



Profiles Professional Desktop

Disability Insurance Analysis Self-Study Guide

Version 8.0

EISI, Winnipeg

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Disability insurance analysis

Using Profiles Professional, you can analyze your clients' disability insurance needs to ensure that their income needs will be met if one of the clients should become disabled. When defining insurance needs in Profiles Professional, you can define Client B's earnings.

Learning objectives

This module will enable you to

- Enter existing insurance policies
- Define insurance needs
- Perform a disability insurance analysis

Learning tools

This module includes some practice exercises using one of the sample clients provided in the application. If you want to keep this sample client case intact, open the *Sample 4 - Comprehensive (Jones - non-tax).fpx* client case, and then save it with a new case name.

To open and save the client case, follow these steps:

1. Start Profiles Professional.
2. Click **Open Existing Case**, and then click **Open Sample Case**. The *Open Sample Case* screen opens.
3. Click the **Open** link beside *Sample 4 - Comprehensive (Jones - non-tax).fpx*. A *Data Conversion* dialog box may appear to warn you that the planning preferences in this case differ from the global planning preferences. Click **Close**.
4. Click the **File** menu – **Save As**. The *Save Client Data As* dialog box opens.
5. Save the case with a unique name, for example, *Jones – Disability Insurance Self-Study Guide*.

Please keep in mind that the case we are using for this self-study guide does not have the *Tax-Sensitive* option selected.

Enter existing insurance policies

The screenshot shows the 'Profiles Professional - Comprehensive' software window. The title bar includes 'File Edit Input Output Tools Help' and a toolbar with various icons. The main window is titled 'Profiles Professional' and 'Disability Insurance'. On the left is a vertical menu with the following items: Case Setup, Case Data, Personal Data, Dependents, Risk Tolerance Profile, Income - Client A, Income - Client B, Direct Income Source, Taxes Withheld, Income Tax - Client A, Income Tax - Client B, Expenses, Assets, Stock Options, Liabilities, General Insurance, Life Insurance, **Disability Insurance**, LTC Insurance, Retirement, Education Goals, Accumulation Goals, Survivor Cash Needs, Survivor Inc. Needs, Disability Inc. Needs, Estate, Asset Distribution, Distribution Order, Reallocation, Notes, and Client Objectives. The main area contains the following fields:

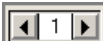
- Policy Record Number: 1 of 1 (with left and right arrow buttons)
- Insurance Policy: Tom's Employer LTD
- Insured: Client A (dropdown menu)
- Type: Group (dropdown menu)
- Monthly Benefit: \$1,750
- Annual Premium: \$150
- Elimination Period: 90 Days (dropdown menu)
- Benefit Period: Age 65 (dropdown menu)
- COLA: 3.5 %

At the bottom right of the main area are 'Back' and 'Next' buttons. The status bar at the bottom left shows 'John A Smith' and the bottom right shows 'Disability policy name'.

Figure 1: Case Data – Disability Insurance

On the *Disability Insurance* screen, you can enter two types of existing disability insurance policies, *Group* or *Personal*. If *Group* is selected, the monthly benefit will be offset by Social Security benefits if Social Security benefits are included on the *Disability Income Needs* screen.

The *Annual Premium* amount entered is carried over and used to calculate the current year's cash flow. The *Elimination Period* determines how long the client must wait before the *Benefit Period* begins. If a cost of living adjustment (*COLA*) is specified, the disability benefits are affected.

To enter another insurance policy, click the right arrow next to the  spin button.

You can also enter long-term care insurance policies in Profiles Professional. The *LTC Insurance* screen is very similar to the one for disability insurance policies.

Next, let's take a look at how to define the clients' needs and incomes during disability.

Define insurance needs

Profiles Professional - Comprehensive

File Edit Input Output Tools Help

Profiles Professional

Disability Income Needs

Client A Disability Client B Disability

Include Social Security Benefits

Age Non-Disabled Client Receives Social Security: Client A: 65 Client B: 65

	Client A* Monthly Need	Client B Earnings	Other Client A Income	Client B* Monthly Need	Client A Earnings	Other Client B Income
Beginning	\$10,325	\$7,583	\$0	\$10,325	\$7,000	\$0
After 30 Days	\$10,325	\$7,583	\$0	\$10,325	\$7,000	\$0
After 90 Days	\$10,325	\$7,583	\$0	\$10,325	\$7,000	\$0
After 1 Year	\$10,325	\$7,583	\$0	\$10,325	\$7,000	\$0
After 2 Years	\$10,325	\$7,583	\$0	\$10,325	\$7,000	\$0
After 5 Years	\$10,325	\$7,583	\$0	\$10,325	\$7,000	\$0
After Age 65	\$10,325	\$0	\$0	\$10,325	\$0	\$0

* Increase Need By: 4 %

Back Next

John A Smith Social security benefits (Client A)

Figure 2: Case Data – Disability Income Needs

On the *Disability Income Needs* screen, you can establish the clients' needs and incomes in disability. This screen can be divided into two sections. The left side applies if Client A is disabled, and the right side applies if Client B is disabled. At the top of the screen, you can specify if Client A and Client B will receive Social Security disability benefits and the age when the non-disabled client will begin receiving Social Security retirement benefits based on the disabled client's situation.

On the lower half of the screen, you can specify a monthly need for the disabled client, the earnings for the non-disabled client, and any income that the disabled client may receive. You can specify different amounts for different time periods. By default, the client's monthly need is based on the percentage specified under *Planning Preferences*. By default, the non-disabled client is presumed to continue earning his or her salary. In the *Increase Need By* field, you can enter an inflation value for the *Client A/B Monthly Need* fields. *Client A/B Earnings* are inflated by the long-term inflation rate entered on the *Planning Preferences – General Preferences* screen.

Let's look at the *Planning Preferences* screen where the clients' default monthly need is defined.

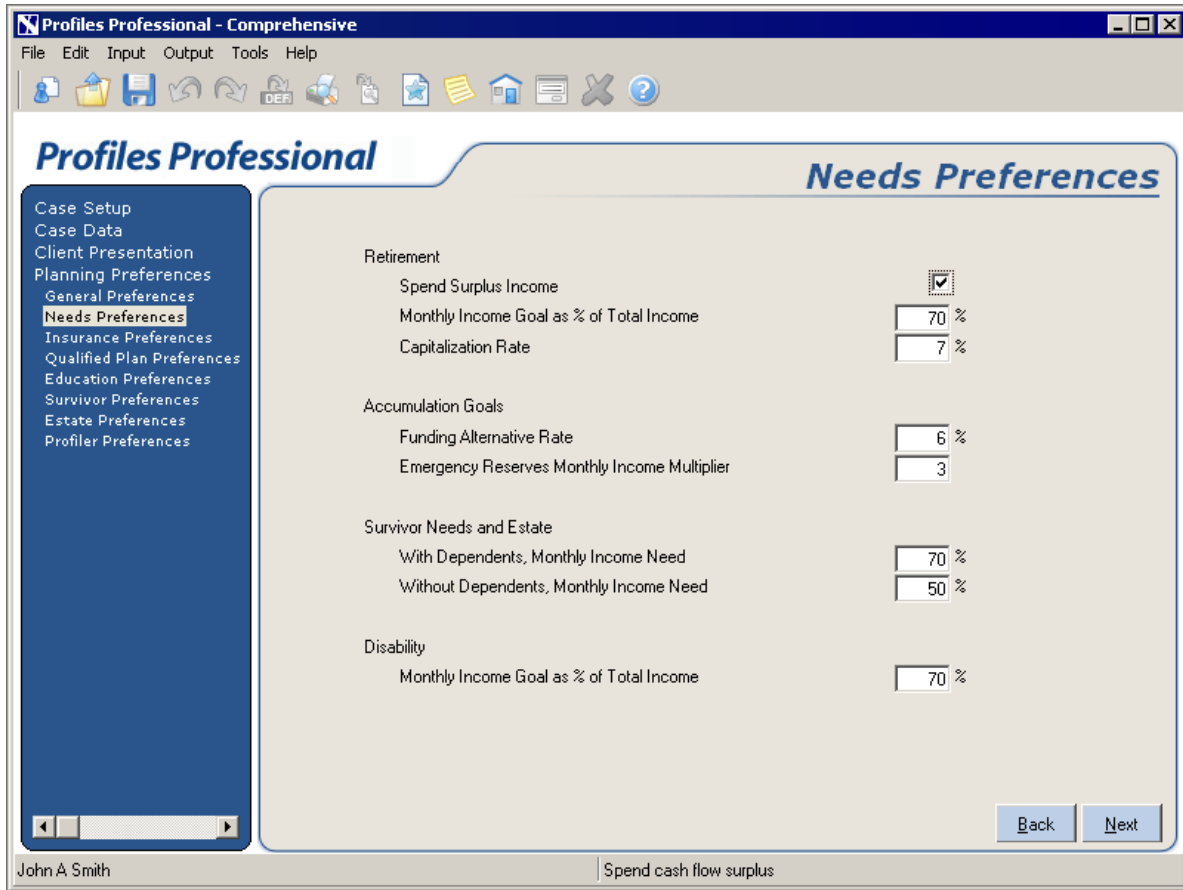


Figure 3: Planning Preferences – Needs Preferences

On this screen, under *Disability*, the *Monthly Income Goals as % of Total Income* field provides the default value for monthly needs that appears on the *Disability Income Needs* screen.

Next, we will look at some reports that will help you to determine whether the clients will have shortages or surpluses during disability.

Perform a disability insurance analysis

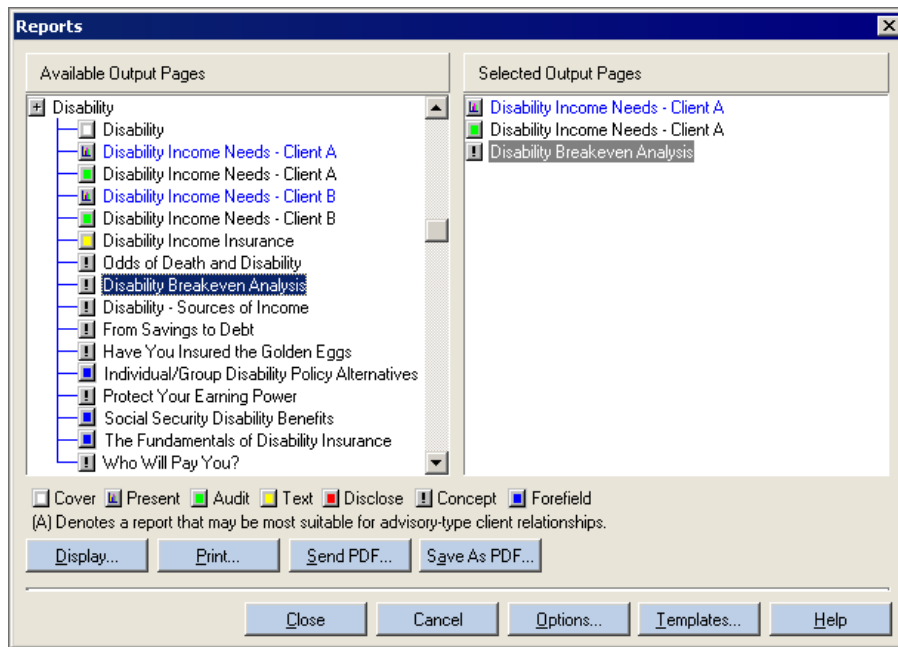


Figure 4: Client Presentation – Reports

If you would like to learn more about generating output pages, see the Organizing Output Self-Study Guide.

Let's take a look at the following disability insurance analysis output pages:

- *Disability Income Needs - Client A* (presentation page)
- *Disability Income Needs - Client A* (audit page)
- *Disability Breakeven Analysis* (concept page)

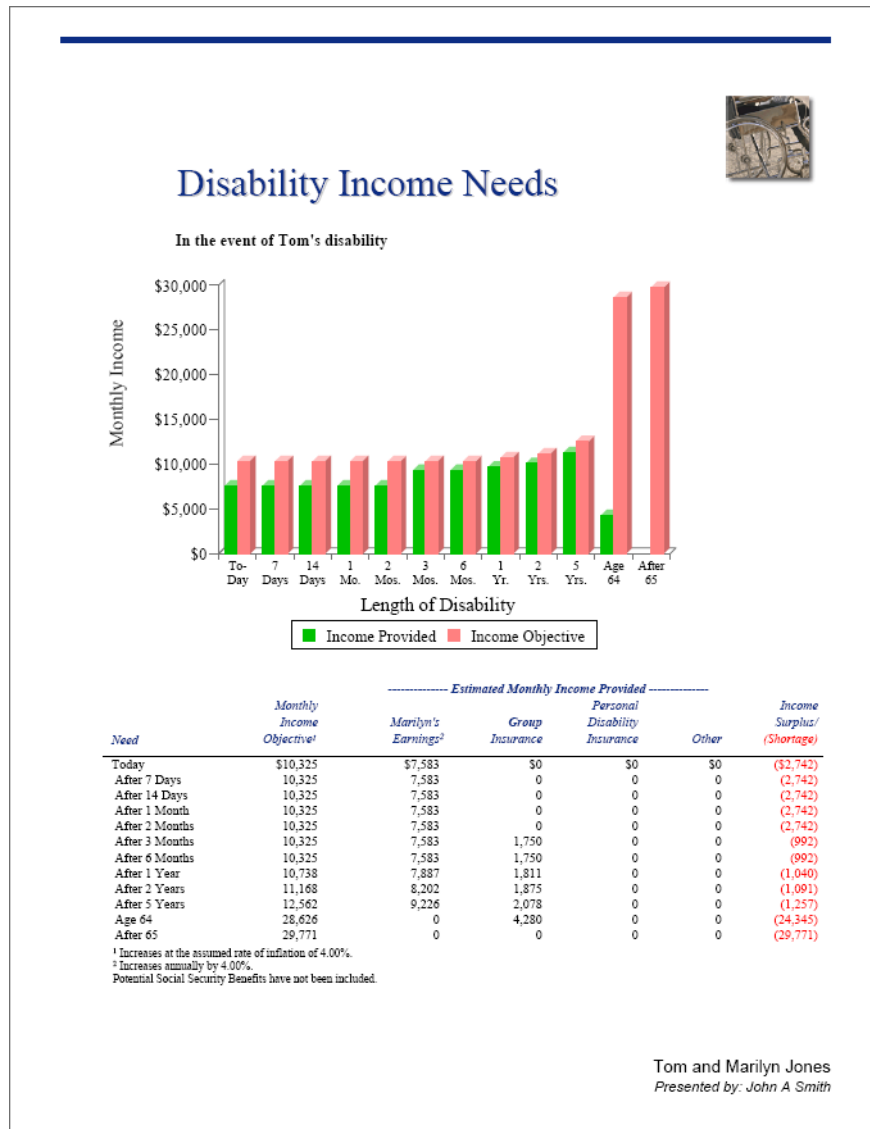


Figure 5: Client Presentation – Disability – Disability Income Needs - Client A presentation page


The *Disability Income Needs* presentation page breaks down the clients’ needs versus abilities for various time periods in the case of disability. The information is presented in a graph and a table. Note that the report does not provide a suggested dollar amount of coverage. It is up to you to determine the appropriate amount of disability coverage based on the output from the reports and the availability of insurance.

The footnote at the bottom of the page indicates whether disability Social Security benefits have been included (based on the *Include Social Security Benefits* check box on the *Disability Income Needs* screen).

Disability Breakeven Analysis

Monthly Premium*

\$20



Annual Benefit*

\$6,000

Years Premium Paid	Time Until Benefits Paid Will Equal Premium Paid
2	Less than 1 month
5	3 months
10	5 months
20	10 months

Paying premiums year after year, with no creation of cash values, may seem a waste of funds until you measure how quickly the benefits from a disability income policy will equal the total premiums paid. Becoming disabled is a tragedy; becoming disabled and having no income is even worse.

*Hypothetical example only.

Tom and Marilyn Jones
Presented by: John A Smith

Figure 7: Client Presentation – Disability – Disability Breakeven Analysis concept page

The *Disability Breakeven Analysis* concept page is interactive. When you generate it, you are prompted to enter an annual benefit and a monthly premium amount. The results appear in a table which you can use to help emphasize the value of having disability insurance.

You can also use the *Odds of Death and Disability* concept page (*Client Presentation – Financial Concepts – Odds of Death and Disability*) to help identify the likelihood of becoming disabled or dying. For example, at age 35 there is a 1 in 6 chance of death by age 65 and a 1 in 5 chance of disability by age 65.

Exercises

Exercise 1: Enter existing insurance policies

1. Social Security disability benefits will offset the amount entered for a group disability insurance policy. True or false?

Hint: You can select the *Type* field, and then press *F1* for online Help.

- a) True
- b) False

Exercise 2: Define insurance needs

1. On the *Disability Income Needs* screen, how are the income needs values calculated?
 - a) Calculated as system-generated defaults
 - b) Calculated using the percentage entered on the *Planning Preferences – Needs Preferences* screen, under *Disability*.
2. After entering insurance premiums, you must create a premium expense on the *Expenses* screen. True or false?
 - a) True
 - b) False

Exercise 3: Perform an insurance analysis

1. Which report displays the recommended amount of disability insurance required to cover shortfalls in the plan?
 - a) *Disability Income Needs - Client A*
 - b) *Disability Income Insurance*
 - c) None. It is the planner's responsibility to recommend the appropriate amount of additional disability insurance.

Answers to exercises

Exercise 1: Enter existing insurance policies

1. a) True

Exercise 2: Define insurance needs

1. b) Calculated using the percentage entered on the *Planning Preferences – Needs Preferences* screen, under *Disability*.
2. b) False

Exercise 3: Perform an insurance analysis

1. c) None. It is the planner's responsibility to recommend the appropriate amount of additional disability insurance.