



Informational ideas important to large and complex cases

# Advanced Sales DIGEST

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## THE CASE FOR CRITICAL ILLNESS INSURANCE FOR BUSINESS CLIENTS

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Let's face it, most producers working in the advanced markets focus on large life and annuity cases. Sales are usually driven by an estate or business planning need and life products can be the most effective solution to clients' cash requirements, especially upon death. But what about cash availability in the event your client experiences a health crisis that doesn't result in a life insurance claim?

Hopefully, for the vast majority of your clients, traditional medical care insurance is in place and available to pay the actual costs of health care treatment. Some of your clients may also own disability income policies that provide cash benefits supplementing at least a portion of lost wages or earnings. In my opinion, these coverages are essential to at least keep your client from coming out-of-pocket extensively just to "stay even."

Notwithstanding the products described above, I would make the argument that many business clients are almost automatically "in the hole" in the event they suffer a severe medical event. The services your ill client ordinarily provides or goods he/she produces may be subject to substantial interruption almost immediately. But your client's illness or disability won't prevent the usual bills from arriving at the doors of the business or defer other financial

obligations owed by the business.

We all know that statistics are accurate about 90 percent of the time. Nevertheless, some of the most fascinating statistics professionals in our industry ought to know are as follows: Between the ages of 25 and 65, an individual's chance of death is about 1 in 17; the chances of disability are about 1 in 30;<sup>1</sup> but the chances of suffering a heart attack, stroke or cancer are nearly 1 in 2!<sup>2</sup> Knowing these statistics, and the potential impact on your business clients, should you be providing additional counsel? How would such events in the short term affect the long term security of their businesses? Would funds be available to meet a whole new set of liquidity needs, even if they were only temporary? Would "hard" assets need to be liquidated? Would your clients have to tap into their securities, retirement accounts, life insurance policies, or other assets that may have significant liquidation costs attached to them? If the answer is yes, you may be able to provide some relief.

American General Life Insurance Company's AIG CriticalCare Plus™ insurance policy is individually underwritten and designed to provide a cash benefit of up to \$500,000 payable in the event an insured experiences any one or more of the following maladies: cancer, coma, heart attack, kidney failure, loss of hearing, loss of sight, loss of speech, major organ transplant, paralysis, severe burns, or stroke. The policy may also pay a cash benefit in the event the insured doesn't experience one of the above-mentioned illnesses but is unable to perform two out of six Activities of Daily Living. Keep in mind, this is *not* medical reimbursement or disability insurance. Rather, the policy pays a cash benefit directly to the policy owner

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upon receiving a medical diagnosis or certification, and the policy proceeds can be used as the client sees fit.

Given the flexibility provided under the AIG CriticalCare Plus policy, the availability of a cash insurance benefit can provide a business client with what is often most wanted: options. One of the most favorable options is additional time. Time to determine what to do next. Time to figure out what may be best for the business across a variety of time horizons. Time to determine what is best for the client and his/her family. Time to transition or time to just heal and wait things out if the prognosis is good. It just seems logical that cash can buy more of the time business clients may desperately need upon experiencing a difficult health event.

Another statistic often cited indicates the most common cause of business failure is lack of adequate working capital. This happens to businesses often enough, even when a principal hasn't experienced a catastrophic health event. Does it make sense for your business clients to be at risk if there could be an affordable solution? Given the statistics, don't you think your business clients need to know critical illness insurance coverage exists and what it can offer? We do.

The following are just a few of the potential business uses of the cash benefit payable under the AIG CriticalCare Plus insurance policy:

- ◆ Regular recurring business obligations and expenses (e.g., rent, utilities, custodial services, shipping, debt, taxes, insurance premiums, etc.)
- ◆ Employee salaries, benefits and other compensation
- ◆ Inventory and supplies
- ◆ Equipment and building maintenance
- ◆ Advertising and Marketing Costs
- ◆ Fees to advisors, consultants and other professionals (including those that are only temporary)

Given your daily contact with business clients, we are sure you can think of many other needs that can be addressed by an appropriate and adequate benefit.

### **A Pre-Tax Purchasing Opportunity?**

Critical illness insurance benefits payable by Welfare Benefit Plans to eligible employees may be funded by AIG CriticalCare Plus policies, the premiums for which may be paid by employers with pre-tax contributions pursuant to IRC Secs. 419 and 419A.<sup>3</sup> Those code sections, and the Treasury Regulations promulgated to apply the statutes, define and set forth the operation and taxation of welfare

benefit plans sponsored and funded by employers. To find out more about such employer-sponsored welfare benefit opportunities, please contact Glenn Plotkin in the Advanced Sales group.<sup>4</sup>

For more information about marketing AIG CriticalCare Plus insurance, please contact Bob Ley, Vice President, Accident and Health Insurance. Bob's phone number is 800-659-5920, x5832 and his e-mail address is Robert\_Ley@aigag.com.

Please be advised that any information provided in this communication shall not be construed by any person as legal, tax or accounting advice. AIG American General Life Insurance Company strongly suggests that any life insurance owner, proposed owner, insured or proposed insured retain the services of qualified tax, accounting and legal counsel for advice on such matters.

To ensure compliance with requirements imposed by the U.S. Treasury Department, we inform you that any tax advice contained in this communication (including any attachments) was not intended or written to be used, and cannot be used, for the purpose of (i) avoiding penalties under the Internal Revenue Code or (ii) promoting, marketing or recommending to another party any transaction or matter addressed herein.

The contents of this communication are intended for agent use only.

<sup>1</sup> Includes disabilities continuing for at least 180 consecutive days

<sup>2</sup> Source: Canada Life – Irish Division

<sup>3</sup> Cash benefits received from welfare benefit plans may be treated as ordinary income. Please consult a competent tax advisor for an opinion on such matters.

<sup>4</sup> The availability of critical illness benefits offered through Welfare Benefit Plans, apart from legal restrictions, will vary from plan to plan. Inclusion is generally dictated by the terms of a particular plan document, actuarial determinations, and the specific preferences of the plan trustee.