Life & Health Insurance Advisor

ARCH Brokerage Inc

8084 Watson Rd. Suite 100
St. Louis, Mo 63119
Tel 314-849-6363
Fax 314-849-9292
www.archbrokerage.com

Risk Management April 2010 Volume 3 • Number 4

Business Owners: Protect Your Company from the Loss of a Key Employee

The right insurance package can help your business survive the loss of a key person.

If you are an entrepreneur, you might be that "key person"—the one on whom your business's very survival depends. Or you might have a valued employee whose skill, education, talent or connections have helped the business become what it is.

Would your business survive the death or disability of one of your key persons? A business continuity plan, backed by insurance, can help.

Key Person Life Insurance

Life insurance can protect a business from the loss of a key employee. The business takes out the policy on the life of the key person, pays the premiums and receives the benefit if he/she dies. The insured's family has no interest in the policy at all.

How much insurance will you need? You can base the policy benefit amount on estimated lost earnings, the additional compensation needed to hire an experienced replacement or a combination of both.

If you need key employee protection temporarily (i.e., your software business is growing and you expect to be able to hire another key engineer in the near future), then buying term life insurance makes the most sense. But if you're insuring the life of a relatively young founder, then you should consider buying permanent, or whole life, insurance. With permanent insurance, the premiums remain level for as long as the insured lives, and the policy's accumulating cash value becomes an asset on the company's balance sheet.

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This Just In

What is your PDQ? The Council on Disability Awareness, a research and education nonprofit, has an online calculator that lets you calculate your PDQ, or personal disability quotient. Using information such as your age, weight, health and tobacco use, the calculator gives you an estimate of your odds of becoming disabled for three or more months by comparing your personal information to actuarial data.

The calculator also helps you estimate what a disability could cost you and your family in lost income. You can use this information to help determine how much disability income insurance you need. Disability income insurance can replace part of your lost income if you become disabled. Most financial experts agree that even those Americans who have disability income insurance usually do not have enough.

You can find the PDQ calculator at www.disabilitycanhappen.org/chances_disability/pdq.asp. For more information on disability income insurance, please see our February 2010 issue.

Envision Better Health with Vision Coverage

Most major medical plans exclude coverage for vision care, including exams, glasses and contact lenses. Do you need this coverage?

The Vision Council of America (VCA) estimates 11 million Americans have uncorrected vision problems, ranging from refractive errors (near- or far-sightedness) to sight-threatening diseases such as glaucoma or age-related macular degeneration.

Nearly 90 percent of those who use a computer at least three hours a day suffer vision problems associated with computer-related eye strain. Individuals who work as engineers, construction workers, stockbrokers, software developers, accountants and administrative assistants are among those most at risk for developing vision problems.

Types of Coverage

You can find two types of vision coverage: vision insurance plans and discount vision plans.

Vision insurance: Your health insurer might offer vision insurance as an add-on to your medical insurance policy; you can also buy standalone policies. Some insurers even offer combined vision and dental plans for individuals and families.

Like the name implies, an insurance company underwrites vision insurance plans. When you buy vision insurance, you will receive a policy that outlines your benefits. In exchange for payment of annual or monthly premiums, your policy will probably cover the following basic services:

- Annual eye examinations, including dilation
- Eyeglass frames
- Eyeglass lenses
- Contact lenses
- LASIK and PRK vision correction at discounted rates

As with other health insurance policies, you will have a family and individual annual deductible and a co-payment each time you access a service.

Vision insurance policies are only available through a licensed insurance agent. As with other types of insurance, your state insurance department regulates these policies and provides consumer protection services.

Discount vision plan: A discount vision plan provides eye care services at fixed discounted rates after you pay an annual membership fee. Plans advertise discounts of 15 to 40 percent. Typical plans provide discounts on vision exams, eyeglass frames, eyeglass lenses, contact lenses and LASIK and PRK vision correction.

To obtain discounts, you must use a participating eye care professional. You will pay the cost of services at the time of your visit, less any applicable discounts.

To determine whether a discount vision plan is worth the money, make sure your eye care professional participates. Unlike an insurance plan, benefits are not guaranteed under a discount program and plans are not regulated, as insurance is. However, if you and your family members wear glasses and change frames or prescriptions frequently, you might find the discounts worthwhile.

For more information on vision care coverage, please contact us.

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Key Person Disability Insurance

"What many employers do not know is their chances of losing the key person to disability, over death, is 17 times greater," *Business Insurance* magazine quoted Tom Lobaugh, a senior vice president at Willis North America, as saying.

Disability income insurance can help protect your business from the loss of services of a key person due to disability. As with key person life insurance, key person disability income insurance is owned by the company. The company pays the premiums and receives any policy benefits if the insured key person experiences a qualifying disability.

Disability income insurance costs more than life insurance, and determining how much and what type of coverage you need can be a bit more complex. Considerations include:

Definition of Disability: Your policy will probably have one of these definitions of disability: "own occupation," "modified own occupation" and "any occupation." An "own occupation" policy pays benefits when the insured cannot perform the "material and substantial duties" of his/her regular occupation due to disability. A pure "own occupation" policy applies this definition throughout the life of the policy, while a "modified own occupation" policy applies it for a limited time, such as five years. After that point, the policy reverts to the "any occupation" definition. "Any occupation" policies define a disability as being unable to perform the duties of "any other occupation" or any "gainful occupation" for which the insured is reasonably suited by experience and education.

"Own occupation" policies provide coverage in more situations; however, they cost more. You might want own occupation coverage for a key person who has highly specialized skills, or skills that require high levels of hand-eye or physical coordination. For other individuals, however, an "any occupation" policy might suffice.

Extent of Disability: Unlike death, individuals can experience different degrees of disability. Will your policy pay if the insured is partially disabled? Some policies pay only for total disability, while others cover partial disability only if it follows a period of total disability from the same cause. On the other hand, some policies presume certain conditions—such as losing sight, speech, hearing or use of a limb—are total disabilities and will pay total disability benefits, even if the insured can perform some or all of his/her regular duties.

Waiting Period: The insured must be disabled for the length of the waiting period—usually from 30 to 180 days—before the policy will begin paying benefits. When choosing a waiting period, keep in mind that you will usually not receive the first benefit check until 30 days after the end of the waiting period.

Length of Coverage: The policy term determines the maximum length of time the policy will pay benefits. Most common terms are one year, two years, five years or to retirement age. An individual would probably want coverage to retirement age, but your business might need key person coverage for only one or two years—however long it would take to find and groom a replacement.

For more information on using insurance in your business continuity planning, please contact us.

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Limitations. New policies often can't be issued after age 59 or 65—cutoffs vary by insurer. After the cut-off age, many policies reduce the lump-sum payout by half, but don't reduce the premiums. In other words, if a policyholder has a stroke at age 75, she might get only half the benefit.

Critical illness policies limit your total benefits to a fixed amount. Limits usually range from a minimum of $10,000 to a maximum of $500,000, although some insurers will write policies with up to $1 million in coverage.

Some financial advisors and consumer advocates say critical illness coverage is unnecessary. They believe consumers should spend the premium dollars on savings, investments or even fitness programs to help reduce the risk of illness. However, if you lack the discipline to keep thousands of dollars in reserve for catastrophic expenses due to a critical illness, this coverage might provide you and your family with needed peace of mind.

Critical illness insurance offers features other types of medical insurance lack. Most importantly, benefits are flexible—instead of going directly to medical providers, you can use them however you choose. You can use a critical illness policy to supplement disability coverage as well as your medical coverage. Business owners who suffer a critical illness can use policy benefits to supplement any lost income or operating expenses—they can even help cover the lost income of a person who acts as your caretaker during your illness. Because you don't have to prove disability, only illness, to collect benefits, critical illness insurance may offer more flexible coverage than many disability policies.

For more information, please contact us.

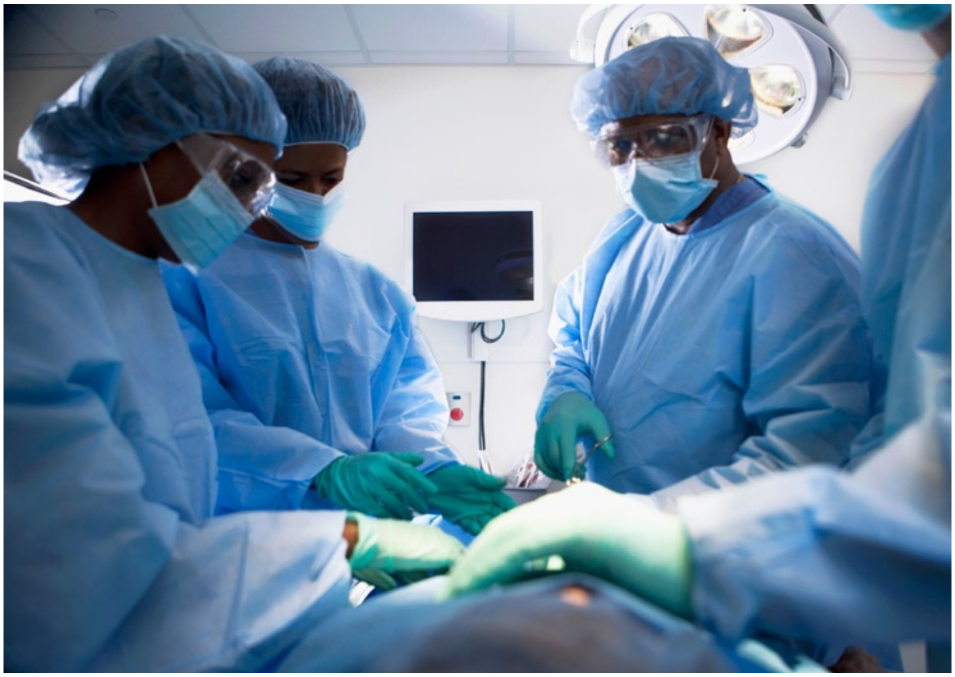
Is a Critical Illness Likely?

- **The American Cancer Society estimated there would be 1.47 million new cancer cases diagnosed in the U.S. in 2009.***
- **Men have a slightly higher chance of developing cancer than women do—a 1 in 2 chance over their lifetime. Women have a 1 in 3 chance***
- **The American Heart Association says that 1,255,000 new and recurrent coronary attacks occur per year in the U.S.**
- **Approximately 700,000 people suffer a new or recurrent stroke every year in the U.S. and more than 150,000 of them die.**

Not including basal and squamous cell skin cancers and in situ carcinomas except urinary bladder.

Do You Need Critical Illness Coverage?

Illness is one of the leading causes of bankruptcy. Can your family's finances withstand the costs of a critical illness, such as cancer or Alzheimer's disease?



As medical technologies and treatments improve, more people are surviving once fatal forms of cancer, heart disease and other conditions. But medical and non-medical expenses often fall outside coverage by traditional health or disability insurance. These trends are creating a growing demand for supplemental health coverage such as critical illness policies. Here's what you need to know about critical illness coverage and its benefits.

Coverage. A critical illness policy pays a lump sum benefit if you are diagnosed with a serious health condition, such as cancer, heart attack or stroke. Illnesses covered under the policies vary, but can include a far longer list of ailments, including Alzheimer's, paralysis, coma, multiple sclerosis and loss of hearing. You can use these payments for any expense—co-payments for doctor/hospital bills, travel costs, experimental treatments, or even to replace the wages of a family member leaving work to provide care.

Payouts for critical illness policies typically average around $25,000, with premiums costing about $300 to $500 annually, depending on your age, gender, health and location. Higher-end policies covering a dozen or more conditions generally pay benefits of more than $100,000 and cost about $1,500 to $2,000 a year. Some insurers offer a "return of premium" feature. If the insured dies of something that's not covered by the policy — say, a car accident or a very rare disease — the provider will give back all of the premiums, minus any benefits already paid.

Eligibility and enrollment. To buy critical illness coverage, you must complete a detailed medical questionnaire. An insurer will likely deny coverage if you already have a covered illness or if several blood relatives have had one. Policies under $100,000 often don't require a medical exam. Some plans require waiting periods of 30 days or even several months before coverage begins. Others stop paying benefits after a fixed period of two or three years.

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Why Does Health Insurance Cost So Much?

Some politicians blame insurer profits and administrative costs for the increase in health insurance costs. However, in 2009 the percentage of premiums that went towards administrative costs and profits actually declined for the sixth year in a row. A U.S. Center for Medicare Services (CMS) study found that insurer administrative costs accounted for only 11.15 percent of health insurance premiums in 2009.

So why do health insurance premiums keep going up? The CMS study found that premium increases in 2009 directly tracked increases in health insurance benefits. In other words, your premiums bought more services, including hospital care, professional services and prescription drugs. America's Health Insurance Plans, an industry organization, also blamed "…a slowdown in the economy that is causing younger and healthier workers to drop their insurance…" This "adverse selection" leaves less-healthy individuals in the insurance pool, increasing average medical expenditures and insurance costs.

Reducing medical costs would help reduce insurance costs. Consolidation and lack of price competition keep medical costs artificially inflated. According to a *Boston Globe* story, "the market clout of the best-paid providers [is] a main driver of the state's spiraling health care costs" and "[there was] no evidence that the higher pay was a reward for better quality work or for treating sicker patients."

Providing consumers with more information on treatment costs and outcomes would also help control costs. Patients with little information on outcomes will often opt for the newest or most expensive treatment for a condition, thinking that newer or more expensive means better. But older, less expensive treatments and drugs often work better than newer ones.

Eliminating coverage mandates, which require all insurance plans in a state to cover certain services, would allow insurers to make low-cost policies available. This type of plan would encourage younger, healthier individuals to buy insurance, reducing adverse selection and insurance costs for everyone.