 180 days you are paid \$10,000 per month for the next 36 months, totaling \$360,000 in benefit.
3. The lump sum benefit, payable after you have received the 36 monthly payments, is \$640,000 (\$1,000,000 - \$360,000 = \$640,000)

The choice of how benefits are paid (lump sum or combo monthly/lump sum) is made at the time of application (NOT the time of claim) and there is a premium difference (we will quote both).

What makes the Lloyd's coverage attractive?

- The total maximum benefit is 10 times earnings; up to \$2,000,000 of coverage available on a modified guaranteed issue basis. Your personal coverage consists of Group LTD, Individual DI or some combination of the two, typically insuring 60% or less of your income. **The Lloyd's coverage is available in addition to your existing coverage.**
- The monthly benefit allows you to insure up to 75% of your earnings and doesn't require you to be permanently totally disabled from your occupation to collect benefits for 36 months.
- The benefit allows you to:
 1. Pay down your debt. Most people can't afford to live on a reduced income because they have too much debt to support. Using part of the lump sum benefit to pay down your debt makes it easier/possible to live on the monthly disability benefit.
 2. Pay medical expenses not covered by your medical insurance and increased health insurance premiums, including if you are forced to go on COBRA. Uninsured medical expenses are one of the leading causes of bankruptcy and home foreclosure.
 3. Pay planned expenses such as alimony and child support, private school, college, weddings, children's activities (club sports, tutoring, training, etc.), which may not be sustainable if you are forced to live on a small percentage of your pre-disability income.
 4. Pay for care if your spouse is unable to provide it because he/she has to work, is physically unable, and/or your care requires special skills.

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- If you are totally disabled and living on 60% or less of your income how are you going to save for retirement? **You can't.** So, part of the Lloyd's benefit can be invested and used to replace lost retirement savings at age 65 when disability income benefits stop.
- If you are a partner in your business and have a buy-sell agreement, the Lloyd's policy is an inexpensive way to provide the funds to buy out a totally disabled partner.
 - The MGI benefit allows partners with medical history to obtain coverage
 - Lloyd's doesn't care if the buy-sell is between family members, employees and the owner(s), or separate businesses (traditional Disability Buy-Sell won't insure these three situations)
 - Allows you to insure older partners (coverage is available up to age 69)

Other than funding a buy-sell agreement, the Lloyd's policy can be a **temporary** way to insure all the things above until your savings and retirement accounts are adequate to provide the cash and you no longer need it. As you reduce debt and increase savings, you can reduce the Lloyd's benefit (which reduces the premium) or cancel the policy.

Is the Lloyd's Lump Sum product a replacement for my Individual DI?

- Absolutely not. Individual DI should be the foundation of any comprehensive income protection portfolio. The Lump Sum coverage is an additional layer of protection.
- Individual DI offers a wider range of policy features, including more comprehensive definitions of disability and guaranteed premiums and benefits until age 65.
- The Lloyd's coverage can be purchased in addition to the maximum Individual DI benefit and the products will not off-set each other at time of claim.