The *Gross Revenue* Disability Dilemma for the Personal Services Business
By Allan Checkoway, RHU

Disability Insurers have reported substantial increases in claim payments to attorneys in recent years. Studies show that the duration of long term disability claims for professionals is extending for longer periods of time. And, recent reports show that mental disorders, alcoholism, and other "burnout" ailments are particularly troublesome for members of the legal professions.

Attorneys should be on the "disability alert." Let's review the dilemma faced by the established law practice dependent upon the valuable services of one of the principals, and the effects on the practice itself when disability occurs.
[Note: We're using attorneys/the legal professions to illustrate the example of the "gross revenue" dilemna faced by attorneys but the same "gross revenue" principals can apply to any professional in a personal services business.]

The Gross Revenues generated from performance of the individual personal services of the firms' attorneys are the financial livelihood of the practice. These gross revenues directly support the firms' overhead expenses. The remaining profits are usually shared between the partners on an equitable profit sharing basis through the payment of year-end bonuses.

Let's consider the impact on gross revenues when a significant revenue generating senior partner becomes disabled. Substantial fixed budgetary sums are devoted to support the overhead expenses supporting the office needs of the disabled partner. The cost of support personnel, professional associates and office rent all continue at one hundred percent, awaiting the return to work of the disabled professional.

The disabled professional's contribution to the practice revenues quickly dwindles to zero. The firm feels a commitment to continue supporting the overhead expense costs of the disabled partner. If employees were laid off, what kind of message would that convey to other employees? Plus should the disabled professional recover from his disability, he'll want his staff intact.

Most attorneys insure their incomes against the risk of long term disability but do not insure their overhead expenses.

A study conducted by the American Bar Association over a 7 year time frame showed that while respondents' net income increased by 33%, overhead expenses rose by 75% for the same period. Therefore, the greater increasing need, to insure the overhead expenses - is the form of coverage the attorney is least likely to own.

It takes many years of effort to develop a successful professional practice. When an attorney is disabled, the "image of being in business" must be continued. Clients who repeatedly call and leave messages with a stranger will soon take their business elsewhere.

Keeping the Staff Intact
During an Attorney's Disability
Is an Absolute Must!

It is critically important to retain the services of the friendly support staff who will continue to maintain professional contact with clients. This gives the attorney time to recover from his disability and return to rebuild the practice. Overhead expense protection will allow this to happen.

The substantial good will of a partner's relationship with long established accounts is based on expertise and trust developed over years. The partner's continued disability will have a devastating impact on the firm’s revenues. No one else understands the needs of key clients. Doesn’t this open the door to competitive firms?

And, can any thought be given to replacing a partner during the initial stages of disability? Probably not. His unique talents make him very difficult to replace in the best of circumstances. Would a talented potential replacement consider “filling in” with the possibility of the disabled partner returning to work? Probably not.

Let’s assume the attorney suffers a heart attack, a leading cause of long term disability. There are 4,000 new heart attacks every day of the year in the U.S. and almost half of those heart attacks occur to someone under the age of 65. One third of these heart attack victims die while the other two thirds remain disabled or recover. Returning to work will be a very distant thought. He’s just hopeful that he’ll recover and live an unimpaired life.

4,000 Heart Attacks
Every Day, Half
to Those Under Age 65

After three month’s of disability, the prognosis finally has improved. It appears the heart damage is not presently life threatening. However, the patient’s physician is already on record that 55-hour workweeks will now only be a memory.

Finally after six months of recovery and careful medical management, the attorney’s cardiologist determines that his patient can never return to the pressures of a demanding law practice. Where does this now leave the firm?

Six months elapsed while the healthy partners were hoping for the rehabilitation and return to work of a valued associate. Now the process begins to find a replacement. This type of talented individual may be presently employed at another name firm down the street. What will it take in time, and dollars, to hire a competent replacement?

Eventually, when a replacement is hired, there’ll be a delay of six months or longer to rebuild the firms’ revenues. The capital to finance this financial drain will have to come from the firm’s profits, thereby impacting the entire firm.

Let’s review the specific financial losses caused by the partner’s disability that can, and should be insured, with **Gross Revenue disability protection.**

***Gross Revenue* Coverage**
Provides Both:
Income Protection
&
Overhead Expense Protection

- **Income Protection** benefits are payable directly to the disabled attorney, up to 70% of his pre-disability earnings.

- **Business Overhead Expense Protection** provides reimbursement of the disabled attorney’s share of the firm’s overhead expenses. Expenses can be insured to one hundred percent. Premiums for this coverage are a tax-deductible expense to the firm.

In past years, attorneys have been eager to insure their incomes against the risk of long term disability while the office overhead expense risk has been largely ignored. Regrettably, professional advisors may have placed a “secondary” emphasis on office overhead protection.

When revenues come into the practice, aren’t employees’ salaries and office rent given the same attention as income to the attorneys? With today’s healthy economy and low unemployment, it’s extremely difficult to replace valued employees. The only way to keep the office intact is to retain the employees when an attorney is disabled and overhead expense insurance allows that to happen..

Law practices are unique in their financial structure and their insurable disability needs. The total disability of a valued associate can have a devastating financial impact on the practice. The **Gross Revenue** dilemmas faced by law firms when a partner becomes disabled are risks that must be insured with **Gross Revenue disability contracts.**