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Are You Inadvertently Dressing Your Clients in “The Emperor's New Clothes?”

Regardless of what they're wearing to bed, how well are you *insuring* their ability to sleep soundly?

Do you remember the childhood story of "The Emperor's New Clothes"? It is a short story by Hans Christian Andersen about two clothiers who promise to make the emperor allegedly the finest suit of clothes—so fine that only the “truly worthy” subjects in the kingdom could see them. Ultimately, the joke was on the emperor, who proudly walked around his kingdom totally naked, thinking he was fully covered in the finest threads his subjects had ever seen.

My question is simple: Are your best clients actually walking around naked when they think they are fully protected with their existing insurance portfolios? Stop for a minute and think about your BEST clients and prospects. We all “rate” our clients internally. I am talking about your A+ clients ... the Zenith Group ... the 80 percent who pay your bills. Within that group, let's focus on the folks who are still working.

The entrepreneur

Let's take the case of Dan Anderson (a fictitious name). Dan is a highly successful business owner who enjoys great health, has two young daughters, occupies three homes, brings in a serious seven-figure income and is responsible for a business worth roughly \$20 million, of which he owns 100 percent of the voting equity. From a life insurance standpoint, Dan maintains more than \$20 million of life insurance that was well-placed and properly designed.

Recently, Dan met with a new insurance advisor and the conversation quickly turned to all the “nightmares” that were **keeping Dan up at night**. He should be sleeping soundly, as he gets plenty of exercise thanks to daily bike rides of at least 20 miles, almost always on the road. Two years ago, Dan's friend went over the handlebars of a bicycle and suffered a brain injury that permanently disabled him—his friend's speech and gait will never fully recover.

The accident really shook Dan up and got him thinking about what would happen if he had been the one to go flying over his own handlebars.

Key Takeaways

- Exceptional clients and prospects require and demand specialty carrier and product solutions.
- Exceptional income earners often suffer “financial discrimination” with traditional disability carriers, making it difficult to rely on their ability to fully protect your best clients.
- Basic knowledge of these markets and programs can differentiate your firm and assist in favorable client recruitment and retention.

Challenges

- Dan's lifestyle is such that he requires \$60,000 per month (post tax) to maintain his current standard of living. His in-force disability insurance was one \$10,000 monthly policy that paid benefits to age 65.
- Given Dan's liquid net worth and unearned income, he was previously declined for additional disability protection by four major individual disability income carriers through another advisor.
- Dan's business is still highly dependent on his relationships, creativity and management. There is a dual need to protect his business and, in turn, his equity value. Dan felt that if he were to suffer a similar disability as his cycling friend had, the business would start to deteriorate quickly, key staff would leave and the business would ultimately need to be sold at a "fire sale" price, yielding pennies on the dollar.

The process and solutions

Through a series of meetings with Dan and his insurance advisor, CPA and attorney, the team designed a new disability insurance portfolio that better suited Dan's situation and alleviated his concerns.

Based on his annual earned income of roughly \$3 million, Dan could financially justify \$150,000 in monthly personal disability income protection if a traditional 60 percent replacement value was applied to his income. Given Dan's \$10,000-per-month policy, only 4 percent of his annual income was insured. Ultimately, Dan and his advisory team agreed that \$75,000 tax-free was sufficient to protect and maintain his lifestyle.

Utilizing vast capacity available through specialty disability carriers, a policy was designed and structured to deliver \$65,000 per month, following a 90-day elimination period. Working with nontraditional resources capable of underwriting cases of this magnitude, the advisor was able to avoid traditional problems that plague high-net-worth clients, such as issue and participation limits, net worth, and unearned income restrictions.

To protect Dan's equity best, two unique policies were underwritten. The first was a **key person policy** that would pay his corporation a monthly benefit of \$200,000 per month for up to 24 months. This benefit would be used to cover overhead expenses, add key staff, and recruit and hire an interim CEO if needed. This policy was designed to keep the company moving forward and stabilize its equity value in the event that Dan suffered a disability.

A second policy was designed to protect the real equity value embedded in Dan's business further. A **disability buyout policy** was secured covering 100 percent of his equity with a lump-sum benefit of \$11.5 million. The benefit would be used to redeem 100 percent of his stock and transfer the ownership to an employee trust account if a calamity occurred.

The result

Win-win. The advisor in this story picked up a great new client because he listened to Dan and sought out nontraditional markets that are accustomed to working with elite income earners. Shortly following the insurance transaction, Dan moved a meaningful portion of his investment portfolio to the advisor, and they are now in the process of reviewing and assisting Dan's father with his estate plan, which will mean another six-figure commission.

Advisor challenge

Again, I urge you to take a moment to think about your best clients. Is it possible that they are inadvertently attired in the emperor's new clothes? Let's get real: If Dan's friend never went over the handlebars and hadn't suffered a brain injury, Dan would have never pursued this protection. With only 4 percent of his income insured, life would have gone on fine for Dan ... unless the worst happened. Do any of your best clients or prospects need to check out their wardrobes/insurance portfolios in the mirror that doesn't lie?

[About the Author](#)

[Edward A. \("Ted"\) Tafaro](#), President & CEO of Mahwah, New Jersey-based [Exceptional Risk Advisors](#) is one of the country's foremost experts on high-limit specialty life, accident and disability products for clients with exceptional insurance needs – including celebrity athletes, entertainers, highly compensated executives, entrepreneurs, and professionals.

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