

Successfully Navigating a Growing Risk

Surviving a critical illness -- A revealing examination of risk and the financial impact on personal and professional assets



White Paper Report

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Navigating the Financial Impact of a Critical Illness

Your ability to work is your most important asset. As you probably know, your chances of getting sick are much greater than your chances of dying. Imagine for a moment being suddenly diagnosed with a critical illness such as cancer, heart attack or stroke, if unprepared, the financial implications can be devastating. Fortunately, we live at a time when a growing number of critical illnesses are no longer immediately fatal, yet our lifestyle may be changed forever. Thankfully life goes on... and with it our financial responsibilities.

The material contained in this report will present new and important information about risk, financial exposure and offer proven solutions for your consideration.

What are the risks?

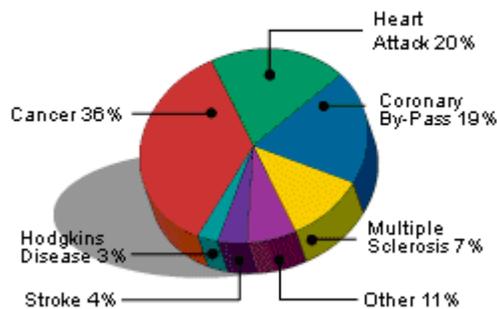
If you think such kind of disaster will surely avoid you, please think again! Think of the people among your friends, relatives and business associates who have suffered a critical illness. It always comes as a shock when we hear the news; it's hard to believe that such a thing would happen to... them!

The following statistics are not about them, some unfortunate group; they are about us.

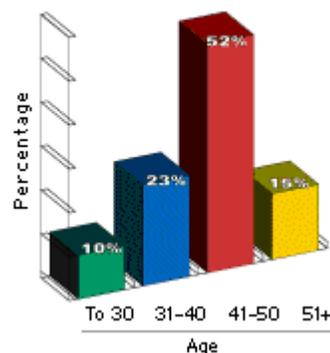
Sobering Facts to Consider:

- Approximately 3,500 Americans suffer a heart attack each day – over 66% of them will be alive a year later, and half will survive for 12 years.
- According to the American Cancer Society, over 1.596 million new cancer cases will be diagnosed in 2011 which breaks down to over 4,100 Americans each day and the numbers are growing.
- Regarding critical illness insurance claims data - 75% of all claims filed are from people aged 31 – 50.

Claims by Illness



Claims by Age



The financial domino effect caused by surviving a catastrophic illness can be devastating.

The facts continue to show we face a growing risk, one that is increasingly responsible for over 1.37 million bankruptcy filings in 2011 alone. The data goes on to state that over 50% of this financial onslaught is a direct result of medical causes and expenses when surviving an unexpected catastrophic illness. Yes, surviving!

Yet, the majority of individuals and families are not sufficiently protected because they have not fully considered the incredible impact of surviving a critical illness.

Even in an age of medical miracles, any major illness will change our life. The recovery process is different for everyone with respect to speed and degree of functionality. While you may recover fully after a time – during this period your financial obligations will continue and must be paid.

How it works

Upon diagnosis of a covered critical illness, this type insurance policy is designed to pay its benefits direct to the insured in a single lump-sum cash payment of up to \$250,000.

Critical illness protection provides a **living benefit** paid in cash directly to the insured, without specifying or restricting uses for the money. The benefit paid can be used for any purpose, from immediate health-related costs to more general financial concerns such as looking after personal assets, or family — freeing the patient to concentrate more closely recovery and getting healthy.

Covered Conditions

100% of selected benefit is paid upon diagnosis of:

- Heart Attack
- Cancer (Life Threatening)
- Stroke
- Total Disability (Sickness or Accident)
- Renal Failure
- Major Organ Transplant
- Terminal Illness or Death

- Major Heart Surgery - (pays 25% of selected benefit)
- Coronary Angioplasty - (pays 10% of selected benefit)

I have major medical insurance. Isn't that enough?

Even the best health insurance policy may not cover the full costs of a catastrophic medical condition when considering higher-deductibles, out-of-network penalties, experimental treatments, travel expenses, specialized treatment, rehab facilities, home recovery costs and the list goes on.

If a critical illness strikes, the costs of healthcare can add up quickly. Although your chances of survival are increasing, coping with a critical illness can add up to significant sums of money. The technology that may save your life could destroy your financial well-being in the process. Recovery is often lengthy and expensive, critical illness insurance can help bridge this gap.

For many families stricken with a critical illness, the first few months following diagnosis can often be the most traumatic, and expensive. And most important, with CI insurance, you do not have to be disabled to collect.

The attractiveness of this product is no surprise when one considers what it offers. A lump-sum of cash, while the insured is living, helping to alleviate the stress that financial pressures would bring.

I already own disability insurance

Disability insurance certainly plays an important role when it comes to providing long term financial protection when you are unable to work. But it is not designed replace 100% your personal income. Insurance companies have strict limits on the amount or risk they will indemnify; this eliminates the possibility of over-insuring.

Disability income and critical illness work to complement each other in a very unique way and both should be considered essential since they each provide a unique level of protection and security. As an added benefit, there is no concern about disability and critical illness policies offsetting each other. Both plans will pay their full benefits to the insured per the policy benefit schedule.

Personal critical illness protection – how much do you need?

To answer this question, it is advisable to gather your personal financial information and review your family's needs. It comes down to asking yourself some tough questions about what the financial impact would be on your family if the worst happened.

The amount of coverage you need depends on many factors including your household financial obligations, income, taxes, dependents, and the potential long-term effects of the critical illness you may suffer. A good rule of thumb is; purchase enough coverage to replace at least 6 to 12 months of income, two to three years of mortgage payments and total amount of your outstanding debt. The best solution is the amount that allows you to feel secure in the fact your family could continue their current lifestyle. The amount of coverage that may be purchased ranges from \$20,000 to \$250,000.

If you own a personal disability income policy, before making a final determination on the amount of critical illness benefit you will purchase, first consider the elimination "waiting" period attached to your disability policy, the monthly benefit and the maximum time benefits will be paid. As a rule, disability income will replace approximately 66 ⅔ of gross income but check your own policy to be sure.

Critical illness coverage does not take the place of disability or health insurance; rather, it is the "missing piece" in the living benefit equation. Should you ever need the protection a critical illness policy offers, you'll be glad you took the financial precautions.

Benefits Include:

- Cash distribution paid upon diagnosis
- Aggregate coverage to \$250,000 dollars
- Personal income safeguarded
- Family household expenses maintained

Result:

- Personal cash flow is preserved and assets are kept secure.

The last thing you need to worry about is money when battling a critical illness

Critical illness insurance provides cash when you need it most to help pay for...

- Ongoing business and household expenses
- Non-Covered or out-of-network medical and physician expenses
- Eliminating financial stress during an extended recovery period
- Replacing lost income
- Costs of new or experimental treatments
- Travel expenses to specialized treatment centers, i.e. airfares, hotel, meals, auto, etc.
- Home rehab expenses
- And the list goes on...

Business Continuation Strategies...

Your ability to run the day-to-day operations of your business is vital to your success making you, essentially, your company's most valuable asset. What would happen if you were unexpectedly stricken by a heart attack, stroke or diagnosed with cancer? You could be away from for weeks or months depending on how serious your condition is and the time required for recovery. Do you have a business continuation plan in place covering the financial impact of this event? Many business owners don't and the effects could be catastrophic.

Those best served by owning critical illness protection:

- Sole Proprietors
- Partnerships
- Self-Employed
- Corporate Executives – Key Persons
- Legal and medical professionals

Traditional Business Insurance Strategies

Until now, insurance programs to help Business Professionals manage risk have traditionally included:

- Life Insurance
- Disability Income – both personal and business overhead
- Health Insurance
- Property & Casualty

Product Analysis:

- Life Insurance – you must **die** to collect
- Disability Income – you must **wait** to collect
- Health Insurance – protects **financial** assets
- Property & Casualty – protects **tangible** assets

Can we personally assume these risks without the purchase of insurance? Absolutely, but the downside is huge. We purchase insurance policies with one common goal in mind, to safeguard our future earning potential and our existing assets. Wise planning strategies dictate we transfer the risk to insurance companies, spending pennies to protect hard earned dollars.

Critical Illness Insurance Benefits Include:

- Cash distribution paid upon diagnosis
- Aggregate coverage to \$250,000 dollars
- Tax deductible premiums – Section 162(a)IRC (see details on page 11)
- Personal income safeguarded
- Business Overhead Expenses maintained

Result:

- Business cash flow is preserved and personal assets kept secure.

I already own business overhead disability insurance

Disability benefits can certainly help when you are unable to work, but it is unlikely that the benefit paid will cover 100% your financial obligations, both personal and business. Insurance companies have strict limits on the amount or risk they will indemnify; this eliminates the possibility of over-insuring.

There are several factors to take into account regarding disability income insurance, such as:

- Many professionals are unable to qualify due to prior health conditions
- Typically indemnifies to a maximum of 66 ⅔ of gross income
- Generally, the maximum monthly benefit allowable is \$20,000 for all DI policies combined
- "Own Occupation" Disability Definition – Many newer style policies limit to five years
- Elimination Periods – 30 days, 90 days, 180 days or 365 days
- Eligibility – strict qualification requirements, both medically and financially
- Limitations on benefit amount available for Business Overhead Expense coverage

Comparison / Analysis of Long Term Disability and Critical Illness Protection

| Features | Disability | Critical Illness |
|--|--|---|
| Availability of policy | Determined by health condition and occupation / job duties / income level. | Determined only by health condition and health history (of individual and family) |
| Coverage period | Ends at age 65 | Coverage available through age 70 |
| Benefit | Monthly benefit until the end of a specific period (one year, two years, ..., age 65, or sometimes even for life if disability results from injury) | Lump sum benefit paid upon diagnosis of a covered condition* *(effective 30 days from policy effective date) |
| Tax status of benefit | Tax-free if premium is paid by individual; taxable if premium is (at least partly) paid by employer | Distribution of Living Benefit may be taxable. Consult with tax advisor for specific details. |
| What triggers benefit payment | Inability to work (various definitions - 'own occupation', 'regular occupation', or even 'any occupation' only - mean different levels of protection, and sometimes higher level of protection is offered only for limited period) | Diagnosis of a covered condition. |
| Level of benefit | Directly linked to verifiable previous income; ranges between 66 ⅔ to 75% - (also limited to monthly maximum benefit) | Not tied to income. Insured selects benefit of up to \$250,000 |
| Availability of partial benefit | Partial or residual benefits are available with many policies | Partial benefit paid for, Angioplasty, Major Heart Surgery |
| Death benefit | Not available | Pays 100% of benefit selected. |
| Potential minimum / maximum benefit | From very low (or nothing) to very high, depending on the length of the period during which the benefit is paid out. | Insured selects benefit from \$20,000 to \$250,000 |
| Availability of multiple benefit periods | Yes. | No. At payment of the contracted lump sum the policy terminates. |
| Claim difficulty | Sometimes - especially when it is difficult to get easily verifiable and measurable hard physical / medical evidence about the status of the insured - inevitable subjectivity brings about debates regarding entitlement to the benefit | Less room for debate, since covered conditions are quite well detailed. |
| Elimination period | Can be 0 day (most expensive), 30, 60, 90, 180, 360, or 720 days. The longer this waiting period (that is the later benefit payment starts after the onset of disability), the lower is the premium | Initial waiting period - condition must first be diagnosed on or after the 30 th day following the effective date of the policy. |
| Premium | Premium based on age, sex, smoker, non-smoker & benefit selected. Varies according to occupational classes. | Premium based on age, sex, smoker, non-smoker & benefit selected. |

Both disability income and critical illness insurance should be considered essential since they each provide a unique level of protection and security.

Critical illness policy benefits are not tied to specified monthly payouts, have no financial constraint on the amount of coverage available, no elimination periods and no restrictions on how the money can be used. The selected benefit is paid in a single lump sum payment direct to the insured. Plus, there is no concern about disability and critical illness policies coordinating or offsetting each other.

Building a comprehensive insurance portfolio is not a waste of time, money or unnecessary luxury. Professional affluence carries with it the responsibility of continuous planning to intelligently manage risk; a basic premise of wise money management.

Critical illness insurance provides immediate cash to help pay for...

- Ongoing business and household expenses
- Non-Covered or out-of-network medical and physician expenses
- Eliminating financial stress during an extended recovery period
- Replacement of lost income
- Costs of new or experimental treatments
- Travel expenses to specialized treatment centers, i.e. airfares, hotel, meals, auto, etc.
- Home rehab expenses
- And the list goes on...

With the rewards of financial success comes the responsibility of protecting it. Intelligent risk planning today means a secure tomorrow.

Business planning solutions using critical illness insurance

- Business Overhead protection
- Key Person coverage
- Business Continuation planning
- Executive Bonus Plan – Tax deductible premiums

Business Overhead protection

Your ability to run your business is your most important professional asset.

To determine specific need, you must take into account the complete picture of your business overhead obligations. This needs assessment is extremely important and will prove a greater challenge than determining your personal financial exposure.

The following points are key considerations to begin your needs analysis.

- What monthly benefits would be available from other sources (disability income, social security and other potential sources like personal savings)? Before you factor in your savings consider the effect this could have on your retirement plans.
- How long before benefits would begin and how long will payments continue?
- Is the total amount to which you are entitled adequate considering your present and future obligations?
- Consider the ramifications of not returning to your business for a significant period of time.
- Factor in the possibility of a reduced work schedule during your recovery period.

Use this worksheet to help calculate your fixed Business Overhead Expenses

| | | |
|------------------------|----------------|--|
| Office Rent Expense | \$_____ | |
| Property Taxes | \$_____ | |
| Staff Salaries | \$_____ | |
| Staff Benefits | \$_____ | |
| Payroll Taxes | \$_____ | |
| Personal Salary | \$_____ | |
| Top Executive Salaries | \$_____ | |
| Business Insurance | \$_____ | |
| Debt Payment(s) | \$_____ | (include office equipment & leases etc.) |
| Cost of Equipment | \$_____ | |
| Accounting Services | \$_____ | |
| Professional Dues | \$_____ | |
| Utilities | \$_____ | |
| Office Supplies | \$_____ | |
| Other Fixed Expenses | \$_____ | |
| Total: | \$_____ | |

Key Person Coverage

What is key person coverage and does my company need it?

Indemnifying the value of a key person is a financial strategy utilized by businesses of all types to protect against financial loss. Traditionally, a life insurance policy is purchased by the business on the life of each key person within the business.

However, there is one big problem... what if a key person is first stricken with a critical illness and does not die! Statistically, the risk is greater for survival rather than death.

Assume this key person will be incapacitated for an extended period of time or worse yet, unable to return to work at all. Your business would probably take a financial hit until a replacement can be found and trained.

Critical illness insurance is designed to be versatile. Therefore, a financial crisis can be avoided by planning ahead to protect your business against this type of financial loss.

Here's how key person insurance works:

A critical illness policy is purchased on each key member of the business. The company pays the premium and is the beneficiary of each policy. If a covered person is suddenly stricken, the business receives the selected benefit payout.

The incapacity of a key person often causes severe financial trauma within a business environment, it will take time to recover. Critical illness insurance helps the company survive the sudden blow of losing a key person who helps make the business work. It is important to note, the company can use the proceeds from the policy in any way it deems necessary, from replacing lost revenues to covering business expenses until a replacement is found.

What amount would you need?

This depends on your business. In general terms, think of how much revenue the company would need to maintain "business as usual" until a replacement can be found.

Every business consists of key persons who are essential to the overall success and profitability of the business. As such, critical illness insurance for key persons is not a specific type of coverage rather; it is an effective strategy utilizing this type insurance to protect the assets of your company.

Buy / Sell – Business Continuation Planning

There's nothing quite like the business relationship between partners. In fact, most partners find they spend more time together than they do with their spouse. Ideally these partner relationships are one of the greatest assets of your business. But it can also be your greatest liability.

Traditionally, key person insurance has focused on the death of a business partner, or key employee within a business environment. One problem, what if they do not die but end up so severely impaired they're unable to return to work, forever. Now what?

When a partner in a business is stricken with a critical illness and unable to return to work, the disposition of his or her business interest can become a two-edged sword, creating havoc for the other business partners as well as the practice itself.

Four important issues must be addressed:

- Who will purchase the business interest?
- What is a fair price?
- When will the sale be made?
- Where will the funds come from?

What are your options? If your partner were stricken tonight with a critical illness, you have four choices:

- Liquidate the business and distribute the remaining assets. Of course, in the process, you would do away with your own source of income.
- Continue to keep your sick partner on the payroll.
- Sell the business.
- Purchase the sick partner's share of the business.

The ideal solution most often is one that:

- Gives control of the business to the remaining active owner(s).
- Provides fairly and adequately for the departing partner.
- Does not impose a financial burden on the business.

- Provides a fair, objective means to value their share of the business.
- Prevents legal hassles and feelings of bad faith.

For most business owners, the recommended best-choice solution that meets all those objectives is a properly funded buy-sell agreement that spells out exactly what will happen if one of you dies or becomes disabled.

The buy-sell concept is simple: A properly arranged and funded agreement is a legally binding contract that spells out exactly what is to happen if one of the business's owners dies or prematurely exits the practice due to disability.

The document itself can be as simple or complex as needed and can provide for virtually any contingency. However, it generally calls for the surviving partner(s) to buy - and the exiting partner to sell, or in the event of death, their heirs to sell that partners share in the business.

Equally important, it should spell out the actual purchase price or, more commonly, provide an objective formula for determining the price when needed.

Funding Options

The buy-sell agreement is worth nothing without the money to carry it out. This may require hundreds of thousands - possibly even millions - of dollars in cash. There are four possible funding options:

1. Set up a sinking fund, paying into it over time. Drawbacks: Few businesses have the resources to set aside these funds. Plus, the amount would be inadequate if death or disability occurs too early.
2. Borrow the money at the time of an immediate need. Drawback: If the practice already carries a high debt load, will an institution lend money to a practice in which a principal died or is unable to return to work?
3. Make installment payments to the heirs or exiting partner, buying out the partner's share over time. Drawback: Imagine continuing to pay a missing partner's salary for the next twenty years and yielding no value in return.
4. Indemnify the risk with insurance. Historically, this option has proven to be the single most effective, each partner individually insures against the risk.

Critical illness / life insurance combination policy

The advantages as a funding vehicle:

- Benefit is paid at the exact moment it is needed most, providing immediate cash to fund the agreement
- Proceeds are distributed income-tax free.
- The cost can be minimal compared to other methods.

Establishing and funding a buy-sell agreement for your company is a prudent step that protects you, your business associates and your families.

Note: Specific tax and legal questions should be referred to your tax advisor or legal counsel.

Executive Bonus Plan – Tax Deductible Premiums*

Overview:

Company provides critical illness insurance protection to selected key persons on a basis that is tax deductible to the business enterprise. The owners of the company decide who is to be covered by the agreement and the amount of insurance to be provided. The plan may be made available to both the stockholder-employee and the non-stockholder-employee.

Single Bonus:

Company gives employee/partners an annual bonus equal to the policy premium. The recipients in turn pay the premium with the bonus and pay the tax on the bonus with out-of-pocket dollars.

Double Bonus:

The amount of the bonus is increased to cover all taxes and eliminates personal out-of-pocket outlay.

Section 162 Plan

Considerations for Employer:

- Premiums can be tax deductible
- Policy can be used to fund Buy/Sell agreement
- Policy can be used to fund Key Person coverage
- Fringe benefit to key employees
- Employer may favor select employees
- Easy to establish and administer
- No minimum or maximum number of lives must be covered
- No IRS approval needed

Considerations for the Employee:

- Cost of plan is paid for by employer
- Employee owns the policy and designates beneficiary
- Provides important protection at very low-cost
- Plan is completely portable to employee

Tax Considerations:

- Premiums are tax deductible to the company
- Recipient reports premiums as taxable income
- Benefit is income tax-free to the beneficiary
- Death benefit is includible in employee's estate

Note: Specific tax and legal questions should be referred to your tax advisor or legal counsel.

*Check with your accountant to determine whether this option is best for you and your company

Dr. Marius Barnard – Founder, critical illness insurance

The concept of critical illness insurance was developed in 1983 by Dr. Marius Barnard, who with his brother, Christian Barnard, performed the first successful heart transplant. Dr. Barnard saw an overwhelming need for an insurance policy that paid a “living benefit”. Barnard conceived the idea for critical illness insurance when he found his patients “didn’t lose their life, they lost their life savings” after surviving once fatal illnesses such as cancer, stroke or heart disease.

Dr. Barnard states that “before the age of 65, the chances of suffering a condition keeping someone off work for more than six months are 15 times higher than that of dying. With the increasing life expectancy..., we have a greater chance of experiencing a serious illness and surviving longer.”

While fairly new to the United States, critical illness insurance is one of the most widely purchased insurance products in Canada, South Africa, Japan, Australia, Ireland and the UK. This is evidence of the consumer need for critical illness insurance and the need for financial security in life as well as death.

As Dr. Barnard says, “Critical illness insurance gives you financial independence when you need it most. You need insurance not only because you are going to die but because you are going to live.” This is a product designed to give you CHOICES...

In Conclusion

Personal success and affluence carries with it the responsibility of continuous planning to intelligently manage risk; a basic premise of wise money management. Building a comprehensive insurance portfolio is not a waste of time, money or unnecessary luxury.

Prepare for the worst, expect the best and you’ll never be disappointed.

How to Implement:

For any questions, to receive a no obligation personal quote or to offer as a voluntary employee benefit plan.

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Thank you. We look forward to being of service.