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Protecting Stock Options

The practice of granting a company's employee options to purchase the company's stock has become widespread among American businesses. Employee stock options have been praised as innovative compensation plans that help align the interests of the employees with those of the shareholders.

Within publicly traded corporations, many of the top executives are compensated via various sources which typically will include salary, bonus and stock options. These individuals are paid a modest salary, bonuses tend to vary and stock options can be as much as 80% of the total compensation package. This holds true with the majority of America's top companies.

Stock options are not treated as income (and thus not taxed) when they are awarded to employees. This is because the employee technically does not have physical possession of the stock, but rather a promise to buy. It is because of this tax treatment that stock options are not covered by group long-term disability plans or traditional individual disability income (DI) policies, which leaves many individuals severely under insured.

What happens to an employee who has a career-ending disability? Disability insurance benefits will begin after the elimination period, but their annual stock options will no longer be awarded and traditional disability insurance does not protect these lost options. With executive compensation packages heavily weighted toward stock options, their financial plans can be left at great risk.

A new income protection product has been developed specifically to protect the loss of future stock options in the event of a disabling injury or illness. The Stock Option Disability Insurance plan is a long-term, own-occupation, career-ending disability insurance product designed for executives and employees of publicly traded companies. Benefits are paid on a lump sum basis of up to five times the last three years' annual average stock option awards with benefits reaching as much as $50,000,000 or more.

For more information or to discuss your client's specific situation contact Pacific Advisors at 877.455.9580.

Inside this issue:

If there are specific topics you'd like to see covered in future newsletters, please contact:

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Underwriting Prostate Cancer

Prostate cancer is the second most common malignancy affecting men, after skin cancer. For 2015, estimates are that there will be 220,800 new cases and 27,540 deaths[1]. About six in ten cases are diagnosed in men age 65 or older and it is rare before age 40. African-Americans have a significantly higher risk than Caucasian men and men whose brother or father had prostate cancer run twice the risk of developing it, compared to other men[2]. Diet and obesity have also been linked to a higher incidence of prostate cancer; men consuming a diet high in red meat and men who are obese have a higher relative risk.

Prostate cancer staging is similar to other cancers, relating to size and spread to lymph nodes and distance areas (metastasis). In addition to staging, Gleason scoring (grading of the tumor) is used to categorize how aggressive the particular tumor is. A Gleason grade of 3 and under is considered less aggressive while 8 to 10 is considered very agressive. Treatment options include total removal of the prostate gland (radical prostatectomy), external beam radiation and radioactive seed implants (known as brachytherapy). Less common treatments are sometimes used including laser removal or freezing. For older men with slow-growing tumors, watchful waiting may be an option - monitoring the PSA levels and starting treatment if symptoms develop due to cancer progression. In these situations, if the disease has spread beyond the prostate, hormone treatment may be used to suppress the growth of the cancer. For low risk tumors, active surveillance may be followed with the intention of treating for cure at the earliest sign of progression detected by exam, Prostate-Specific Antigen (PSA) or periodic biopsies.

The prognosis following treatment is most favorable for small tumors which have not spread outside the gland (stage T1 and T2), and for low or medium grade tumors. Five-year survival rates in those cases may be more than 90%[3]. As with other malignancies, the best odds for a long-term cure happen when the cancer is found early. Routine PSA screening and digital rectal exams are recommended for most men starting at age 50, younger in those with a family history or other risk factors. Following treatment, side effects such as bladder and bowel incontinence, urgency, painful urination and (with radiation) diarrhea are common. Even 15 years after treatment around 18% of men with surgery and 9% of men with radiation treatment continue to experience urinary incontinence, and bowel urgency is experienced by around 22% of men who had surgery and 36% of those who had radiation[4].

Though one of the most common forms of cancer, with early detection and treatment, prostate cancer can be curable and is typically an insurable condition for most applicants.

Here are questions to ask your clients who have a history of prostate cancer:

- What was the stage and grade (Gleason score)?
- What type(s) of treatment did you have, and when did treatment end?
- What medications (if any) do you take?
- What is your most recent PSA level?

Underwriting Case Studies:

Rudy, 63, is an account executive with a consulting firm who is applying for disability insurance. Six years ago his doctor found a nodule on his prostate while doing a digital rectal exam, and Rudy's PSA test found his levels to be mildly elevated. After a biopsy showed prostate cancer, he underwent a total prostatectomy. The pathology report showed that the tumor had not spread, and the final diagnosis was a Gleason 6 tumor confined to one lobe of his prostate (stage T2b).

Rudy has done well since that time. His follow-up PSA tests since surgery continue to show no detectable PSA with reported levels of less than 0.03.

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Rudy's Underwriting Outcome: Rudy had a localized Gleason 6 carcinoma of the prostate. Following total prostatectomy his PSA levels remained undetectable and it has been more than five years since surgery. He qualifies for disability insurance with a limited benefit period, substandard rates and an exclusion.

Bill, 58, is a physician who is applying for life and disability insurance. Seven years ago, Bill's PSA levels began to rise at an abnormal speed and a year later he was sent for a biopsy. The biopsy showed cancer in some of the samples from one lobe. The final diagnosis was a Gleason 6 tumor found on needle biopsy (stage T1c). Bill was treated with external beam radiation for nine weeks. Since then his PSA has remained below 1.0.

Bill's Underwriting Outcome: Bill had Gleason 6 tumor found by needle biopsy done due to rapidly rising PSA. Following nine weeks of radiation treatment, his PSA levels have dropped and remain below 1.0. He is eligible for disability insurance with a limited benefit period, substandard rates and an exclusion.

References:
1. "What Are the Key Statistics about Prostate Cancer?" *Prostate Cancer*. American Cancer Society. Web. 09 June 2015.
2. "What Are the Risk Factors for Prostate Cancer?" *Prostate Cancer*. American Cancer Society. Web. 09 June 2015.
3. "Survival Rates for Prostate Cancer." *Prostate Cancer*. American Cancer Society. Web. 09 June 2015.
4. "Long-Term Functional Outcomes after Treatment for Localized Prostate Cancer — NEJM." New England Journal of Medicine. Web. 09 June 2015.

John Hancock Performance LTC - A New Approach to LTC Insurance

John Hancock introduced Performance LTC[1] - their newest long-term care insurance product. Performance LTC™ offers the most competitively-priced premiums on the market today, along with flexible features and options that will give your clients greater control over their premiums and benefits.

Performance LTC™ offers many of the features associated with long-term care insurance products on the market, yet represents a fresh perspective on the way the coverage can be structured. This new LTC insurance solution allows your clients the ability to make decisions about their coverage so it can evolve over time to meet their changing needs and goals.

Product Highlights:

- Some of the most competitive premiums in the industry
- An innovative Flex Account that clients can use in a variety of ways
- Unprecedented control over benefits and premium

Flex Account and Flex Credits:

Performance LTC includes an innovative and unique feature - the Flex Credit - that transfers long-term care insurance into dynamic coverage that your clients can use in a variety of ways, depending on their goals[2].

On each policy anniversary your client is eligible to earn Flex Credits. Any earned Flex Credits are applied to your client's personal Flex Account for them to use in a variety of ways:

- To reduce premiums
- To pay for services that can help your clients remain in their own homes[3]
- To reimburse LTC expenses during the Elimination Period, instead of having to pay out-of-pocket
- To reimburse LTC expenses in excess of the long-term care benefit amount
- To provide a refund of premium upon death or surrender[4]

1. Availability of Performance LTC may vary by state.
2. Further important disclosures and details of how Flex Credits are calculated are included in training material and policy forms. The sale of Performance LTC does not require any additional licensing or training.
3. Eligible services are limited to: Home Modifications, Emergency Medical Response System, Durable Medical Equipment, Caregiver Training, Home Safety Check and Provider Care Check.
4. The Flex Account payable upon death or surrender is capped at total net premiums paid.

News You Can Use

- In case you missed it: Brian Leet, of Pacific Advisors, wrote an article in Advisor Today entitled, "When Being Wrong Is Right." It is an excellent piece that offers a different look into the importance of income protection and why you should take the time to talk to your clients about Disability Income insurance. Find it at www.nxtbook.com/naylor/NAIS/NAIS0315/index.php#/32 or in your May/June 2015 edition of Advisor Today.

- Principal made two updates to their Simplified Sales Program to make the product even more competitive:
    1) They increased Limits for Combination Simplified DI/OE, removing the $10,000/month combination cap
    2) Key Person Replacement insurance is now part of the Simplified Sales Program

- The Genworth 2015 LTC Cost of Care Survey was released in April. You can use the Cost of Care Survey with your clients to show them what long-term care costs could be in their hometown, their planned retirement spot or even where their kids live. Contact us at 877.455.9580 to request a copy.

- Don't miss a thing! Keep informed with DI and LTC industry news by checking out our website at www.pacificadvisors.com and subscribe to our marketing emails. If you do not already receive our marketing emails and would like to be added to the list, contact Jaymie Mayers at 877.455.9580 or jaymie@pacificadvisors.net.