Private Wealth

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Protecting Your Biggest American Dreamers from the American Nightmare

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The term "American Dream" was originally coined by James Truslow Adams in his book, The Epic of America. Since the first publication of the book in 1931, the term has since been used by American society to conjure images of job success and the classic American material possessions: the three-bedroom house, the white-picket fence and if everything goes well, two and a half kids and a Labrador. However, for earning an income in the top ¼ of the top 1%, the American Dream transforms into an entirely different lifestyle: a seven-figure income, a 6-bedroom house, kids in private school, luxury cars, and of course, a luxurious vacation home in a choice location. These are the Dreamers we focus our best resources to protect.

Now, take a moment to think of your highest earning clients. Maybe it's a lawyer in Manhattan who after 10 years at the firm became a partner and his earnings increased to over $2 million. Or maybe it's the CEO and owner of a highly successful business, or perhaps the CIO of a financial services firm. Regardless of the industry, consider this... for those Americans with the grit and tenacity to develop a seven-figure income, they often find themselves with an exposure to their future estate exceeding $15 million. To exemplify, if we were to look at a 50-year-old individual earning a million dollars with a time horizon of 15 years until retirement, a $15 million exposure to their estate exists in the event they suffer an accident or injury rendering them unable to work. For these Dreamers, implementing a sound income protection strategy should be the foundation of their financial plan when protecting their family's future wealth. Not only does proper planning protect their 1% lifestyle, but it also protects a multi-million-dollar fortune. As an insurance advisor, I challenge you to think of another multi-million-dollar exposure that your client has that is largely uninsured.

So, what's the risk of becoming disabled? According to the Council for Disability Awareness (CDA), a typical male, age 35, 5'10", 170 pounds, non-smoker, who works an office job with some outdoor physical responsibilities, has a 21%

chance of becoming disabled for three months or longer during his working career. Further, this individual then has a 38% chance that the disability incurred will last five years or longer, with the average long-term disability for someone of this profile lasting 82 months. That's over 6 ½ years, and, for someone in this "Dreamers" income class, it's nearly $7 million of future earnings! The CDA studies have shown that 90% of wage earners rate their ability to earn an income as "valuable" or "very valuable" in helping them achieve their financial security, far more valuable than retirement savings, medical insurance, and even personal possessions. As an advisor to your clients you need to ask yourself this, "Do my clients possess anything worth $7M that they haven't fully insured?". Of course not!

To take this one step further, take an individual's ability to earn a high income away and consider the financial anarchy that will ensue. For those in the top ¼ of the top 1% of income earners, should they suffer a disabling event or diagnosis, you also need to consider the rippling effect an interruption in positive cash flow will have on their financial plan. How long will their current assets sustain their ability to pay their multi-million-dollar mortgages, their high-end vehicle leases, their children's private school and college tuitions? And furthermore, how does the event impact the family's generational wealth? Is their ability to lift their children and grandchildren into the upper class now in grave danger?

As an advisor to your biggest American Dreamer clients, your main objective should be protecting their American Dream from becoming the American Nightmare. First, you'll need to approach U.S. income protection markets with the objective of obtaining the maximum issue limits available to your client. There are several highly rated U.S. disability insurance carriers that should be considered, and you'll need to present these carriers with your client's current profile, including whether or not your client has a group disability plan that is being maintained through his or her employer. On average, traditional disability insurers will participate in protecting around $25,000 per month of income, and while this may sound like a fortune to your average American wage earner, for those earning $2,000,000 annually this plan only covers 25% of their take home pay. Properly protecting this exposure is what separates an average advisor from a truly exceptional advisor.

Another advantage of these plans is that they offer **true own occupation coverage,** versus **own occupation coverage, or any occupation coverage**. A tongue-twister to be sure, but it means that by purchasing a supplement plan with true **own occupation coverage**, you have the ability to earn additional income in another profession while disabled under the occupation you sought coverage to insure. Taking the example of a trial lawyer, if a trial lawyer can no longer appear in court to persuade and influence a jury on his or her clients' ideal verdict, but is healthy enough to teach law as a professor, he or she can earn new income as a professor and receive disability benefits for a loss of income as a trial attorney.

For advisors fortunate enough to work with American Dream clients, it's clear these individuals possess something special, and while you can't insure the magic that exists in their eyes, you can make certain that their American Dreams never become the American Nightmare.

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The primary problem here is underinsurance. Most traditional insurance brokers are simply unaware that a viable option exists to fully insure high earning clients. The secondary problem occurs when a void exists in the U.S. insurance market and the coverage an individual is seeking is simply unavailable. This can occur due to certain rules maintained by traditional U.S. carriers that disqualify a high-income earner's eligibility. For example, accruing a net worth of more than $15,000,000, or working in a unique occupation such as an athlete or entertainer.

Thanks to the powerful resources offered via the "Lloyd's Market," high earning individuals can access extraordinary benefit limits to supplement the programs they have purchased here in the U.S., or secure coverage where options did not exist.

For instance, we recently worked with a New York financial services executive earning $1.4 million annually. The executive's existing disability portfolio consisted of two traditional disability income policies with a combined value of $24,250 per month in income protection benefits, and group long-term disability of $10,000 per month. Although this may sound like an excellent program, it represents less than 30% of the executive's income. Utilizing Lloyd's of London, we designed an excess disability policy delivering an additional $35,000 per month of income protection, bringing the executive's total income replacement to $69,250 per month. Simply put, this plan was developed to protect the American Dream.

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