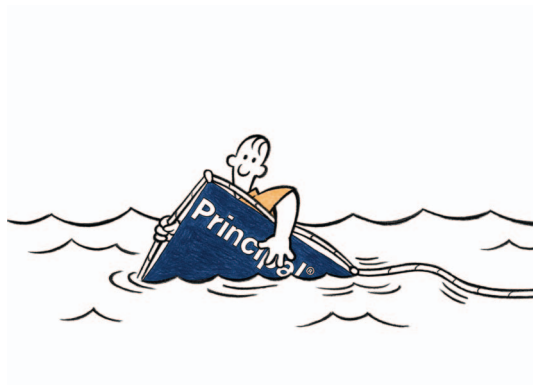


Individual Disability Insurance – Series 700

# Product Description and Underwriting Guide





# Disability Solutions Series 700

## Product Description and Underwriting Guide

**Disability Income**  
**Overhead Expense**  
**Disability Buy-Out**  
**Key Person Replacement**

In today's competitive sales market, you need a disability insurance provider who understands your challenges in getting business pitched, sold, processed and issued. Principal Life Insurance Company is that provider.

**We have one goal in mind...to help  
you sell more.**

The product descriptions in this underwriting guide highlight some of the provisions and optional riders of Principal Life Insurance Company's Individual Disability Insurance policies. Policy provisions may vary in certain respects from the descriptions herein because of state laws and regulations. Please make sure that you are familiar with the policy provisions as they apply in your state since all rights and obligations will be governed by the actual policy language. State-specific sample policies are available on Principal eFinancial Professional<sup>SM</sup> (Principal eFP).

## Why Principal Life?

- **Financial Strength and Integrity** – The Principal Financial Group® is a member of the FORTUNE 500®. Principal Life Insurance Company is the flagship member of the Principal Financial Group.
- **Competitive Products** – Principal Life's broad, competitive product portfolio offers comprehensive disability insurance solutions for all your clients' individual and business needs.
- **Support Before, During and After the Sale** – An experienced and committed staff of individuals that is committed to helping you succeed.
- **Customizable Case Design** – Whether for single or multi-life case design, these high-quality products can be packaged and customized to help meet your clients' unique needs and budgets.
- **Marketing and Sales Tools** – We provide creative sales concepts, educational tools and marketing materials for individual and business clients, as well as an array of electronic tools, such as pre-approved e-mails and PowerPoint presentations.
- **Attractive Compensation** – Competitive first-year commissions, strong renewal percentages and additional bonus programs can provide a lifetime of financial rewards.\*
- **Bottom Line** – Your success is our success. You benefit from our commitment to customer service, our spirit of teamwork and proactive producer relationships, and the added convenience of seamless service – from start to finish.

\* Please remember to abide by the company's policy on disclosure of compensation. You can obtain more information as well as a sample disclosure form at [www.principal.com](http://www.principal.com).

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## Section 1

# Disability Income (HH750)

This section provides detailed information on the features, riders and underwriting of our Disability Income (DI) policy. Our illustration system will calculate rates for you.

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# HH750

# Disability Income

## Overview

The objective of individual disability income (DI) insurance is to replace a portion of earned income lost due to a disability. Our policies are designed to provide monthly benefits to help pay for personal living expenses incurred during disability, such as mortgage or rent payments, car payments, utilities, food, etc. Not all benefits, features and riders are available in all states or to all occupation classes.

## Occupation classes/policy forms

Each client is classified according to their occupation. There are eight occupation classes for DI: 5A, 5A-M, 4A, 4A-M, 3A, 3A-M, 2A and A. **Note:** The rates for the 5A and 5A-M occupation classes are the same. The rates for the 4A and the 4A-M occupation class are the same. The rates for the 3A and the 3A-M occupation class are the same. The "M" subcategory (5A-M, 4A-M, 3A-M) is being used to cap the Maximum Issue and Participation Limit and may have additional requirements for optional riders. Premiums, benefits, policy forms and the availability of riders vary by occupation class. The premium class may be standard or an extra percentage of standard.

Policy Form – Disability Income HH750

## Premium rates and illustrations

Premiums are dependent on many factors: age, occupation class, state of residence, smoking status, benefit period, elimination period, riders and others. Because of these many factors, providing and maintaining a detailed rate book is no longer practical. Premium quotes are available through the DI illustration system.

**Sex-Distinct and Unisex Rates** – Sex distinct rates charge males and females different rates. Unisex rates are blended rates,

with males and females paying the same rate. For our Disability Income product, sex distinct rates are used on all personal, individually sold cases including our Association Sales Program. Unisex rates are used for multi-life cases when three or more individuals with an employer relationship purchase policies.

	SINGLE LIFE	MULTI-LIFE
Disability Income	Sex Distinct*	Unisex

\* Note: Written state of Montana requires unisex rates.

**Mode Factors** – Calculating different mode payments is no longer a matter of simply multiplying by a mode factor. The pricing of the product is more complex now and alternative mode factors must be run through the illustration system. The illustration system will display all mode payments available to the client.

**State of Residence vs. State Written** – If the state of residence is different from the state the application is written in, both need to be indicated in the illustration system. The state of residence determines the premium rates and underwriting guidelines applied. The state written determines the application, policy form and available riders.

**Illustrations** – The new business and existing policy illustration systems provide premium quotes based on the information entered and programmed into the system. **Illustrations do not necessarily reflect all underwriting guidelines and the illustration system should not be considered an expert DI underwriting system.** This guide should always be referenced as it is the basis for underwriting guidelines, not illustrations.

If you have questions regarding underwriting guidelines, e-mail or call your DI underwriter.

### General Minimums

- \$200 of annual pre-discounted premium is the minimum premium required to qualify for disability income insurance.
- \$15,000 per year minimum income requirement.

### Issue ages

The client's issue age has a direct impact on the premium paid for coverage – the older the client, the higher the premium. We use age as of last birthday. Backdating to save age is allowed for a maximum of 30 days prior to the application date. The issue ages for a disability income policy (Form HH750) are 18-60 for Single-Life cases, and 18-64 for Multi-Life cases. (May be available from 65-70 if underwriting approval and the Conditionally Renewable Policy Rider is approved in your state.) For guidelines on multi-life issue ages 61-70, see section Proposed insured over age 60.

### Proposed insured over age 60

We will consider disability income insurance coverage for a proposed insured over age 60 subject to advance approval. Some of the criteria that will be used to determine eligibility for coverage include:

- Applying for Disability Income only
- The proposed insured must be part of a multi-life case (minimum of three insurable lives with common employer)
- The proposed insured must be substantially standard medically (standard premium to low rating, one or less medical exclusion riders)

Consult with your DI underwriter prior to running an illustration or submitting an application on a person over age 60.

### Available benefit periods:

ISSUE AGE	BENEFIT PERIOD(S)
61-64	2 years, 5 years, To Age 65, To Age 67 and To Age 70
65-70	2 years

### Benefit period charts:

A 2 year Benefit Period pays for 24 months regardless of the client's age at disability. If you select a Benefit Period of 5 years, To Age 65, To Age 67 or To Age 70, the length of time the maximum monthly benefit amount will be paid could be different based on the client's **age at the time of disability**.

The benefit charts below show how long the benefit will be paid:

#### 5 year benefit period (issued from ages 18-60)

DISABILITY BEGINS:	MAXIMUM BENEFIT PERIOD IS:
Prior to Age 61 Policy Anniversary	5 Years
On or After Age 61 Policy Anniversary but prior to Age 62 Policy Anniversary	48 Months
On or After Age 62 Policy Anniversary but prior to Age 63 Policy Anniversary	42 Months
On or After Age 63 Policy Anniversary but prior to Age 64 Policy Anniversary	36 Months
On or After Age 64 Policy Anniversary but prior to Age 65 Policy Anniversary	30 Months
On or After Age 65 Policy Anniversary	No benefits are payable unless renewed*

\* If this policy is renewed as described in the Conditionally Renewable section of the policy, the Maximum Benefit Period and Your Occupation Period are two years.

**To Age 65 benefit period (issued from ages 18-60)**

<b>DISABILITY BEGINS:</b>	<b>MAXIMUM BENEFIT PERIOD IS:</b>
Prior to Age 61 Policy Anniversary	To Age 65 Policy Anniversary
On or After Age 61 Policy Anniversary but prior to Age 62 Policy Anniversary	48 Months
On or After Age 62 Policy Anniversary but prior to Age 63 Policy Anniversary	42 Months
On or After Age 63 Policy Anniversary but prior to Age 64 Policy Anniversary	36 Months
On or After Age 64 Policy Anniversary but prior to Age 65 Policy Anniversary	30 Months
On or After Age 65 Policy Anniversary	No benefits are payable unless renewed*

**To Age 67 benefit period (issued from ages 18-60)**

<b>DISABILITY BEGINS:</b>	<b>MAXIMUM BENEFIT PERIOD IS:</b>
Prior to Age 64 Policy Anniversary	To Age 67 Policy Anniversary
On or After Age 64 Policy Anniversary and prior to Age 65 Policy Anniversary	36 Months
On or After Age 65 Policy Anniversary	No benefits are payable unless renewed*

**To Age 70 benefit period (issued from ages 18-60)**

<b>DISABILITY BEGINS:</b>	<b>MAXIMUM BENEFIT PERIOD IS:</b>
Prior to Age 65 Policy Anniversary	To Age 70 Policy Anniversary
On or After Age 65 Policy Anniversary	No benefits are payable unless renewed*

### 5 year benefit period and issued at age 61

DISABILITY BEGINS:	MAXIMUM BENEFIT PERIOD IS:
Prior to Age 62 Policy Anniversary	5 years
On or After Age 62 Policy Anniversary but prior to Age 63 Policy Anniversary	48 months
On or After Age 63 Policy Anniversary but prior to Age 64 Policy Anniversary	42 months
On or After Age 64 Policy Anniversary but prior to Age 65 Policy Anniversary	36 months
On or After Age 65 Policy Anniversary but prior to Age 66 Policy Anniversary	30 months
On or After Age 66 Policy Anniversary	No benefits are payable unless policy is conditionally renewed

### 5 year benefit period and issued at age 62

DISABILITY BEGINS:	MAXIMUM BENEFIT PERIOD IS:
Prior to Age 63 Policy Anniversary	5 years
On or After Age 63 Policy Anniversary but prior to Age 64 Policy Anniversary	48 months
On or After Age 64 Policy Anniversary but prior to Age 65 Policy Anniversary	42 months
On or After Age 65 Policy Anniversary but prior to Age 66 Policy Anniversary	36 months
On or After Age 66 Policy Anniversary but prior to Age 67 Policy Anniversary	30 months
On or After Age 67 Policy Anniversary	No benefits are payable unless policy is conditionally renewed

### 5 year benefit period and issued at age 63

DISABILITY BEGINS:	MAXIMUM BENEFIT PERIOD IS:
Prior to Age 64 Policy Anniversary	5 years
On or After Age 64 Policy Anniversary but prior to Age 65 Policy Anniversary	48 months
On or After Age 65 Policy Anniversary but prior to Age 66 Policy Anniversary	42 months
On or After Age 66 Policy Anniversary but prior to Age 67 Policy Anniversary	36 months
On or After Age 67 Policy Anniversary but prior to Age 68 Policy Anniversary	30 months
On or After Age 68 Policy Anniversary	No benefits are payable unless policy is conditionally renewed

### 5 year benefit period and issued at age 64

DISABILITY BEGINS:	MAXIMUM BENEFIT PERIOD IS:
Prior to Age 65 Policy Anniversary	5 years
On or After Age 65 Policy Anniversary but prior to Age 66 Policy Anniversary	48 months
On or After Age 66 Policy Anniversary but prior to Age 67 Policy Anniversary	42 months
On or After Age 67 Policy Anniversary but prior to Age 68 Policy Anniversary	36 months
On or After Age 68 Policy Anniversary but prior to Age 69 Policy Anniversary	30 months
On or After Age 69 Policy Anniversary	No benefits are payable unless policy is conditionally renewed

## Elimination periods

The elimination period (EP) is the number of days the insured must wait before benefits begin to accrue. No benefits are paid for this period. Once disabled, the insured will receive benefits one month after the elimination period is satisfied. The shorter the elimination period, the higher the premium. The following are our available elimination periods:

30, 60, 90, 180 and 365 days (365 is not available with 2 year benefit period)

**NOTE:** 30 day elimination period is not available for California residents or on any policy written in California. 365 day elimination period on Social Insurance Substitute (SIS) is available with a 2 year benefit period in California.

## Benefit periods

The benefit period (BP) is the length of time the insured will receive benefits after satisfying the elimination period. The following benefit periods are available to any occupation class:

- 2 years
- To Age 67
- 5 years
- To Age 70
- To Age 65

**Note:** For policies issued between ages 65-70, the maximum benefit period available is 2 years.

## Your occupation periods

Your Occupation Period is the period of time insureds are protected in their “Your Occupation” (the profession(s) or occupation(s) insureds were actively working in at the start of their disability).

Your Occupation Periods are available for the following:

- All occupation classes
  - 2 year (built into base policy)
  - 5 year
- 5A, 5A-M, 4A, 4A-M, 3A and 3A-M
  - To Age 65
  - To Age 67
  - To Age 70

Your Occupation Period availability is as follows:

<b>If base BP is...</b>	<b>Then available Your Occupation Benefit Periods are...</b>
2 Year	2 Year
5 Year	2 Year or 5 Year
To Age 65	2 Year, 5 Year or To Age 65
To Age 67	2 Year, 5 Year or To Age 67
To Age 70	2 Year, 5 Year or To Age 70

# Policy Description

**Note:** This policy description is a *general* summary. All features, provisions and riders may not be available in all states and may be subject to state variations. Refer to your state policy and rider forms for the full definition of all policy provisions, benefits, limitations and exclusions.

**Renewability** – The policy is non-cancelable and guaranteed renewable to age 65\*. This means we can't change or cancel the policy (except for nonpayment of premiums) or increase the premiums before age 65, regardless of changes in the insured's income, occupation or health. After age 65, the policies are conditionally renewable for life annually if the insured is working full-time, subject to rates then in effect based on the insured's attained age.

\* On a policy with a To Age 67 or To Age 70 Maximum Benefit Period, the policy will terminate on the Age 65 Policy Anniversary, unless the insured is Disabled under the terms of the policy.

**Definition of Total Disability:** means solely due to Injury or Sickness:

1. During Your Occupation Period:
  - a. You are unable to perform the substantial and material duties of Your Occupation; and
  - b. You are not Working.
2. After Your Occupation Period, you are unable to work in any occupation you are reasonably suited to by your education, training and experience.
3. Both during and after Your Occupation Period, you must satisfy the requirements of the Claim Information Section of the policy.

If you are Retired, Total Disability means, solely due to Injury or Sickness, you are unable to perform any of the normal activities of a retired person in good health and of like age and you satisfy the requirements of the Claim Information section.

If you are Unemployed, Total Disability means, solely due to Injury or Sickness, you are prevented from obtaining a job that you are reasonably suited to by your education, training and experience and you satisfy the requirements of the Claim Information section.

*State variation of provision – CA, FL, LA, NJ, NY, TN, VA, VT*

**Definition of Your Occupation** – means the profession(s) or occupation(s), not a specific job(s) or a job with a certain employer(s), you were actively working in (and not Retired or Unemployed from) at the start of your disability.

*State variation of provision – CA, MD, NJ*

**Earnings** – If you are an employee with no ownership interest in a business entity, Earnings include the amounts as reported for Federal Income Tax purposes of:

1. Your salary, wages, fees, draw, commissions, bonuses; PLUS
2. Any other income or compensation You earn; PLUS
3. Amounts You earned which would have resulted in current taxable employee compensation but instead were contributed by You to a benefit plan (e.g., Flexible Spending Accounts, etc.), or qualified tax-deferred retirement plan (e.g., 401(k), 403(b), 457, etc.); LESS
4. Unreimbursed employee business expenses.

If you are a business owner, such as an owner of a sole proprietorship, a partner in a partnership, a shareholder of a corporation or subchapter S-corporation, or a member of a limited liability company or limited liability partnership; and You perform the duties or activities of Your Occupation or another occupation within the scope of a legal business entity, Earnings include the amounts as reported for Federal Income Tax purposes of:

1. Your share (based on ownership or contractual agreement) of the gross revenue or income earned by all such business entities including income earned by You and others under Your supervision or direction; LESS

2. Your share (based on ownership or contractual agreement) of the usual and customary unreimbursed business expenses of those entities which are incurred on a regular basis, are essential to the established business operation of the entity, are deductible for Federal Income Tax purposes, and do not exceed expenses before Disability began. Such expenses do not include salaries, benefits and other forms of compensation which are payable to You, or to any person related by blood or marriage to You unless such person was a full-time employee of such business working at least 30 hours per week for at least 60 days prior to the start of Your period of Disability; PLUS
3. Any contributions to a pension or profit sharing plan made on Your behalf by all such business entities and not waived by contract during Disability.

Earnings do not include any form of unearned income such as dividends, rents, interest, capital gains, income received from any form of deferred compensation, retirement, pension plan, income from royalties or disability benefits.

**Disability Benefit** – We will pay benefits for your Continuous Disability that begins on or after the policy date and while the policy is in-force. Benefits start to accrue at the end of the Elimination Period. Benefits will continue during your Continuous Disability, but not beyond the Maximum Benefit Period.

**Social Insurance Substitute (SIS) Benefit** – This benefit is provided only if amounts for it are shown on the current Data Page. To receive this benefit, you must meet all the requirements of this section and of the Additional Proof of Loss for Social Insurance Substitute Benefit section, and benefits must be payable under the Disability Benefit section. This section's Maximum Monthly Benefit is:

1. As shown on the Data Page when no Social Security, Workers Compensation or Railroad Retirement Benefits are paid.

2. One-third of this section's Maximum Monthly Benefit if the only Social Insurance paid for your disability is any one of either the Primary Insurance Amount under Social Security, Workers Compensation or Railroad Retirement.
3. No benefits are paid for any period:
  - a. During which two or more of the Social Insurances are paid
  - b. After your Age 65 policy anniversary, unless Your Maximum Benefit Period is longer and you are receiving benefits under the Disability Benefit section
  - c. After you are eligible to receive full retirement benefits from Social Security or Railroad Retirement
  - d. For which you receive retirement benefits from Social Security or Railroad Retirement

Benefits start to accrue at the later of this section's elimination period, or when the Social Insurance paid for your disability reduces to only one of either the Primary Insurance Amount from Social Security, Workers Compensation, or Railroad Retirement.

*State variation of provision – CA, NJ, NY, VA*

**Adjustment Options** – This provision gives the policyowner an adjustable policy. Changes may be made to the Elimination Period, benefit amount, Your Occupation Period, Benefit Period, occupation class and riders based on our then current underwriting guidelines. Policy and rider availability are also considered underwriting guidelines applied to the underwriting of adjustments. Some adjustments require evidence of insurability. Based on current underwriting guidelines, some adjustments may result in a second policy. See the *General Underwriting Guidelines – Adjustments* section for underwriting information.

**Transplant Surgery Benefit** – We will pay benefits under the Disability Benefit section and the Social Insurance Substitute Benefit section (subject to those sections' terms and conditions) if a disability results from surgery involving a transplant of a part of the insured's body to another person.

**Interrupted Elimination Period** – This provision allows the combination of separate periods of disability to satisfy the elimination period. These periods of disability must occur within a period of time that is up to twice as long as the elimination period but less than one year. The disabilities can be from the same or different causes.

**Military Suspension** – This provision suspends the policy if the insured enters the military service on a full-time basis. The policy may be restored if active duty ends within five years of the suspension. The owner must request this within 180 days of the end of service. No premium is due during the service and no policy benefits are provided during that time. The policy restored is the same as before the suspension. Only a Disability from a sickness which first manifests itself or an injury which occurs after the policy is restored is covered.

**Recurring Disability Benefit** – Means a continuation of a prior Disability when:

1. The disability results from the same or a related cause as a prior period of Disability for which we paid benefits or provided the Waiver of Premium Benefit; unless
2. After the prior disability ends you return to work at least 40 hours per week in any occupation for at least six consecutive months.

A Recurring Disability is a continuation of the prior Disability. No new Elimination Period is required. Benefits will be payable for the remainder of the Maximum Benefit Period, if any.

*State variation of provision – UT, VA*

**Rehabilitation Benefit** – This benefit provides additional benefits if the insured takes part in a rehabilitation program which is mutually agreed upon in writing while disabled. There is no specific dollar limit on the benefits which may be paid. The company has a staff of rehabilitation specialists to work with claimants to assist them in returning to appropriate work.

*State variation of provision – CA, CT, MD*

**Reinstatement** – This provision allows the policy to be reinstated any time within one year after termination and subject to our then current underwriting guidelines. A formal reinstatement application may be required. A reinstated policy covers disabilities from a sickness that first manifests itself more than 10 days after reinstatement date or an injury occurring after the reinstatement date. A reinstated policy is subject to any provisions or changes attached to the reinstated policy.

**Death Benefit** – This benefit pays a lump-sum benefit of three times the Disability Benefit and SIS Benefit if the insured dies after satisfying the elimination period while benefits are being paid. It is payable in addition to any other policy benefit. This benefit is restricted in some states.

*State variation of provision – FL, GA, MD, MN, NY, SC*

*Not available – IL, NJ*

**Waiver of Premium Benefit** – If Insured is Disabled, after the lesser of 90 days or the Elimination Period, we will:

1. Refund the monthly pro-rata portion of any premium paid for coverage after the date a Continuous Disability began; and
2. Waive the payment of premiums which come due during the Continuous Disability.

Premium payments will begin on the next premium due date after the insured is no longer receiving benefits under this policy or the disability ends.

**Exclusions and Limitations** – This policy does not pay benefits for Injury or Sickness which in whole or in part is caused by, contributed by, or which results from:

1. Intentional, self-inflicted injury; or
2. Your commission of or your attempt to commit a criminal act, or your involvement in an illegal occupation or activity; or
3. The suspension, revocation or surrender of your professional or occupational license or certification; or
4. Active military service during a military action or conflict.
5. Loss we have excluded by name or specific description in any attached rider or endorsement.

No benefits are payable for any period of Your Continuous Disability in which you are incarcerated in a penal or correctional institution for a period of 30 consecutive days or longer.

A sickness resulting from pregnancy will be covered if the Elimination Period is equal to or greater than 90 days.

Benefits will be limited to 12 months during Your Continuous Disability unless you reside in the United States or Canada for at least six consecutive months in each calendar year.

There may be other exclusions or limitations in the policy in addition to those stated above. Any additional exclusions or limitations (if any) will be described in riders or endorsements attached to the policy. Examples include, but are not limited to: Modified Coverage rider, Additional Exception riders, etc.

*State variation of provision – CA, CT, DC, IA, ID, IL, KS, MA, MD, MO, MT, NC, ND, NE, NJ, NY, NM, OK, PA, SC, TX, UT, VA, VT, WA, WI*

**Pre-existing Condition Limitation** – We will not pay any claim for a Disability or loss which:

1. Begins within two years after the effective date of coverage(s); and
2. Results from a pre-existing condition which was not disclosed or was misrepresented in the policy's application.

Pre-existing condition means a condition:

1. For which medical treatment, testing or medication was recommended by a Doctor or received from a Doctor within the two year period prior to the effective date of coverage(s); or
2. Which has caused symptoms within the two year period prior to the effective date of coverage(s) which would cause an ordinarily prudent person to seek diagnosis, care or treatment.

*State variation of provision – CA, DC, ID, IL, MT, NJ, NM, NY, NC, ND, PA, SC, SD, VA*

# HH750 Benefit Riders

Not all riders are available in all states and may be subject to state variations.

**Benefit Update (BU) Rider** – The BU rider is a truly unique feature to Principal Life. For no additional premium, this rider is automatically added to all standard premium policies for all occupation classes, if at least 75 percent of eligible coverage is purchased at issue. Issue ages are 18-55. This feature allows the policyowner to increase policy benefits every three years without evidence of medical insurability. It's important to note the client maintains one policy and all definitions, provisions, current rates (at the attained age) and discounts of the original policy apply.

At three-year intervals beginning with the policy date, Principal Life sends the insured correspondence regarding the opportunity for a BU review. The client must return a completed application and in some cases provide financial documentation. Financial documentation is only required if the insured's income has increased more than 10 percent and other inforce disability coverage has changed since the last BU review.

Depending on the information provided, we may offer to increase the coverage up to the maximum issue and participation limits for which they qualify – **there is no cap (or age restrictions)**. The no cap feature is a competitive advantage over most companies' future insurability options, which usually have pre-set benefit caps. At each BU option, the client must accept a minimum of 50 percent of the additional DI benefit offered or the rider will be removed from the policy.

Advance Option: The insured can even request an advanced update once every three years, in place of the next scheduled review, in the event the insured:

- Loses group long-term disability insurance because of a change in employment, or the insured's employer discontinues or reduces group long-term disability insurance and does not plan to offer such insurance in the next 36 months.

- Has at least a 50 percent increase in earnings since their last adjustment to increase their total disability benefits. The increase in income must be permanent and sustainable. A sudden, unsustainable increase in income that is the result of a one-time bonus, commission or extraordinary financial event will not be considered as the basis to exercise an advance option.

Within 90 days of one of the above occurring, the insured must elect to take the next scheduled BU option early. If the insured elects to take the option early, the next scheduled BU review will not take place. The advance option can occur one time during the three years prior to each scheduled review. The advance option is not available on or after age 52.

You are kept up-to-date with client correspondence through the IDI Benefit Update Activity Report available on Principal eFP ([www.principal.com/financialprofessional](http://www.principal.com/financialprofessional)). You will receive a weekly e-mail notification (prompting you to login) when you have any BU activity on your inforce book of business. Confirm your e-mail address at [www.principal.com/verifyemail](http://www.principal.com/verifyemail).

**Note:** A CDB offer will not be made as part of a BU Advance Option.

If BU is issued after age 52, only one increase may be offered. BU will be removed if insured is not eligible for increase.

The Benefit Update rider is available in conjunction with the Future Benefit Increase rider.

This rider also has an Option Anniversary available. See FBI Rider description for availability.

*State variation of provision – CA, MD, NY, VA*

**Capital Sum Benefit Rider** – Provides a one-time, lump-sum benefit if an Injury or Sickness results in a total loss of use for any and every purpose or activity without any possibility of recovery of:

1. The use of a hand or foot; or
2. The sight of an eye.

This benefit is equal to 12 times the ultimate Maximum Monthly Disability Benefit and the Social Insurance Substitute Benefit. There is a limit of one Capital Sum Benefit payment in your lifetime. It is paid in addition to any other benefits payable under the policy. In order for this benefit to be paid, you must survive the loss for 30 days and the policy must be in force. If the policy is not in force, the loss must occur within 90 days after the Injury or Sickness which caused it, and the Injury or Sickness must occur while the policy is in force.

*State variation of provision – NJ, TN, VA*

**Catastrophic Disability Benefit (CDB)\* Rider** – This rider may be added to the policy for an additional premium and is available to all occupation classes.

The CDB rider provides benefits if the Insured is catastrophically disabled. By definition, this means the Insured cannot perform two or more of the following Activities of Daily Living (ADL); or is Cognitively Impaired; or is Presumptively Disabled.

The Activities of Daily Living (ADL) are:

- **Bathing** – which means the ability to wash in the tub, shower or by sponge bath, with or without adaptive devices.
- **Contenance** – which means the ability to voluntarily control bowel and bladder function, or in the event of incontinence, the ability to maintain a reasonable level of personal hygiene (including caring for catheter or colostomy bag).
- **Dressing** – which means the ability to put on and take off clothing and any medically necessary braces or artificial limbs.
- **Eating/Feeding** – which means the ability to feed oneself by mouth, feeding tube or intravenously.
- **Toileting** – which means the ability to get to and from and on and off the toilet and to maintain a reasonable level of personal hygiene.

- **Transferring** – which means the ability to move in and out of a chair, bed or wheelchair with or without assistive devices such as canes, walkers, crutches, grab bars or mechanical or motorized devices.

\* Catastrophic Impairment Benefit (CIB) Rider is issued in the written state of New Hampshire.

The Benefit Period for the CDB rider must be equal to or less than the Base Benefit Period. The available Benefit Periods are:

If base BP is...	Then available CDB Benefit Periods are...
2 Year	2 Year
5 Year	2 Year or 5 Year
To Age 65	2 Year, 5 Year or To Age 65
To Age 67	2 Year, 5 Year or To Age 67
To Age 70	2 Year, 5 Year or To Age 70

The Elimination Period for the CDB rider must be equal to or greater than the Base Elimination Period. The available Elimination Periods are 90 days, 180 days or 365 days.

The CDB monthly amount:

- Has a maximum issue and participation limit of \$8,000/month and a minimum issue limit of \$500/month.
- Cannot exceed five times (5x) the sum of the Base Benefit Amount plus Social Insurance Substitute (SIS) of all Principal Life coverage.

**Note:** CDB on **California and New Jersey** policies cannot exceed the sum of the Base Benefit Amount plus SIS.

- Added to the Base Benefit Amount plus SIS plus other coverage in-force, cannot exceed 100 percent of Earned Income.

**Note:** When working with taxable benefits, divide the Earned Income by 0.75 to account for taxation.

In-force policies containing the CDB rider require a minimum increase to the CDB monthly benefit amount of \$1,000 on adjustments.

### CDB and Benefit Update (BU):

- If the policy contains the CDB rider and the insured is eligible for at least a \$1,000/month CDB increase, we will offer the CDB increase as part of the BU option (up to a maximum of \$2,000/month CDB increase on any one BU option exercise).
- The insured is **not** obligated to accept a minimum of 50 percent of the additional CDB benefit to maintain the BU rider on this policy.

*State variation of provision – CA, MD, NJ, NH, TX, VT*

*Not available – CT*

**Conditionally Renewable Policy Rider** – Issued for ages 65-70, this rider changes the policy from Non-Cancelable and Guaranteed Renewable to Conditionally Renewable. During the conditionally renewable period, Principal Life cannot change or cancel the insured’s policy except for nonpayment of premiums. The insured may conditionally renew the policy annually for the rest of their life, as long as they are working full time and meet the requirements.

To renew the policy for one year, all of the following conditions must be satisfied:

1. The insured is not receiving a benefit under this policy or any attached rider.
2. The insured must be actively working at least 30 hours each week for the 12 consecutive months preceding the renewal.
3. The insured is working at least 30 hours each week at the time of renewal.
4. The policy is in force with no premium in default.
5. We receive the Owner’s renewal request in writing by the Policy Anniversary for any one-year renewal.
6. The renewal policy premium is paid. The renewal policy premium will be based on those rates in effect for the insured’s age at the time of renewal.

This rider is only available with a 2 year Benefit and Your Occupation Periods. The available Elimination Periods are 30,\* 60, 90 and 180 days. The SIS benefit and all other riders will not be available, with the exception of the Limitations of Benefits for Mental/Nervous and Substance Abuse Disorders rider. (**Note:** All standard Underwriting Guidelines will follow for this rider.)

\*30 day EP not available in CA

*State variation of provision – MD, NJ, NY, TX, VA*

*Not available – MA, NH*

**Cost of Living Adjustment (COLA) Rider** – The COLA rider may be added to the policy for an additional premium and is available to 5A, 5A-M, 4A, 4A-M, 3A, 3A-M and 2A occupation classes. This rider provides a cost of living adjustment in the Monthly Benefit (plus the Catastrophic Disability Benefit, if attached to the policy) during a Disability. Each year following the start of a Disability, an adjustment will be made to the Monthly Benefit (plus the Catastrophic Disability Benefit, if attached to the policy). The benefit is increased on a compound basis based on the change in the Consumer Price Index for all Urban Consumers (CPI - U) over the past year of disability. A 3 or 6 percent COLA maximum may be selected.

The Insured may, upon returning to work full time, keep any increased Disability Benefit without evidence of good health by paying the required increased premium.

The COLA rider is not available when a 2 year Benefit Period is selected.

*State variation of provision – MD, NJ, NY*

**Extended Total Disability Benefit (ETDB) Rider** – This uniquely designed rider allows the base monthly benefit to continue to be paid beyond the Maximum Benefit Period, subject to policy provisions. The ETDB rider may be added to the policy for an additional premium and is available to 5A, 5A-M, 4A, 4A-M, 3A, 3A-M and 2A occupation classes. Issue ages are 18-50.

The insured chooses a Benefit Factor to achieve one of three different levels of coverage (i.e. Maximum Aggregate Benefit). The Maximum Aggregate Benefit amount is determined by multiplying the Maximum Monthly Benefit (base + SIS) times a Benefit Factor (Benefit Factor choices = 50, 75 or 100).

For example: \$4,000 base + \$1,000 SIS = \$5,000 maximum monthly benefit.

- \$5,000 times **50** (Benefit Factor) = **\$250,000** (Maximum Aggregate Benefit).
- \$5,000 times **75** (Benefit Factor) = **\$375,000** (Maximum Aggregate Benefit).
- \$5,000 times **100** (Benefit Factor) = **\$500,000** (Maximum Aggregate Benefit).

**Note:** The Benefit Factor is selected at issue, but can be changed by an underwritten adjustment subject to our underwriting guidelines. FBI, BU and underwritten adjustments resulting in a change in the Maximum Monthly Benefit will effectively change the Maximum Aggregate Benefit.

When the insured becomes disabled between the ages of 18 and 55, and remains Continuously Totally Disabled through the end of the Maximum Benefit Period, this rider pays the base benefit (no SIS benefit) at the same level being paid at the end of the Maximum Benefit Period (including COLA increases, if any) until the Maximum Aggregate Benefit amount has been exhausted. Monthly benefits continue to be paid beyond the Maximum Benefit Period as long as the insured is unable to work in any occupation he/she is reasonably suited by his/her education, training and experience.

The ETDB rider is only available with To Age 65, To Age 67 or To Age 70 Benefit Periods.

The insured will not be eligible for benefits under this rider if they are retired or unemployed at the start of their Continuous Disability or if they are receiving benefits under the terms of the Presumptive Disability Benefit Rider.

*State variation of provision – FL, MD, NC, NJ, NY, VA*

*Not available – CA*

**Future Benefit Increase (FBI) Rider** – For no additional premium, this rider is issued automatically for all standard premium policies. Issues ages are 18-55. This rider provides an automatic increase in Disability Benefit amount without evidence of insurability, on the six FBI Option Anniversaries following the option date, providing the insured is not disabled.

The increase is based on the change in the Consumer Price Index for All Urban Consumers (CPI-U), with a minimum guaranteed increase of 4 percent compounded and a maximum of 10 percent compounded. Premiums for FBI increases are based on the insured's attained age and the rates in effect at the time of the increase. The rider is renewable every six years with evidence of financial insurability. It is terminated after two increase offers are declined within a renewal period.

In addition to the automatic increase, the insured may also be eligible for an additional maximum benefit increase, up to \$500 total, when combined with the CPI-U increase, subject to our current underwriting guidelines. Prior to the insured's Option Anniversary, Principal Life will provide the insured with an application that must be completed and returned within 30 days of Our request to be considered for the additional increase.

**Option Anniversary** – In multi-life cases, an employer now has the opportunity to elect a date for future benefit increases (BU and FBI) that is different than the original policy effective date. Policy increases will coincide with potential salary increases.

See the FBI Maximum Issue and Participation Limits Table. The FBI rider is not available on policies exceeding the benefit amounts indicated in the table.

The FBI rider is available in conjunction with the Benefit Update rider on the same policy.

*State variation of provision – CA, CT, MD, NJ, NY, VA*

**Limitation of Benefits for Mental/Nervous and Substance Abuse Disorders Rider (MNR)** – This rider is mandatory for residents of, or applications written in:

SINGLE-LIFE	MULTI-LIFE
California Florida Louisiana Nevada	California  <i>Optional in all other states for employer-sponsored cases.</i>

This rider limits the Benefit Period for Mental/Nervous and Substance Abuse claims to a 24-month lifetime benefit (including the Catastrophic Disability Benefit rider). However, benefits could be extended beyond the 24 months up to the Maximum Benefit Period if the Insured is continuously hospitalized as an inpatient.\*

The existence of this rider on a policy will reduce premiums based on the Benefit Period: To Age 65 or greater = 10 percent discount; 5 and 2 years = 5 percent discount; 5 percent and 3 percent, respectively, in written state of Texas. The MNR rider cannot be issued on policies in the written state of Vermont.

This rider is required on all DI policies written under the Association Sales Program (except in VT) or if the Regular Occupation rider is selected on a 5A-M or 4A-M policy.

*State variation of provision – CA, IL, MO, NY, OK, TX, UT*

*Not available – VT*

\* In Texas this rider limits the Benefit Period for Mental/Nervous and Substance Abuse claims to 24 months during each Continuous Disability. The Texas MNR rider is not available with a 2 Year Benefit Period.

**Presumptive Disability Benefit Rider** – Is an Injury or Sickness resulting in total loss of use without any possibility of recovery of:

1. Power of speech; or
2. Hearing in both ears; or

3. Sight of both eyes; or
4. The use of both hands, both feet, or one hand and one foot.

We will consider you Disabled and pay benefits for Total Disability under the Disability Benefit section and Social Insurance Substitute Benefit section (subject to those sections' terms and conditions), regardless of your ability to work or earn an income if you incur a Presumptive Disability. You will be considered Disabled as long as your Presumptive Disability continues.

You are not required to be under the regular care of a doctor. No new Elimination Period is required and the benefit will start to accrue on the date of loss. Monthly Benefits are paid as long as the loss continues, but no longer than the Maximum Benefit Period.

If the Maximum Benefit Period is To Age 65, To Age 67 or To Age 70 and the loss occurs prior to that, the Maximum Benefit Period will be extended to "Lifetime" for benefits payable under the Disability Benefit section.

If the policy is written within a Guaranteed Standard Issue/Standard Issue case, benefits may be paid to the Maximum Benefit Period available on the policy.

*State variation of provision for HH755 – IA, NJ*

*State variation of provision for HH770 – IA, MD, NJ*

**Recovery Benefit Rider** – Only available in written states of California and Florida. This rider may be added to the policy for an additional premium. We will provide a benefit if:

1. You are no longer Disabled; and
2. You are not receiving benefits under the Disability Benefit section; and
3. You have a Loss of Earnings equal to or greater than 20 percent of your Prior Earnings; and
4. You return to full-time work immediately after a Continuous Disability for which benefits were payable under the Disability Benefit Section; and

5. Your Loss of Earnings is solely due to the prior Injury or Sickness that caused Disability; and
6. You satisfy the requirements of the Claim Information section.

The amount of benefit payable will be based on the Insured's Loss of Earnings divided by Prior Earnings. Benefits are payable for a period not to exceed the Recovery Benefit Period, but not beyond the policy's Maximum Benefit Period.

The Insured is no longer eligible for Recovery Benefits if they are able to earn more than 80 percent of Prior Earnings.

Recovery Benefit Period Options: 1 year and 3 years.

- 1 year Benefit Period available to 5A, 5A-M, 4A, 4A-M, 3A, 3A-M and 2A occupation classes. The 1-year Recovery Benefit rider is not available when the Short-Term Residual Disability Benefit rider is selected.
- 3 year Benefit Period available to 5A, 5A-M, 4A, 4A-M, 3A and 3A-M occupation classes. The 3 year Recovery Benefit rider is not available with the Short-Term Residual Disability Benefit rider or a 2 year Benefit Period.

If the Recovery Benefit rider is purchased, the Residual Disability Benefit rider is required.

If the Cost of Living Adjustment rider is a part of the policy, the proportionate benefit is calculated on the benefit amount being paid when the insured recovered from the disability. There are no additional COLA increases under this rider.

However, premiums will continue to be waived under the Waiver of Premium benefit in the policy while benefits are paid under this rider.

Not available once the Residual Disability and Recovery Benefit rider is approved in your state.

*State variation of provision – CA*

**Regular Occupation Rider** – This rider may be added to the policy for an additional premium and is available to 5A, 5A-M, 4A and 4A-M occupation classes. It is designed for those professionals and select executives who wish to insure their ability to work in their highly specialized regular occupations. If this rider is attached to the policy, Total Disability means during the Your Occupation Period, solely due to Injury or Sickness:

1. You are unable to perform the substantial and material duties of Your Occupation and are not Working in Your Occupation; and
2. You are Working in another occupation; and
3. You satisfy the requirement of the Claim Information section.

Benefits payable for Total Disability is the Maximum Monthly Benefit from the Disability Benefit section and the Social Insurance Substitute Benefit section, if included, to the end of the Maximum Benefit Period. However, no Social Insurance Substitute Benefit will be payable for any period you are eligible to receive full retirement benefits from Social Security or Railroad Retirement.

When the Regular Occupation rider is added to 5A-M or 4A-M occupation classes, the Limitations of Benefits for Mental/Nervous and Substance Abuse Disorder rider is required on the policy.

The Regular Occupation rider is not available in VT for the 5A-M and 4A-M occupation classes. This rider is not available on 4A and 4A-M in CA and FL.

If the Regular Occupation rider is issued on a policy, the Transitional Occupation rider is not available.

A To Age 65, To Age 67 or To Age 70 Benefit Period and Your Occupation Period is required.

*State variation of provision – CA, MD, NJ, NY, OR, VA*

**Residual Disability and Recovery Benefit Rider** – This rider may be added to the policy for an additional premium and is available to 5A, 5A-M, 4A, 4A-M, 3A, 3A-M and 2A occupation classes.

Residual Disability means:

1. You are not Totally Disabled; and
2. Solely due to Injury or Sickness You have a Loss of Earnings equal to or greater than 20% of Your Prior Earnings and:
  - a) You are able to perform some, but not all, of the substantial and material duties of Your Occupation or You are unable to work Full Time in Your Occupation; or
  - b) You are working in another occupation; and
3. You satisfy the requirements of the Claim Information section of the policy.

For Residual Disability, we will pay a percentage of the Maximum Monthly Benefit under the Disability Benefit section and Social Insurance Substitute Benefit section (subject to those sections' terms and conditions). The amount we will pay is equal to the Loss of Earnings divided by the Prior Earnings.

Income earned can be determined by either the cash or accrual accounting method; however the same method must be used throughout the disability.

100 percent of the Maximum Monthly Benefit is paid if the percentage of Earnings lost exceeds 75 percent. A minimum of 50 percent of the Maximum Monthly Benefit will be paid for the first six months of a Residual Disability.

If the insured is Retired or Unemployed, 50 percent of the Maximum Monthly Benefit will be paid for a residual disability.

We will provide a Recovery Benefit if:

1. You are no longer Disabled; and
2. You are not receiving benefits under the Disability Benefit section of the policy; and
3. You return to Full Time Work immediately after a Continuous Disability for which benefits were payable under the Disability Benefit section; and
4. You have a Recovery Loss of Earnings equal to or greater than 20% of Your Recovery Prior Earnings; and
5. It can be validated that Your Recovery Loss of Earnings is directly and solely due to the prior Injury or Sickness that caused Disability; and
6. You satisfy the requirements of the Claim Information section of the policy.

If the insured were Retired or Unemployed prior to Disability, no recovery benefits will be payable.

If Residual Disability Benefits were payable just prior to eligibility to the Recovery Benefit, then the same accounting method that was used to calculate the Residual Disability Benefit will be used to calculate the Recovery Benefit.

If the Cost of Living Adjustment Rider is a part of the policy, then the Recovery Benefit will be calculated based on the Adjusted Maximum Monthly Benefit being paid when the insured recovered from Disability. There will be no additional increases under the Cost of Living Adjustment Rider while Recovery Benefits are payable under this rider. There will be no Indexing of Recovery Prior Earnings while Recovery Benefits are payable under this rider.

The Waiver of Premium benefit in the policy will be provided while Recovery Benefits are payable under this rider.

Recovery Benefits end when the insured no longer has a Recovery Loss of Earnings greater than 20 percent for any two consecutive months.

Recovery Benefits may not be paid beyond the policy Maximum Benefit Period.

The Residual Disability and Recovery Benefit rider is not available when the Short-Term Residual Disability Benefit rider is selected.

*State variation of provision – IA, MD, MA, NJ, NY, NC, VT, VA  
Not available – CA, FL*

**Residual Disability Benefit Rider** – Only available in written states of California and Florida. This rider may be added to the policy for an additional premium and is available to 5A, 5A-M, 4A, 4A-M, 3A, 3A-M and 2A occupation classes.

Residual Disability means:

1. You are not Totally Disabled; and
2. Solely due to Injury or Sickness you have Loss of Earnings equal to or greater than 20% of your Prior Earnings and:
  - a. You are able to perform some, but not all, of the substantial and material duties of Your Occupation or you are unable to work full time in Your Occupation; or
  - b. You are working in another occupation; and
3. You satisfy the requirements of the Claim Information section.

For Residual Disability, we will pay a percentage of the Maximum Monthly Benefit under the Disability Benefit section and Social Insurance Substitute Benefit section (subject to those sections' terms and conditions). The amount we will pay is equal to the Loss of Earnings divided by the Prior Earnings.

Income earned can be determined by either the cash or accrual accounting method; however, the same method must be used throughout the disability.

100 percent of the Maximum Monthly Benefit is paid if the percentage of Earnings lost exceeds 75 percent. A minimum of 50 percent of the Maximum Monthly Benefit will be paid for the first six months of a Residual Disability.

If the insured is Retired or Unemployed, 50 percent of the Maximum Monthly Benefit will be paid for Residual Disability.

The Residual Disability Benefit rider is not available when the Short-Term Residual Disability Benefit rider is selected.

Not available once the Residual Disability and Recovery Benefit rider is approved in your state.

*State variation of provision – CA, FL*

**Short-Term Residual Disability Benefit (STRDB) Rider** – This rider may be added to the policy for an additional premium and is available to all occupation classes.

Residual Disability means:

1. You are not Totally Disabled; and
2. Solely due to Injury or Sickness You have a Loss of Earnings equal to or greater than 20% of Your Prior Earnings and:
  - a) You are able to perform some, but not all, of the substantial and material duties of Your Occupation or You are unable to work Full Time in Your Occupation; or
  - b) You are working in another occupation; and
3. You satisfy the requirements of the Claim Information section of the policy.

For Residual Disability, we will pay a percentage of the Maximum Monthly Benefit under the Disability Benefit section and Social Insurance Substitute Benefit section (subject to those sections' terms and conditions). The amount we will pay is equal to the Loss of Earnings divided by the Prior Earnings.

Income earned can be determined by either the cash or accrual accounting method; however, the same method must be used throughout the disability.

100 percent of the Maximum Monthly Benefit is paid if the percentage of Earnings lost exceeds 75 percent.

If the insured is Retired or Unemployed, 50 percent of the Maximum Monthly Benefit will be paid for Residual Disability.

Short-Term Residual Disability Benefit Period options: 6 months or 12 months.

The Short-Term Residual Disability Benefit rider is not available when the Residual Disability Benefit rider, the Recovery Benefit rider – 1 & 3 BP or the Residual Disability and Recovery Benefit rider is selected.

*State variation of provision – CA, FL, MD, NJ, NY, VA*

**Supplemental Health Benefit (SHB) Rider** – For no additional premium, this rider provides a one-time, lump-sum benefit that is equal to six times the ultimate Maximum Monthly Disability Benefit and the SIS Benefit, if disabled under the policy and diagnosed with Coronary Artery Bypass Graft Surgery, Cancer or Stroke. These are defined as:

- Coronary Artery Bypass Graft Surgery - means the operative procedure for the correction of two or more blocked arteries of the heart. This does not include angioplasty and/or any other intra-arterial procedures.
- Cancer - The presence of a malignant tumor characterized by the uncontrolled growth and metastasis of malignant cells, and the invasion of tissue. Includes: leukemia and malignant disease of the lymphatic system, such as Hodgkin's lymphoma Stage III and IV and invasive malignant melanoma. The following diagnoses are not covered: any non-invasive cancer in-situ, Hodgkin's disease Stage I, prostate cancer Stage A, papillary cancer of the bladder, all skin cancers except invasive malignant melanoma (starting with Clark Level III).
- Stroke - any cerebrovascular incident producing neurological deficit lasting more than 24 hours and including infarction of brain tissue or hemorrhage into brain tissue. Evidence of neurological deficit for at least 90 days must be produced.

This benefit is in addition to any other benefit provided by the policy or any other attached riders and is payable one time in the insured's lifetime.

In order for this benefit to be paid the insured must be:

1. Diagnosed by a Doctor with one or more of conditions as defined in the Definitions section of this rider; and
2. The diagnosis of one or more of the conditions must be after the effective date of this rider; and
3. Disabled; and
4. Must be under Regular Care By A Doctor for the condition; and
5. Survive the loss for 90 days from the date of diagnosis of the condition or from the date of Disability, whichever is later.

Issue age is 18-55 for single life and 18 to 64 for multi-life. Rider terminates on age 65 policy anniversary. Not renewable after age 65 or end of 5 year coverage period if issued between ages 61-64.

Eligible benefit amount will adjust if policy benefit amount changes.

*State variation of provision – IA, MA, NC, NH, VA*

*Not available – CA, CT, FL, GA, MD, NJ, NY, PA, TN*

**Transitional Occupation Rider** — Available for an additional premium, this rider allows the insured to continue receiving disability benefits in the event of becoming totally disabled in their Your Occupation, but are working in another occupation. This is available to 5A, 5A-M, 4A, 4A-M, 3A and 3A-M occupation classes.

Benefits will be based on replacement of up to 100 percent of prior earnings, but will not exceed the Maximum Monthly Benefit plus any Social Insurance Substitute (SIS) Benefit. Benefits are payable until the end of the Transitional Occupation Period.

The monthly benefit will be equal to the lesser of:

1. Prior Earnings MINUS Current Earnings MINUS other Disability Coverage; or
2. The Maximum Monthly Benefit PLUS any Social Insurance Substitute Benefit.

If the amount in option 1 is equal to or less than zero, no monthly benefit will be paid.

A minimum of 50 percent of the Maximum Monthly and SIS Benefit will be paid for the first six months of a Transitional Occupation disability. If the elimination period for the SIS benefit is longer than the Disability Benefit, the SIS Benefit will be paid at the 50 percent level until the end of the six-month period for the disability benefit.

The Transitional Occupation Period must be equal to or less than the Base Benefit Period and the Your Occupation Benefit Period.

The Base Benefit Period and the Your Occupation Period must be the same.

The available Transitional Occupation Periods are:

If Base & Your Occupation BP is...	Transitional Occupation Periods are...
2 Year	2 Year
5 Year	2 Year or 5 Year
To Age 65	2 Year, 5 Year or To Age 65
To Age 67	2 Year, 5 Year or To Age 67
To Age 70	2 Year, 5 Year or To Age 70

If a policy has the Residual Disability and Recovery Benefit or Residual Disability Benefit rider and the Transitional Occupation rider, benefits will not be paid out under both riders at the same time. If the insured meets the definitions and terms of both riders, the insured will receive the greater benefit amount available.

If the Transitional Occupation rider is issued on a policy, the Regular Occupation rider is not available.

*State variation of provision – CA, CT, MD, NY, VA*

*Not available – NJ*

# Disability Income Underwriting Guidelines

## Earned income

The amount of benefit issued is based on the client's actual annual earned income as reported on the U.S Federal tax return. Earned income is dependent upon the client's ability to work and is received for services performed by the client in his or her occupation. **To be eligible for disability income insurance, earned income must be at least \$15,000/year as reported on U.S. Federal tax return. Earned income is critical in determining the amount of disability benefit the client is eligible for.**

The following are guidelines for determining what is earned income and the documentation required.

**Sole Proprietorship** – A business owned by one individual. The business is not a separate tax entity, and the sole proprietor has unlimited personal liability. Earned income is the net profit of the business or profession, after expenses, but before taxes. While it is common for a sole proprietor to include some personal expenses with business expenses on the Schedule C, those personal expenses cannot be added back to net income to produce a higher earned income. Also, even though depreciation is a non-cash expense, it cannot be added back to net income to produce a higher earned income.

The following Federal tax forms need to be submitted:

- 1040 – pages 1 & 2
- Schedule C (or F if client is a farmer)
- Schedule E if filed with the return

**Partnership** – An association of two or more persons in business for profit as co-owners. The partnership is not a separate tax entity, and each partner has unlimited personal liability. A partner's proportionate share of the net profit/net loss of the business or profession is considered earned income.

The guidelines for personal expenses and depreciation apply to the earned income of a partner the same as a sole proprietor (see Sole Proprietorship). The following Federal tax forms need to be submitted:

- 1040 – pages 1 & 2
- Schedule E

**Limited Liability Company (LLC)** – Similar to a partnership, LLCs are generally not separate tax entities. However, owners of an LLC may have limited personal liability. Earned income is the owner's proportionate share of the net profit/net loss of the business or profession plus any salary, wages, regular overtime, bonus and commissions (less expenses). The following Federal tax forms need to be submitted:

- 1040 – pages 1 & 2
- Schedule E
- W-2 form if spouse is employed outside the home

**Corporate Owner/Employee** – For clients with an ownership interest in a corporation (S- or C-Corporation) and working as a full-time employee of that corporation, earned income is salary, wages, regular overtime, bonus and commissions (less expenses) and their proportionate share of business earnings.

Example: A 50 percent owner/employee of XYZ Corporation receives a salary of \$50,000. The corporation earns \$30,000. The client is eligible for disability income benefits based on \$50,000 salary plus ½ of \$30,000, for a total of \$65,000.

An owner/employee of a corporation can also consider as earned income **up to 25 percent of salary, but not more than \$49,000, for contributions made to a pension or profit sharing plan.** However, if the pension and/or profit sharing contribution continues when the owner/employee is disabled, the contribution is **not** included in earned income. Verification of the contribution is required.

**Business Owner Allowance** – The business owner allowance is available if the client is at least a 20 percent active working owner. This allowance may be used to increase earned income by 20 percent. The DI benefit can be increased up to an extra \$2,000/month. **This allowance does not apply to the DI Retirement Security Sales Program.**

Example: A client earns \$120,000/year, which qualifies for \$5,750/month of DI. The allowance increases the income to \$144,000 and the DI benefit to \$6,650/month.

**Section 179 Allowance** – S-Corp owners and partners can qualify for up to \$1,000 additional DI coverage by adding back to earned income 20 percent of their Section 179 Expense Deduction from Schedule E of their individual tax return. Two years of tax returns will be required to qualify for this additional benefit.

Example: A client earns \$120,000/year and has \$50,000 in Section 179 expense. As indicated above, the Business Owner's Allowance will be used to increase eligible benefits from \$5,750/month of DI to \$6,650/month of DI. Then the Section 179 allowance would be used to increase the income from \$144,000 to \$154,000 and the DI benefit to \$7,100.

## Summary of income documentation

Income documentation\* is required:

- For any application not using TeleApp
- For all ages and all benefit amounts applied for, if annual income is greater than \$150,000
- If benefit amount applied for is over \$3,000/month (single life case) or if over age 50 for all benefit amounts applied for
- If benefit amount applied for is over \$5,000/month (multi life case) or if over age 64 for all benefit amounts applied for

\* Income documentation could include: 1040-pages 1 and 2; W-2 if spouse is employed outside the home; Schedule C (or F if client is a farmer) or Schedule E if filed with the return.

**C-Corporation** – A separate and distinct legal entity with perpetual existence. It is a separate entity for legal and tax purposes, and shareholders of a corporation have limited liability:

- 1040 – pages 1 & 2
- W-2 form if spouse is employed outside the home
- Schedule E if filed with the return
- 1120 – C-Corporation return, pages 1 & 2

**Note:** For corporations showing a net loss, we may reduce earned income by the loss.

**Note: C-Corporation owners with less than 20 percent ownership or applying for \$4,000 or less monthly benefit are not required to provide a copy of the 1120 C-Corporation return.**

**S-Corporation** – A separate and distinct legal entity with perpetual existence. All profits and losses of the business are divided and distributed to the individual shareholders and are reportable on the shareholders' individual tax returns.

- 1040 – pages 1 & 2
- W-2 form if spouse is employed outside the home
- Schedule E
- 1120S – S-Corporation return, page 1, if including contributions to pension or profit sharing plans as earned income

**Note:** For corporations showing a net loss, we may reduce earned income by the loss.

**Non-Owner Employee** – Earned income includes salary, wages, regular overtime, bonus and commissions (less expenses). Employer contributions to 401(k) or 403(b) qualified retirement plans can be included as earned income up to \$5,000/year. The following Federal tax forms need to be submitted:

- 1040 – pages 1 & 2
- W-2 form for income verification (versus full tax return) if the employee's income is less than \$150,000/year.
- Schedule E if filed with the return

**DI Retirement Security (DIRS)** – No financial documentation is needed. Only Part A of the application, DIRS Supplement, and the trust agreement are needed. If applying for DI along with DIRS, the amount of DIRS benefit should be added to the DI benefit for a total monthly benefit that should be used to determine if additional financials are required.

## Summary of income documentation

ENTITY TYPE	INCOME SOURCE	TAX FORMS
<b>(Non Owner) Employee</b>  (Employer pay limits allowed if applicable)	Salary/Bonus	Form 1040, Line 7 (Wages) and Form W-2
	Pension/Profit Sharing	Pre-tax 401(k), 457, 403(b), or similar plans contributions Box 13 on W-2
<b>Sole Proprietor</b> (Employer pay limits not available)	Business Income	Form 1040, Schedule C, Line 31 (Net Profit or Loss)
	Pension/Profit Sharing	<b>Not applicable</b> , as Keogh/SEP not deducted on Schedule C
<b>Partner in a Partnership, Member of a Limited Liability Company</b> (Employer pay limits not available)	Salary (if wages paid)	Form 1040, Line 7 (Wages) and Form W-2
	Ordinary Income (loss) from partnership/LLC	Form 1040, Schedule E, Part II Nonpassive Income and Loss
	Pension/Profit Sharing	<b>Not applicable</b> , as retirement contribution not deductible for partner or LLC member on tax return
<b>Owner of an S-Corporation</b>  (Employer pay limits allowed only if 2% or less ownership share)	Salary/Bonus (if wages paid)	Form 1040, Line 7 (Wages) and Form W-2
	Ordinary Income (loss) from S-Corporation	Form 1040, Schedule E, Part II Nonpassive Income and Loss
	Pension/Profit Sharing	Form 1120S, Line 17, (Pension, profit sharing) (CAUTION: This reflects contributions for all employees; must determine owner's share). Also, any before-tax 401(k) contribution could be verified on W-2, box 13 ("D").
<b>Owner of a C-Corporation</b>  (Employer pay limits allowed if applicable)	Salary	Form 1040, Line 7 (Wages) and Form W-2
	Bonus	Form 1040, Line 7 (Wages) and form W-2; occasionally on 1040, Line 21 Miscellaneous income
	Income (loss) from Corporation	Form 1120, Line 28 (Taxable income before net operating loss deduction) (CAUTION: Must determine owner's share for multiple owner situations.)
		Example: percent ownership multiplied by Line 28.

(continued on next page)

## Summary of income documentation

ENTITY TYPE	INCOME SOURCE	TAX FORMS
	Pension/Profit Sharing	Form 1120, Line 24, (Pension, profit sharing) (CAUTION: This reflects contributions for all employees; must determine owner's share.) Also, any before-tax 401(k) contribution must be verified on W-2, box 13 ("D"). <b>Not required for less than 20% ownership or applying for benefits of \$4,000 or less.</b>

### Form Description

Form 1040 – Individual Income Tax Return

- Schedule C – Profit or Loss from Business
- Schedule E – Supplemental Income and Loss

Form 1120 – U.S. Corporation Income Tax Return

Form 1120S – U.S. Income Tax Return for an S-Corporation

Form W-2 – Wage and Tax Statement

**Projected Income** – Because of its uncertainty, projected income should not be used. Benefit amounts should be applied for based on past annual earnings, not future projections.

Federal tax returns are used as the basis for verifying all income. Since tax returns are filed on an annual basis, income should always be considered annually, rather than monthly. Do not project monthly income into an annual income.

**Earnings Patterns** – If the income pattern shows a decrease in income from one year to the next, base the benefit amount applied for on the lower, more recent income.

If there has been a significant increase in income from one year to the next, or over a several-year time period, apply for the coverage based on an average earned income rather than the highest, most recent earned income. An average of three years income should be used to determine the amount of DI benefits.

If the income pattern swings dramatically up and down, an average of three years income should be used to determine the amount of DI benefits. In these cases, however, it's very important to understand the reasons behind the income changes. It's a good idea to submit a cover letter explaining the circumstances surrounding unstable income patterns.

**Occupation Change** – Generally, a client's prior job earnings can be used on a current basis if new job earnings cannot yet be documented. Actual earnings can be used after new job earnings have been established for two years. Projections of earnings in the new job which exceed earnings from the prior job are not considered. Prior earnings are not used on a current basis if the occupation change was made to one with lower earnings, dissimilar duties, or to a different industry (i.e., changing from an attorney to a real estate agent).

If your client was an employee and has recently started a new business or purchased an existing business, see **New Business/Purchase of Existing Business**.

**New Business/Purchase of Existing Business** – The income potential of a new business or an existing business under new management and ownership is difficult to predict. Factors affecting the financial success of the business include:

- Experience and expertise of the owners
- Compatibility of the owners if there are more than one
- Ability to manage expenses
- Financial resources available to support the business if revenues are not adequate to do so
- General economic conditions
- Competitiveness of the particular line of business
- Ability to find qualified employees

The success rate for start-up small businesses is generally very low. Because of the possibility the new or recently purchased business may have a difficult time financially in the early months of operation, coverage within the first year of ownership will be considered on an individual case basis. After the business has been in operation for a year under the ownership of the client, we will consider coverage based on income verification for the year of operation. Coverage will not be considered based on projected earnings of the business.

### Unearned income

Unearned income is received from sources not directly related to actively working in an occupation. Because it is received even if the client is not able to perform any occupational duties, it is viewed as a form of self insurance. Significant unearned income results in overinsurance and is factored into the overall amount of coverage offered. Examples of unearned income are: capital gains, interest, net rentals, pension benefits, passive dividends, income from family trusts, alimony and royalties.

Unearned income will reduce the benefit amount available to the client only to the extent that it exceeds (a) 10 percent of earned income or (b) \$30,000 annually, *whichever is less*. Fifty percent (50 percent) of the monthly unearned income in excess of (a) or (b) above will be deducted from the maximum total benefit available to the client.

**Earned Income Up to \$300,000** – If unearned income is less than 10 percent of earned income, do not reduce the benefit amount available to the client. If unearned income *exceeds* 10 percent of earned income, calculate the monthly average of the amount over the 10 percent allowance. Reduce the maximum total benefit available to the client by 50 percent of this amount.

**Earned Income Over \$300,000** – If unearned income is less than \$30,000, do not reduce the benefit amount available to the client. If unearned income exceeds \$30,000, calculate the monthly average of the amount over \$30,000. Reduce the benefit amount available to the client by 50 percent of this amount.

## Net worth

Net worth may be significant to the underwriting of disability income insurance. Disability income coverage is not available to clients with a net worth exceeding \$6,000,000 (excluding their primary residence). Substantial net worth can result in overinsurance either from the unearned income generated by the underlying assets, or from the “income” that may be generated from the sale of the assets during disability. Substantial net worth provides the client with a means to self-insure when disabled.

## Maximum Issue and Participation Limits by occupation class<sup>1</sup>

The maximum monthly benefit amount (Disability Benefit and SIS) issued or participated with other companies (excluding Key Person Replacement, DI Retirement Security, Disability Buy-Out and Overhead Expense) is:

DI MAXIMUM MONTHLY ISSUE AND PARTICIPATION LIMITS		
OCCUPATION CLASS	ISSUE LIMIT	PARTICIPATION WITH OTHER IDI
5A, 4A, 3A	\$20,000	\$30,000
5A-M, 4A-M <sup>2</sup> , 3A-M <sup>2</sup>	\$15,000	\$25,000
2A	\$8,000	\$10,000
A	\$6,000	\$8,000

**Note:** These limits do not include Catastrophic Disability Benefit rider amounts or DI Retirement Security.

<sup>1</sup> See page 1-61 for Select Professional Limits and page 1-66 for Government Employee limits.

<sup>2</sup> Issue limit remains at \$10,000/month and the participation limit with other IDI coverage at \$20,000/month for policies written prior to the 700 Policy Series.

## Future Benefit Increase (FBI) rider Maximum Issue and Participation Limits by occupation class

The FBI rider is available on disability income policies according to the following issue and participation limit guidelines:

OCCUPATION CLASS	FBI MAXIMUM ISSUE AND PARTICIPATION LIMIT
5A, 4A, 3A,	\$17,000/month
5A-M, 4A-M, 3A-M	\$13,000/month*
2A	\$6,000/month
A	\$4,000/month

\* Limits are \$8,000/month for 4A-M and 3A-M policies written prior to the 700 policy series.

Maximum Issue and Participation Limits are also the basis for renewal of the FBI rider. If in force and applied for coverage with all companies exceeds the FBI Maximum Issue and Participation Limit, the FBI rider will not be renewed.

### Issue and participation limits table guidelines

5A, 5A-M, 4A, 4A-M, 3A, 3A-M and multi-Life 2A clients may apply for the total benefit amount as all base, or a combination of base and SIS. (SIS cannot exceed the SIS maximum.) Single-life 2A or all A clients must apply for a combination of base and SIS benefits to receive the maximum benefit available. They are not eligible to apply for the total benefit amount as all base.

To be eligible for SIS single-life and multi-life, the client must be contributing to Social Security. 2A single-life or A single-life or multi-life clients who have opted out of Social Security are eligible for the base amount plus one-half the SIS amount, all issued as base.

Sole proprietors, partners and owner/employees of S-Corporations or Limited Liability Companies are eligible for Individual Pay limits only. For details, refer to the Federal Income Tax Guide.

When programming around non-integrated coverage (i.e., coverage that is not offset by benefits payable by other plans), reduce the Disability Benefit by the amount of non-integrated benefits in force.

Example:

Income – \$3,000/month

Non-integrated coverage in force – \$1,000

Maximum monthly benefit – \$1,250 base, \$900 SIS

Maximum base benefit	\$1,250
Less coverage in force	<u>-1,000</u>
Eligible base benefit	\$250*

\* The \$250 base benefit is in addition to the full SIS benefit available (i.e., \$900).

## DI Issue and Participation Limits

Annual Earned Income	Individual Pay		
	Maximum Disability Benefit	Maximum SIS	Total Benefit
\$15,000	\$300	\$700	\$1,000
16,000	325	725	1,050
18,000	400	750	1,150
20,000	500	775	1,275
24,000	625	875	1,500
30,000	1,000	900	1,900
36,000	1,250	900	2,150
40,000	1,500	950	2,450
48,000	1,725	1,025	2,800
52,000	1,875	1,125	3,000
60,000	2,225	1,175	3,400
70,000	2,550	1,250	3,800
80,000	2,850	1,350	4,200
90,000	3,350	1,400	4,750
100,000	3,600	1,400	5,000
110,000	3,975	1,400	5,375
120,000	4,350	1,400	5,750
130,000	4,700	1,400	6,100
140,000	5,050	1,400	6,450
150,000	5,500	1,400	6,900
160,000	5,950	1,400	7,350
170,000	6,400	1,400	7,800
180,000	6,650	1,400	8,250
190,000	7,300	1,400	8,700
200,000	7,750	1,400	9,150
210,000	8,250	1,400	9,650
220,000	8,700	1,400	10,100
230,000	9,150	1,400	10,550
240,000	9,600	1,400	11,000
250,000	10,050	1,400	11,450
260,000	10,500	1,400	11,900
270,000	10,600	1,400	12,000
280,000	10,850	1,400	12,250
290,000	11,100	1,400	12,500
300,000	11,350	1,400	12,750
310,000	11,600	1,400	13,000
320,000	11,850	1,400	13,250
330,000	12,250	1,400	13,650
340,000	12,600	1,400	14,000
350,000	13,050	1,400	14,450
360,000	13,450	1,400	14,850
370,000	13,850	1,400	15,250
380,000	14,150	1,400	15,550
390,000	14,300	1,400	15,700
400,000	14,450	1,400	15,850

DI Issue and Participation Limits

Annual Earned Income	Individual Pay cont.		
	Maximum Disability Benefit	Maximum SIS	Total Benefit
\$420,000	\$14,600	\$1,400	\$16,000
440,000	14,800	1,400	16,200
460,000	14,950	1,400	16,350
480,000	15,100	1,400	16,500
500,000	15,200	1,400	16,600
520,000	15,850	1,400	17,250
540,000	16,600	1,400	18,000
560,000	17,100	1,400	18,500
580,000	17,600	1,400	19,000
600,000	18,150	1,400	19,550
620,000	18,600	1,400	20,000
640,000	19,100	1,400	20,500
660,000	19,600	1,400	21,000
680,000	20,100	1,400	21,500
700,000	20,500	1,400	21,900
720,000	20,900	1,400	22,300
740,000	21,300	1,400	22,700
760,000	21,700	1,400	23,100
780,000	22,000	1,400	23,400
800,000	22,300	1,400	23,700
820,000	22,600	1,400	24,000
840,000	22,900	1,400	24,300
860,000	23,200	1,400	24,600
880,000	23,500	1,400	24,900
900,000	23,800	1,400	25,200
920,000	24,100	1,400	25,500
940,000	24,400	1,400	25,800
960,000	24,700	1,400	26,100
980,000	25,000	1,400	26,400
1,000,000	25,300	1,400	26,700
1,020,000	25,600	1,400	27,000
1,040,000	25,900	1,400	27,300
1,060,000	26,200	1,400	27,600
1,080,000	26,500	1,400	27,900
1,100,000	26,800	1,400	28,200
1,120,000	27,100	1,400	28,500
1,140,000	27,400	1,400	28,800
1,160,000	27,700	1,400	29,100
1,180,000	28,000	1,400	29,400
1,200,000	28,300	1,400	29,700
1,220,000	28,600	1,400	30,000

## DI Issue and Participation Limits

Annual Earned Income	Employer Pay		
	Maximum Disability Benefit	Maximum SIS	Total Benefit
\$15,000	\$450	\$700	\$1,150
16,000	475	725	1,200
18,000	600	750	1,350
20,000	675	800	1,475
24,000	875	875	1,750
30,000	1,150	1,000	2,150
36,000	1,575	1,000	2,575
40,000	1,800	1,050	2,850
48,000	2,325	1,075	3,400
52,000	2,575	1,125	3,700
60,000	3,000	1,250	4,250
70,000	3,500	1,400	4,950
80,000	4,075	1,575	5,650
90,000	4,350	1,650	6,000
100,000	4,800	1,650	6,450
110,000	5,300	1,650	6,950
120,000	5,850	1,650	7,500
130,000	6,250	1,650	7,900
140,000	6,700	1,650	8,350
150,000	7,100	1,650	8,750
160,000	7,700	1,650	9,350
170,000	8,250	1,650	9,900
180,000	8,850	1,650	10,500
190,000	9,450	1,650	11,100
200,000	10,000	1,650	11,650
210,000	10,600	1,650	12,250
220,000	11,200	1,650	12,850
230,000	11,750	1,650	13,400
240,000	12,350	1,650	14,000
250,000	12,950	1,650	14,600
260,000	13,100	1,650	14,750
270,000	13,350	1,650	15,000
280,000	13,550	1,650	15,200
290,000	13,700	1,650	15,350
300,000	13,850	1,650	15,500
310,000	14,050	1,650	15,700
320,000	14,350	1,650	16,000
330,000	14,850	1,650	16,500
340,000	14,350	1,650	17,000
350,000	15,750	1,650	17,400
360,000	16,200	1,650	17,850
370,000	16,700	1,650	18,350
380,000	17,200	1,650	18,850
390,000	17,700	1,650	19,350
400,000	18,200	1,650	19,850
420,000	18,700	1,650	20,350
440,000	19,150	1,650	20,800
460,000	19,550	1,650	21,200
480,000	19,950	1,650	21,600

## DI Issue and Participation Limits, cont.

Annual Earned Income	Employer Pay		
	Maximum Disability Benefit	Maximum SIS	Total Benefit
\$500,000	\$20,350	\$1,650	\$22,000
520,000	20,750	1,650	22,400
540,000	21,150	1,650	22,800
560,000	21,550	1,650	23,200
580,000	21,950	1,650	23,600
600,000	22,350	1,650	24,000
620,000	22,750	1,650	24,400
640,000	23,150	1,650	24,800
660,000	23,550	1,650	25,200
680,000	23,950	1,650	25,600
700,000	24,350	1,650	26,000
720,000	24,750	1,650	26,400
740,000	25,150	1,650	26,800
760,000	25,550	1,650	27,200
780,000	25,950	1,650	27,600
800,000	26,350	1,650	28,000
820,000	26,750	1,650	28,400
840,000	27,150	1,650	28,800
860,000	27,550	1,650	29,200
880,000	27,950	1,650	29,600
900,000	28,350	1,650	30,000

## Group Supplement Limits Table Guidelines

Many employees have group long-term disability (LTD) or salary continuation plans available through their employer. If the employee is disabled, these benefits are almost always taxable to the employee and integrated with social insurance programs. Because of this, we offer Group Supplement Limits that allow a higher individual DI policy to be issued as a supplement to the taxable LTD benefit. Group Supplement Limits may only be used when the client has LTD in force or will be eligible for LTD within three years of the application.

**Group Supplement Limits are available to all occupation classes 5A, 5A-M, 4A, 4A-M, 3A, 3A-M, 2A and A.**

The DI illustration system will automatically calculate the maximum benefit available when the existing group LTD plan, state of residence and occupation class are entered. The calculation is:

If applying for **Individual Pay** DI:

1. Use the Individual Pay-Group Supplement Limits table to determine the maximum benefit available based on the client's earned income.
2. Multiply the LTD benefit by .75 and subtract from the answer above.

Example: Income – \$10,000/mo.; LTD – \$6,000/mo.

1. Individual Pay with LTD column for \$10,000/mo.  
income = \$6,800
2. Individual Pay with LTD \$6,800  
Less \$6,000 LTD x .75 -4,500  
Eligible Income Tax-free Benefit \$2,300

If applying for **Employer Pay** DI:

1. Use the Employer Pay-Group Supplement Limits table to determine the maximum benefit available based on the client's earned income.
2. Subtract the entire LTD benefit from the answer above.

Example: Income – \$10,000/mo.; LTD – \$6,000/mo.

1. Employer Pay with LTD column for \$10,000/mo.  
income = \$8,350
2. Employer Pay with LTD \$8,350  
Less \$6,000 LTD -6,000  
Eligible Taxable Benefit \$2,350

SIS is not available if the LTD benefit is greater than the SIS issue limit.

### Maximum Participation Limits by occupation class

DI MAXIMUM PARTICIPATION LIMITS WITH GROUP LTD	
OCCUPATION CLASS	PARTICIPATION LIMIT
5A, 4A, 3A	\$30,000
5A-M, 4A-M <sup>1</sup> , 3A-M <sup>1</sup>	\$25,000
2A	\$10,000
A	\$8,000

**Note:** These limits do not include Catastrophic Disability Benefit rider amounts.

<sup>1</sup> Participation limit at \$20,000/month for policies written prior to the 700 Policy Series.

### Participation Limits Group Supplement

INDIVIDUAL PAY		EMPLOYER PAY	
Annual Earned Income	Benefit Amount	Annual Earned Income	Benefit Amount
\$15,000	\$1,000/mo	\$15,000	\$1,100/mo
16,000	\$1,050	16,000	\$1,175
18,000	\$1,150	18,000	\$1,300
20,000	\$1,275	20,000	\$1,450
24,000	\$1,500	24,000	\$1,725
30,000	\$1,850	30,000	\$2,150
36,000	\$2,200	36,000	\$2,575
40,000	\$2,450	40,000	\$2,850
48,000	\$2,900	48,000	\$3,400
50,000	\$3,050	50,000	\$3,550
52,000	\$3,150	52,000	\$3,700
60,000	\$3,600	60,000	\$4,250
70,000	\$4,300	70,000	\$4,950
80,000	\$4,500	80,000	\$5,650
90,000	\$5,000	90,000	\$6,175
100,000	\$5,600	100,000	\$6,875
110,000	\$6,200	110,000	\$7,600
120,000	\$6,800	120,000	\$8,350
130,000	\$7,300	130,000	\$9,000
140,000	\$8,050	140,000	\$9,825
150,000	\$8,500	150,000	\$10,600
160,000	\$9,000	160,000	\$11,175
170,000	\$9,500	170,000	\$11,825
180,000	\$10,000	180,000	\$12,450
190,000	\$10,400	190,000	\$13,100
200,000	\$10,900	200,000	\$13,750
210,000	\$11,500	210,000	\$14,525
220,000	\$12,000	220,000	\$15,225
230,000	\$12,500	230,000	\$15,900
240,000	\$13,000	240,000	\$16,600

### Participation Limits Group Supplement

INDIVIDUAL PAY		EMPLOYER PAY	
Annual Earned Income	Benefit Amount	Annual Earned Income	Benefit Amount
240,000	\$13,000	240,000	\$16,600
250,000	\$13,450	250,000	\$17,375
260,000	\$14,000	260,000	\$17,950
270,000	\$14,500	270,000	\$18,675
280,000	\$15,000	280,000	\$19,350
290,000	\$15,500	290,000	\$20,050
300,000	\$16,100	300,000	\$20,400
310,000	\$16,650	310,000	\$21,175
320,000	\$17,200	320,000	\$21,850
330,000	\$17,750	330,000	\$22,275
340,000	\$18,250	340,000	\$22,950
350,000	\$18,750	350,000	\$23,250
360,000	\$19,300	360,000	\$24,000
370,000	\$19,800	370,000	\$24,650
380,000	\$20,350	380,000	\$25,000
390,000	\$21,000	390,000	\$25,500
400,000	\$21,500	400,000	\$26,000
420,000	\$22,500	420,000	\$26,900
440,000	\$23,750	440,000	\$27,500
460,000	\$24,750	460,000	\$28,700
480,000	\$25,750	480,000	\$30,000
500,000	\$26,750	500,000	\$30,000
520,000	\$27,750	520,000	\$30,000
540,000	\$28,750	540,000	\$30,000
560,000	\$29,500	560,000	\$30,000
580,000	\$30,000	580,000	\$30,000
600,000	\$30,000	600,000	\$30,000
610,000	\$30,000	610,000	\$30,000
620,000	\$30,000	620,000	\$30,000
640,000	\$30,000	640,000	\$30,000

## Adaptable Income Benefits (AIBs)

The primary purpose of an AIB is to program benefits around other in-force coverage. Up to two AIBs are available on the Disability Benefit and one on the SIS benefit. The AIB allows the initial Disability Benefit amount to be higher or lower than the ultimate Disability Benefit amount. The SIS AIB initial amount *must be lower* than the ultimate amount.

For occupation classes 5A, 5A-M, 4A, 4A-M, 3A or 3A-M, the Disability Benefit AIB may equal the total column of the Issue and Participation Limits table less any SIS benefit applied for that covers the same period. Neither the SIS AIB or the ultimate SIS benefit may exceed the maximum SIS listed in the Issue and Participation Limits table.

Example:

- Income – \$5,000/mo
- LTD – 60 percent with a 180-day elimination period, 5 year benefit period
- Client requests maximum benefit with a 90-day elimination period with benefits to age 65

AIB = \$3,400	AIB = \$1,350	DI = \$3,400
	LTD = \$3,000	

90                      180                      5 yrs                      65

For occupation classes 2A or A, the Disability Benefit AIB may equal the base amount plus one-half of the SIS benefit less any SIS benefit applied for that covers the same period. Neither the SIS AIB or the ultimate SIS benefit may exceed the maximum SIS listed in the issue and participation limits table.

Example:

- Income – \$2,000/mo
- LTD – 50 percent with a 180-day elimination period, 2 year benefit period

- Client requests maximum benefit with a 90-day elimination period with a 5 year benefit period

	AIB = \$750	
AIB = \$1,500	LTD = \$1,000	DI = \$1,500
90	180	2 yrs 5 yrs

### Select Professional Issue and Participation Limits

Select Professional limits are for professionals in their first two years of practice, participating in a residency/fellowship program or professional student. It is expected they will quickly attain the top earnings needed to qualify for higher benefit amounts.

These limits apply to Individual Pay or Employer Pay benefit amounts, and are offset by any individual, group\* or association coverage in force or applied for. Coverage may be applied for as all base or base and SIS. We do not offset for State Disability Insurance (SDI) benefits.

If a Select Professional is near completion of residency/fellowship and has a signed employment contract confirming employment to start within six months, additional benefits may be available depending on salary and group benefits available from the future employer. A copy of the signed employment agreement must be submitted.

Select Professionals are eligible for \$1,000/month in DI Retirement Security benefit.

See The Overhead Expense (OE) Section for OE Select Professional guidelines.

**NOTE:** If the Catastrophic Disability Benefit (CDB) is desired, the proposed insured may apply for CDB and DI coverage using a 1:1 ratio, up to the maximum limit available for that professional.

\* Group coverage will not be taken into consideration for doctor, dentist or veterinarian residents, interns or medical, dental, law or doctor of pharmacy students, or for doctors or dentists during their first two years in practice.

- Architect, Degreed – First two years as business owner .....\$4,000
- Attorney
  - First two years in practice .....\$4,000
  - *Law student* – third or fourth year.....\$2,000
- Certified Public Accountant (CPA) - First two years as business owner .....\$4,000
- Certified Registered Nurse Anesthetist (CRNA) - First two years in practice .....\$2,500
- Dentist
  - *D.D.S. Specialists<sup>1</sup>* - first two years in practice .....\$6,000
  - *D.D.S. Specialist<sup>1</sup> - Residents/Interns/Fellows:*
    - Within 180 days of completing their residency program .....\$6,000
    - First through last year .....\$4,000
  - *General D.D.S.* – First two years in practice .....\$5,000
  - *Dental Students:*
    - Within 180 days of entering private practice .....\$5,000
    - Third or fourth year.....\$2,500
- Doctor<sup>2</sup>
  - *Specialists<sup>1</sup>* – first two years in practice .....\$7,500
  - *Specialist<sup>1</sup>* – Residents/Interns/Fellows:
    - Within 180 days of completing their residency program .....\$7,500
    - First through last year .....\$5,000
  - *Other M.D., D.O.* - first two years in practice .....\$6,500

- *Other M.D., D.O.* – Residents/Interns/Fellows:
  - Within 180 days of completing their residency program .....\$6,500
  - First through last year .....\$5,000
  - *Medical Students* - third or fourth year .....\$2,500
- Engineer, Degreed - First two years as business owner .....\$4,000
- Nurse Practitioner - First two years in practice .....\$3,000
- Optometrist - First two years in practice .....\$4,000
- Pharmacist
  - First two years in practice .....\$4,000
  - First through last year resident/intern .....\$1,500
  - *Pharmacy Student* – last two years of Doctor of Pharmacy program .....\$1,500
- Ph.D. Psychologist - First two years as business owner .....\$3,000
- Physician Assistant - First two years in practice .....\$3,000
- Podiatrist
  - First two years in practice .....\$2,500
  - First through last year resident/intern .....\$1,500
- Veterinarian - First two years in practice .....\$4,000
  - First through last year resident/intern .....\$2,000
  - Student - third and fourth year .....\$2,000

<sup>1</sup> Specialists include: Gastroenterologist, Oncologist, Otolaryngologist, Cardiologist, Neonatologist, Urologist, Radiologist, Orthopedic Surgeon, Neurosurgeon

<sup>2</sup> The occupation class for medical students, residents and interns is based on the declared medical specialty of the client. If a medical specialty has not been declared, coverage will be considered at a 4A-M occupation class.

Since income verification is not necessary to be considered for coverage under the Select Professional Limits, tax returns are not required.

A blood profile and urinalysis are now required for all medical, dental, and fellowship students and residents if the BU rider is desired.

A blood profile and urinalysis are not required for physicians in their first two years of practice unless the amount of coverage requested requires it. For cases not requiring routine medical requirements, if application is written in ME, then Urine-HIV test is required.

The formula for obtaining the BU rider for all Select Professionals will be:

- 75% of the select professional limit; or
- 75% of the maximum benefit amount based on earned income and other in-force coverage.

Select Professionals do not need to submit income verification to qualify for the BU rider.

**Note:** If using these guidelines as a part of a medical resident or fellowship multi-life group, see the *“Guidelines for Multi-Life Discount Medical Residents and Fellows”* under the *“Sales Programs and Discounts”* section.

## State Disability Insurance (SDI)

Five states have state disability income programs. The following table shows the benefits payable in these states:

State	% of Monthly Income	Maximum Monthly Benefit	Benefit Period
California	55%	\$3,975	12 months
Hawaii	58%	2,200	6 months
New Jersey	66%	2,425	6 months
New York	50%	725	6 months
Rhode Island	60%	2,625	6 months

Since SDI is not taxable, Group Supplement Limits are not used. Instead, the calculated state disability amount is subtracted from the SIS benefit. Any remaining state disability benefit is then subtracted from the base benefit.

Example for Class 2A:

Income – \$5,000/month

State – CA – 55% x \$5,000 = \$2,750 (max = \$3,975)

Maximum monthly benefit – \$2,225 base, \$1,175 SIS

SIS amount	\$1,175	
Less SDI	<u>-2,750</u>	
Excess	\$-1,575	
Base amount	\$2,225	
Less excess	<u>-1,575</u>	
Base benefit	\$650	(from day 90 to 365)

**Note:** In California, Hawaii, New Jersey, New York and Rhode Island, SDI can be ignored at all income levels for 5A, 5A-M, 4A, 4A-M, 3A and 3A-M occupation classes when a policy is issued with a 90-day or longer elimination period.

**Note:** The Catastrophic Disability Benefit (CDB) amount is not impacted by SDI. Select Professional limits are not impacted by SDI.

## Government Employees – Local, State & Federal

**Occupation Classes:** 5A, 5A-M, 4A, 4A-M, 3A or 3A-M

**Issue Ages:** 18-50

**Elimination Periods:** 90, 180 or 365 day

**Minimum annual income:** \$30,000

**Maximum Issue Limits (Group Supplemental Limits available):**

- 5A, 4A, or 3A - \$3,000/month (all base benefit)
- 5A-M, 4A-M, or 3A-M - \$10,000/month (all base benefit)

**Available Riders:** Benefit Update, Capital Sum Benefit, Catastrophic Disability Benefit, Cost of Living Adjustment, Extended Total Disability Benefit, Presumptive Disability Benefit, Residual Disability and Recovery Benefit, Residual Disability Benefit\*, Recovery Benefit\*, Regular Occupation, Short-Term Residual Disability Benefit, Supplemental Health Benefit, and Transitional Occupation.

**Riders and Benefits Not Available:** Future Benefit Increase Rider and Social Insurance Substitute Benefit

**Years of service** (federal employees only) – No more than 10 years (including years served in the military)

Assume civil service FERS (Federal Employee Retirement System) disability coverage on federal employees of 40% of salary.

Copy of employee benefit booklet (local/state employees only) is **required**.

\* No longer available once the Residual Disability and Recovery Benefit rider has been approved.







## Section 2

# Overhead Expense (HH789 and HH702)

This section provides detailed information on the features, riders and underwriting of our Overhead Expense (OE) policy. Our illustration system will calculate rates for you.

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## Overview

The objective of Overhead Expense (OE) insurance is to reimburse a business owner for business expenses incurred during a disability. Our policy is designed for owners of small- and medium-sized businesses, whose personal service is key to the continued earning of business income.

Unlike DI policies, OE policies are reimbursement policies which pay an amount of monthly benefit based on actual expenses incurred, less earned income. Overhead Expense coverage is not a substitute for personal disability income coverage. It is important to have adequate disability income insurance to meet personal needs.

Overhead Expense insurance is only available to business owners. Exception is a non-owner who has a legal written document stating responsibility for a percentage of the business expenses. The percentage of total business expenses covered per owner equals the percentage of the owner's interest in the business. Not all benefits, features and riders are available in all states or to all occupation classes.

## Occupation classes/policy forms

Each client is classified according to their occupation. There are eight occupation classes for OE: 5A, 5A-M, 4A, 4A-M, 3A, 3A-M, 2A and A. Premiums, benefits and the availability of riders vary by occupation class. The premium class may be standard or an extra percentage of standard.

Policy Form – Overhead Expense HH789

## Premium rates

Premiums are dependent on many factors: age, occupation class, smoking status, benefit factor, elimination period, riders and others. All Overhead Expense policies are issued with male and female rates.

	SINGLE LIFE	MULTI-LIFE
Overhead Expense	Sex Distinct*	Sex Distinct*

\* Note: Written state of Montana requires unisex rates.

Two hundred dollars of annual pre-discounted premium is the minimum premium required to qualify for overhead expense insurance.

Premium quotes are available through the DI illustration system.

### **Issue ages**

The client's issue age has a direct impact on the premium paid for coverage – the older the client, the higher the premium. We use age as of last birthday. Backdating to save age is allowed for a maximum of 30 days prior to the application date. Our issue ages are 18-60.

### **Elimination periods**

The elimination period (EP) is the number of days the insured must wait before benefits begin to accrue. No benefits are paid for this period. Once disabled, the insured will receive benefits one month after the elimination period is satisfied. The shorter the elimination period, the higher the premium. The following are our available elimination periods:

30, 60, 90 days

For Business Loan Protection rider elimination periods, see Business Loan Protection rider section.

### **Benefit factors**

The benefit factor multiplied by the maximum monthly benefit equals the maximum aggregate benefit. The maximum aggregate benefit is the maximum amount payable for any one continuous disability. The following are our available benefit factors:

12, 15, 18, 24 and 30 times.

# Policy Description

**Note:** This policy description is a *general* summary. All features, provisions and riders may not be available in all states and may be subject to state variations. Refer to your state policy and rider forms for the full definition of all policy provisions, benefits, limitations and exclusions.

**Renewability** – The policies are non-cancelable and guaranteed renewable to Age 65 Policy Anniversary or five years from the policy date. This means we can't change or cancel the policy (except for nonpayment of premiums) or increase the premiums before the Age 65 Policy Anniversary or five years from the policy date if later, regardless of changes in the insured's expenses, occupation or health. The Owner may renew the policy each year thereafter for life if:

1. The insured is not receiving a benefit under the policy or any rider at the time of renewal
2. The Insured has been actively Working an average of 30 hours a week at the time of renewal and for the year preceding renewal; and responsible for business expenses at the time of renewal; and
3. The policy is in force with no premium in default; and
4. We receive the Owner's renewal request in writing by the Age 65 Policy Anniversary or, if applicable by the end of the five years from the policy date, and by each Policy Anniversary thereafter for any subsequent one-year renewals;
5. You pay the renewal policy premium, which will be based on those rates in effect for Your age at the time of renewal.

*State variation of provision – GA, TX*

**Definition of Total Disability** – Total Disability means solely due to Injury or Sickness:

1. You are unable to perform the substantial and material duties of Your Occupation; and
2. You satisfy the requirements of the Claim Information section of the policy.

*State variation of provision – LA, NJ*

**Advanced Benefit** – We will pay the first Maximum Monthly Benefit when due without receipt of the required documentation of the insured's Covered Overhead Expense for that month. Once the required documentation is received, any necessary adjustments in benefits will be made, as described in the Carry Forward of Benefits provision, Carry Forward of Expenses provision or the Overpayment of Benefits provision.

An Advanced Benefit will only be paid one time per claim and will reduce the Maximum Aggregate Benefit.

**Benefit Payable** – We will reimburse the Insured for their Covered Overhead Expenses for their Continuous Disability that begins on or after the Policy Date and while the policy is in-force and subject to the policy provisions. Benefits start to accrue at the end of the Elimination Period. Benefits will continue during the Insured's Continuous Disability, but not beyond the Maximum Aggregate Benefit.

For Total Disability, we will pay an amount equal to the Covered Overhead Expenses the Insured incurs each month up to the Maximum Monthly Benefit, but not to exceed the Maximum Aggregate Benefit.

**Carry Forward Feature** – The Insured's Covered Overhead Expenses in any one month of Disability may be less than the Maximum Monthly Benefit. If so, any unused benefit will be carried forward and applied to the Insured's Covered Overhead Expenses in a later month for the same continuous disability when the Insured's Covered Overhead Expenses exceed the Maximum Monthly Benefit.

**Carry Forward of Expenses** – The Insured's Covered Overhead Expenses in any one month of Disability may be greater than the Maximum Monthly Benefit. If so, any excess Covered Overhead Expenses will be carried forward and reimbursed in a later month for the same continuous disability when the Insured's Covered Overhead Expenses are greater than the Maximum Monthly Benefit.

**Covered Overhead Expenses** – Insured's share, based on their percentage of ownership or contractual agreement, of the usual and customary monthly Business expenses they are responsible for in the operation of the Business. These expenses must be incurred during Your Disability. Covered Overhead Expenses must be deductible for Federal Income Tax purposes and each expense cannot exceed what it was in the 12 consecutive months just prior to Disability. Expenses will be considered when recorded using the client's accounting method (cash versus accrual), and those expenses paid other than monthly are considered on a pro-rata basis as if paid monthly.

Covered Overhead Expenses include, but are not limited to:

1. Lease or principal and interest payments for space which the insured occupies and uses in the operation of their Business for which they are obligated to make payments prior to disability
2. Premiums for medical, malpractice, property or liability insurance
3. Utilities and telephone
4. Accounting, billing, legal and collection fees
5. Janitorial, security and maintenance services
6. Professional and trade dues and subscriptions
7. Leasing costs or principal and interest payments on loans for furniture and equipment used in the operation of the insured's business for which they were obligated to make payments prior to Disability
8. Employee salaries and benefits which are not excluded by number 1 in the list of Overhead Expenses NOT Covered (See below)

9. Miscellaneous office supplies and postage

10. Real estate taxes

11. Replacement Salary Expense

*State variation of provision – GA*

Overhead Expenses NOT Covered:

1. Salaries, wages, fees, drawing accounts, advances, bonuses, and other compensation, including benefits and pension and profit sharing contributions, for:
  - a. The insured,
  - b. Any other owner of the Business,
  - c. Any person sharing Business expenses with the insured,
  - d. Any person responsible for the generation of income in the Business not including the insured's replacement, and
  - e. Any person related to the insured by blood or marriage who was not a full-time paid employee, working at least 30 hours per week, in Your Business for at least 60 days before the insured's Disability began.
2. Overhead expenses, including business loan payments, which are covered under another policy for the insured's disability
3. The cost of medical/dental supplies, lab fees, x-ray fees and expenses passed on directly to a client
4. The cost of goods, inventory, merchandise, products and services
5. Depreciation, insurance premiums waived during Disability or any expense that does not require a cash payment
6. Any ongoing expenses after the sale of the Business, excluding lease agreements or mortgage payments, that are not terminated with the sale of the Business
7. Any expense the insured is not liable for in the normal course of their Business prior to a Disability

*State variation of provision – NE*

**Death Benefit** – If the Insured dies after satisfying the Elimination Period and while benefits are being paid, we will pay benefits during the three-month period immediately following the Insured's death for his or her portion of any Covered Overhead Expenses. Benefits will be paid as if the Insured was Totally Disabled with no Monthly Gross Income, subject to the Maximum Aggregate Benefit.

*State variation of provision – GA, KS*

*Not available – IL, NJ*

**Exchange Privilege** – Prior to age 60 Policy Anniversary, the Insured may exchange the policy for an individual disability income policy that we have available based on our then current underwriting guidelines without medical evidence of insurability if:

- The insured is not Disabled; and
- The policy is in force; and
- No premiums are in default; and
- The insured (and owner if different) complete an application

The premium will be based on our then current rates, the Insured's attained age and occupation. The new policy will contain any exclusions, ratings and limitations contained in the current OE policy. The new policy's Maximum Benefit Period will not be more than two years and the Elimination Period will be 90 days or greater. Its Maximum Monthly Benefit will be the lesser of \$2,500 or the maximum amount we are willing to offer under our current underwriting guidelines.

**Interrupted Elimination Period** – This provision allows the combination of separate periods of disability to satisfy the elimination period. These periods of disability must occur within a period of time that is up to twice as long as the elimination period and less than one year. The disabilities can be from the same or different causes.

**Legal/Accounting Fee Benefit** – If legal and accounting fees are incurred in the termination of the business due to disability, we will reimburse to the loss payee such fees up to a maximum of \$3,000. This benefit is paid in addition to the maximum monthly benefit and maximum aggregate benefit.

**Military Suspension** – This provision suspends the policy if the insured enters the military service on a full-time active-duty basis. The policy may be restored if active duty ends within five years of the suspension. The owner must request this within 180 days of the end of service. No premium is due during the service and no policy benefits are provided during that time. The policy restored is the same as before the suspension.

**Monthly Gross Income** – The insured's share based on their percentage of ownership or contractual agreement of the monthly gross receipts and other income generated for the business, including the monthly gross income generated by the insured's replacement, during the Insured's Disability, less the cost of goods, merchandise, products or services.

At the time a claim begins, the Insured can choose either the cash or accrual accounting method to determine Monthly Gross Income during Disability. In either case, gross receipts or other income received during Disability for work performed prior to the start of Disability will not be included as Monthly Gross Income during Disability.

Only that portion of monthly gross income generated by the Insured, his or her replacement, or income generated by others under the insured's supervision, management, or direction will be considered in determining monthly gross income.

**Presumptive Disability Benefit** – Is an Injury or Sickness resulting in total loss of use for any and every purpose or activity without any possibility of recovery of:

1. Power of speech; or
2. Hearing in both ears; or
3. Sight of both eyes; or
4. The use of both hands, both feet, or one hand and one foot.

We will consider the insured disabled and will reimburse covered overhead expense for Total Disability under the Benefit section, regardless of their ability to work or earn an income if they incur a Presumptive Disability. You will be considered Disabled as long as your Presumptive Disability continues.

You are not required to be under the regular care of a doctor. No new Elimination Period is required and the benefit will start to accrue on the date of loss. Monthly Benefits are paid as long as the loss continues, subject to the policy's Maximum Aggregate Benefit.

*State variation of provision – NJ*

**Recovery Benefit** – We will provide a benefit if:

1. The insured is no longer Disabled; and
2. The insured is not receiving benefits under the Benefit Section;
3. The insured returns to full-time work in their Occupation immediately after a Continuous Disability for which benefits were payable under the Benefit Section;
4. The insured has a Loss of Net Income;
5. The Loss of Net Income is solely due to the prior Injury or Sickness that caused disability; and
6. The insured satisfies the requirements of the Claim Information section of the policy.

The amount of benefit payable will be 50 percent of the Maximum Monthly Benefit for a maximum three-month period, but not to exceed the Maximum Aggregate Benefit or the insured's Age 65 Policy Anniversary or five years from the policy date, if later.

**Recurring Disability Benefit** – Means a continuation of a prior Disability when:

1. The recurrence of disability occurs while this policy is in force and results from the same or a related cause as a prior period of Disability for which we paid benefits or provided the Waiver of Premium Benefit; unless
2. After the prior disability ends you return to work at least 40 hours per week in any occupation for at least six consecutive months.

A Recurring Disability is a continuation of the prior Disability. No new Elimination Period is required. Benefits will be paid for the remainder of the Maximum Aggregate Benefit, if any.

**Reinstatement** – This provision allows the policy to be reinstated any time within one year after its termination, subject to our then current underwriting guidelines. A formal reinstatement application will also be required. A reinstated policy covers disabilities from a sickness that first manifests itself more than 10 days after reinstatement date, or an injury occurring after the reinstatement date.

**Transplant Surgery Benefit** – We will pay benefits under the Benefit Section if your disability results from surgery involving a transplant of a part of your body to another person.

**Waiver of Premium Benefit** – If Insured is Disabled, for the lesser of 90 days or the Elimination Period, we will:

1. Refund the monthly pro rata portion of any premium paid for coverage after the date a continuous Disability began; and
2. Waive the payment of premiums which come due during the continuous Disability.

Premium payments will begin on the next premium due date after the insured is no longer receiving benefits under this policy or the disability ends, whichever is later.

**Exclusions and Limitations** – This policy does not pay benefits for Injury or Sickness which in whole or in part is caused by, contributed by, or which results from:

1. Intentional, self-inflicted injury; or
2. The insured's commission of or their attempt to commit a criminal act, or their involvement in an illegal occupation or activity; or
3. The suspension, revocation or surrender of their professional or occupational license or certification; or
4. Active military service during a military action or conflict, or
5. Loss we have excluded by name or specific description in any attached rider or endorsement.

No benefits are payable for any period of Disability in which you are incarcerated in a penal or correctional institution for a period of 30 consecutive days or longer.

A sickness resulting from normal pregnancy and normal childbirth will be covered if the Elimination Period is equal to or greater than 90 days subject to the definition of disability.

There may be other exclusions or limitations in the policy in addition to those stated above. Any additional exclusions or limitations (if any) will be described in riders or endorsements attached to the policy. Examples include, but are not limited to: Modified Coverage rider, Additional Exception riders, etc.

**Limitation when Outside the United States or Canada –** Benefits will be limited to 12 months during the insured's Continuous Disability unless they reside in the United States or Canada for at least six consecutive months in each calendar year.

*State variation of provision – GA, IA, ID, IL, KS, LA, MA, MO, MT, ND, NE, NJ, OK, SD, TX, UT, WA, WI*

**Pre-Existing Condition Limitation –** We will not pay any claim for a Disability or loss which:

1. Begins within 12 months after the effective date of coverage(s); and
2. Results from a pre-existing condition which was not disclosed or was misrepresented in this policy's application.

Pre-existing condition means a condition:

1. For which medical treatment, testing or medication was recommended by a Doctor or received from a Doctor within the 12 month period prior to the effective date of coverage(s); or
2. Which has caused symptoms within the 12 month period prior to the effective date of coverage(s) which would cause an ordinarily prudent person to seek diagnosis, care or treatment.

*State variation of provision – GA, IA, ID, KY, MT, ND, NH, NJ, NM, SD, WY*

# HH789 Benefit Riders

**Automatic Increase Option (AIO) Rider** – The AIO rider automatically increases base policy benefits subject to the maximum issue and participation limit on each policy anniversary for six years, based on the change in the CPI-U. *Evidence of insurability is not required for the annual increases.* The minimum guaranteed increase is four percent compounded, and the maximum is 10 percent compounded. *There is no additional premium required for this rider.*

The AIO rider is issued automatically on all standard-premium policies for all occupation classes. Issue ages are 18-55. The rider may be renewed every six years, by submitting financial evidence of insurability. Premiums for AIO increases are based on the insured's attained age and the rates in effect at the time of the increase.

See the AIO Maximum Issue and Participation Limits Table. The AIO rider is not available on policies exceeding the benefit amounts indicated in the table.

The AIO rider does not apply to the Business Loan Protection rider.

The AIO rider is available in conjunction with Benefit Update.

*State variation of provision – GA*

**Benefit Update (BU) Rider** – The BU rider is a truly unique feature to Principal Life. For no additional premium this rider is automatically added to all standard premium policies for all occupation classes if at least 75 percent of eligible coverage is purchased at issue. Issue ages are 18-55. This feature allows the policyowner to increase policy benefits every three years without medical evidence of insurability. It's important to note the client maintains one policy and all definitions, provisions, current rates (at the attained age) and discounts of the original policy apply.

At three year intervals beginning with the policy date, Principal Life sends the insured correspondence regarding the opportunity for a BU review. The client must return a completed application and financial documentation.

Depending on the information submitted, we may offer to increase the coverage up to the maximum issue and participation limits for which they qualify – **there is no cap (or age restriction)**. The no cap feature is a competitive advantage over most companies' future insurability options which usually have pre-set benefit caps. At each BU option, the client must accept a minimum of 50 percent of the additional OE benefit offered or the rider will be removed from the policy.

You are kept up-to-date with client correspondence through the IDI Benefit Update Activity Report available on Principal eFP ([www.principal.com/financialprofessional](http://www.principal.com/financialprofessional)). You will receive a weekly e-mail notification (prompting you to login) when you have any BU activity on your inforce book of business. Confirm your e-mail address at [www.principal.com/verifyemail](http://www.principal.com/verifyemail).

**Business Loan Protection (BLP) Rider** – This rider may be added to the policy for an additional premium and is available to all occupation classes (3A and above preferred).

The BLP rider provides reimbursement for a monthly business loan obligation in the event of the insured's Total Disability. The maximum monthly disability benefit for this rider is based on the amount of the monthly loan payment, rounded up to the nearest dollar amount.

### BLP Issue and Participation Limits

BLP MAXIMUM MONTHLY AND AGGREGATE BENEFIT & PARTICIPATION LIMITS	
Maximum Monthly Benefit Issue Limit	\$10,000
Maximum Monthly Participation Limit	The amount of the monthly loan obligation
Maximum Aggregate Benefit Issue Limit	\$1,000,000
Maximum Aggregate Participation Limit	The total aggregate loan obligation

**Example 1:** A client has a total aggregate loan obligation (including principal and interest) of \$1,000,000 and the loan has monthly loan payments of \$20,000 payable over 50 months. The client would be eligible for:

- \$10,000/month BLP and
- \$10,000/month with another carrier.

**Example 2:** If the total aggregate loan obligation (including principal and interest) is \$3,000,000 and the loan has monthly loan obligations of \$15,000 payable over 200 months, clients could choose to have their BLP rider have either a:

- \$10,000/month for 100 months (total payout of \$1,000,000) or
- \$5,000/month for 200 months (total payout of \$1,000,000)

The balance of the monthly loan obligation or the total aggregate loan obligation could be funded with another carrier.

There must also be no reasonable job or work site modifications which would allow you to work.

This rider is not renewable beyond age 65.

The available Elimination Periods are 30, 60, 90, 180 and 365 days.

The BLP Termination Date will be based on the end of the financial obligation, with a minimum of three years and a maximum of 30 years, but may not exceed the loan termination date or the age 65 Policy Anniversary of the Overhead Expense Policy.

This rider provides reimbursement coverage for a variety of business-related financial loan obligations, such as:

- Purchase of a practice or existing business
- Purchase of a large piece of equipment
- Expansion of the business or practice
- Facility renovations and improvements
- Purchase of a building used solely for the business

We will consider covering the following types of loan obligations in the event of a total disability:

- Balloon<sup>1</sup>
- Term
- Variable rate<sup>2</sup>
- Commercial mortgage
- Lease financing
- Loans for working capital or increase in inventory

Types of loans not covered:

- Investment<sup>3</sup>
- Line of credit
- Credit card
- Revolving line of credit
- Interest only

**NOTE:** Client can purchase an Overhead Expense insurance policy with a zero dollar benefit to obtain loan coverage with the BLP rider. No additional riders will be available.

*State variation of provision – IL, NJ, TN*

*Not available – CA, CO, FL, MD, NY*

<sup>1</sup> Balloon loans are written for a specific number of years, with a balloon payment at the end of the period. These loans may be amortized over a longer period of time. The BLP rider covers the amount of the payment for the contractual time period as started in the loan agreement (minimum of three years) rather than the amortized payment over the longer time period.

<sup>2</sup> Variable interest rate loans can result in fluctuations in the monthly loan payment. The eligible monthly BLP amount is calculated using the lowest interest rate stipulated in the loan agreement.

<sup>3</sup> Investment loans are loans that are taken out solely to finance an investment. They are not eligible loans because the proposed insured is not actively working on a full-time basis in the business.

**Residual Disability Benefit Rider** – This rider may be added to the policy for an additional premium and is available to 5A, 5A-M, 4A, 4A-M, 3A, 3A-M and 2A occupation classes.

Residual Disability means:

1. Insured is not Totally Disabled; and
2. Solely due to Injury or Sickness:
  - a. They are able to perform some, but not all, of the substantial and material duties of Your Occupation or they are unable to perform full-time work in their occupation; and
  - b. They incur a monthly Loss of Net Income; and
3. Satisfy the requirements of the Claim Information section.

We will pay an amount equal to the Loss of Net Income the Insured incurs each month up to the Maximum Monthly Benefit, but not to exceed the Maximum Aggregate Benefit.

For the first six months of a Residual Disability following the elimination period, the benefit payable will not be less than 50 percent of the Maximum Monthly Benefit.

*State variation of provision – NJ*

# Overhead Expense Underwriting Guidelines

## Maximum Issue and Participation (I&P) Limits by occupation class

The maximum monthly benefit issued with other companies (excluding key person replacement, disability buy-out, business loan protection and disability income insurance) is:

OCCUPATION CLASS	ELIMINATION PERIOD	12-MONTH BENEFIT FACTOR	15-MONTH BENEFIT FACTOR	18-MONTH BENEFIT FACTOR	24-MONTH BENEFIT FACTOR	30-MONTH BENEFIT FACTOR
5A-5A-M 4A-4A-M 3A-3A-M	30 Days	\$30,000/month				
5A-5A-M 4A-4A-M 3A-3A-M	60/90 Days	\$50,000/month	\$40,000/month		\$30,000/month	
2A-A	30/60/90 Days	\$10,000/month				

## Automatic Increase Option (AIO) rider Maximum Issue and Participation Limits by occupation class

The AIO rider is available on Overhead Expense policies (excluding any Business Loan Protection rider coverage) according to the following issue and participation limit guidelines:

OCCUPATION CLASS	ELIMINATION PERIOD	12-MONTH BENEFIT FACTOR	15-MONTH BENEFIT FACTOR	18-MONTH BENEFIT FACTOR	24-MONTH BENEFIT FACTOR	30-MONTH BENEFIT FACTOR
5A-5A-M 4A-4A-M 3A-3A-M	30 Days	\$28,000/month				
5A-5A-M 4A-4A-M 3A-3A-M	60/90 Days	\$46,000/ month	\$37,000/ month		\$28,000/ month	
2A-A	30/60/90 Days	\$8,000/month				

These AIO Maximum Issue and Participation Limits are also the basis for renewal of the AIO rider. If in force and applied for coverage with all companies exceeds the AIO Maximum Issue and Participation Limit, the AIO rider will not be renewed.

### Number of owners

Overhead Expense is available to professional fee-for-service businesses if there are eight or less owners. Other businesses are eligible for Overhead Expense if there are four or less owners.

## **Income-producing, non-owner employees**

Overhead Expense insurance reimburses the business owner for eligible business expenses when the owner is unable to work, resulting in a loss of income to the business. If there are other non-owner employees that are able to continue to generate income in the absence of the owner, there may not be a need for overhead expense insurance. For example: If the owner of a florist shop became disabled and there were other employees capable of arranging and selling flowers, there would be little loss of income to the business, and little need for overhead expense insurance. The real test is whether or not the business would incur a significant, and reasonably immediate, loss of income in the event of the disability of the owner. Contact your DI underwriter if you have questions about the eligibility of your client for Overhead Expense insurance.

## **Expense and BLP verification requirements**

Minimum earned income is \$15,000/year as indicated on federal tax returns. Verification of personal earned income is not required for overhead expense unless requested by your DI underwriter.

If the proposed insured is overinsured for personal disability income insurance, Overhead Expense coverage and/or any Business Loan Protection coverage is not available. A proposed insured that is overinsured for individual disability income insurance will have less incentive to return to work. This results in the DI claim and the OE claim being for a longer duration than might otherwise be expected.

The Overhead Expense Statement must be submitted with all OE applications, as it is made part of the policy.

If total Overhead Expense insurance and/or Business Loan Protection rider in force and applied for with all companies exceeds \$10,000 per month, expense verification is required. In addition, expense verification may be requested to clarify or justify the benefit applied for.

Expense verification, when required, needs the following forms submitted:

**Sole Proprietorship** – Schedule C (including all supplemental schedules) or Profit and Loss (Income) Statement for the last 12 months.

**Partnership** – 1065 Partnership return (including all supplemental schedules), or Profit and Loss (Income) Statement for the last 12 months.

**Limited Liability Company** – If Partnership: 1065 Partnership return (including all supplemental schedules), or Profit and Loss (Income) Statement for the last 12 months. If S-Corporation: 1120S S-Corporation return (including all supplemental schedules), or Profit and Loss (Income) Statement for the last 12 months.

**C-Corporation** – 1120 C-Corporation return (including all supplemental schedules), or Profit and Loss (Income) Statement for the last 12 months.

**S-Corporation** – 1120S S-Corporation return (including all supplemental schedules), or Profit and Loss (Income) Statement for the last 12 months.

**Loan Documentation** – When applying for the BLP rider, loan documentation must be submitted. The following will serve as loan documentation:

- Loan has closed:
  - Copy of executed loan agreement that has been dated, signed by all parties and includes the name of the borrower, name of lender, loan number, loan amount, amount of the monthly loan payment, date of the initial loan payment, duration of the loan and purpose of the loan
- Loan has not closed:
  - Either of the following may be submitted – commitment letter, promissory note or letter or email from bank personnel

- Commitment letters and promissory notes should be dated and appropriately signed by all parties.
- A letter or email from bank personnel should be dated, signed and contain the title of the bank personnel.
- All should include the name of the borrower, name of the lender, amount of the loan, amount of monthly loan payment, projected initial loan payment due, duration of the loan, purpose of the loan and expiration date of the letter, note or offer.
- If the expiration date has been reached the document is no longer valid and updates will be required.
- If the loan has closed, a copy of the loan agreement should be submitted. If the loan has not yet closed, updated documents could be included with an updated commitment letter, promissory note or a letter/email from bank personnel providing updated details.
- If there are any conditions listed in the document that must be met before the loan can be made, there needs to be a realistic expectation that the conditions can be met.

### Covered overhead expenses

A business owner has many business expenses; however, not all of them may be covered by an OE policy. The amount of benefit issued is based on the owner's share of the usual and customary monthly business overhead expenses the owner is responsible for in the operation of the business/practice. OE coverage is based on percent ownership in the business.

The expenses must be deductible for federal income tax purposes. Covered overhead expenses include, but are not limited to:

**Accountant or Accounting Services** – Covered – if a recurrent and ongoing expense. See "Professional Fees" for further guidance.

**Advertising** – Covered – if an ongoing, contracted expense.

**Answering Service/Beeper** – Generally covered – since usually on a fixed monthly basis.

**Car Insurance** – Sometimes covered – to the extent vehicle is used for business purposes and is necessary for continuation of the business, this item is covered on a pro-rata basis. Personal use is not covered.

**Car Loan** – Sometimes covered – to the extent vehicle is used for business purposes, this item is covered on a pro-rata basis. Interest expense is only covered if vehicle is necessary for continuation of the business.

**Car Rental** – Sometimes covered – expense is only covered if vehicle is necessary for continuation of the business.

**Conventions** – Not covered.

**Cost of Goods Sold, Merchandise or Products** – Not covered.

**Credit Bureau Collection** – Generally not covered – because if the insured is disabled, there should not be any current services being performed to warrant any current collection activities. This expense would normally only relate to income earned prior to disability (1-2 years from date of service).

**Depreciation** – Not covered.

**EKG Service** – Not covered – expense is usually passed on to the patient.

**Electricity** – Covered.

**Employee Benefits** – Sometimes covered – medical, life, LTD, etc., on eligible employees only. Benefits for the client or members of the same profession are not covered.

**Entertainment** – Not covered.

**Equipment Loans** – Covered.

**Heat** – Covered.

**Insurance Premiums (Malpractice, Liability, Property)** – Covered – if premiums are not waived during disability.

**Janitorial/Maintenance/Security Services** – Covered.

**Lab Fees** – Not covered – expenses are usually passed on to the patient.

**Laundry** – Covered.

**Leased Equipment** – Covered – if necessary for continuation of the business.

**Legal Fees** – Sometimes covered – need to know purpose of the fee. If nonrecurrent, expense not covered.

**Liability Insurance** – Covered.

**Life and Medical Insurance** – Sometimes covered – on eligible employees only.

**Loan to Buy a Business** – Not covered\* – this is a capital asset that is appreciating in value. Where business acquisition loans include equipment and other depreciable assets which are generally covered expenses, give the breakdown as to the percentage of the loan payment that applies.

\* May be considered under the Business Loan Protection rider.

**Loan to Purchase Business-Related Equipment and Real Estate** – Covered – Interest and principal are covered expenses. Covered assets: examples: medical/dental equipment, office furniture and equipment, building (to the extent owned and occupied by the firm.) Not covered assets: insured's personal vehicle, airplane, investment real estate.

**Malpractice Insurance** – Covered.

**Medical Supplies/X-Ray Supplies** – Not covered.

**Mortgage/Rent** – Covered – both rent and mortgage interest and principal are covered; however, generally not together. If the business owns and occupies the building, then only mortgage interest and principal is covered (cannot rent from itself). If there are two locations which are occupied by the business, it is possible to have both rent and mortgage interest (owns one building and rents the other).

**Moving Expenses** – Not covered.

**OE Premium** – Not covered.

**Office Supplies** – Covered – examples: paper, writing utensils, etc. Supplies directly related to the insured's work are NOT covered.

**Parking Fees** – Not covered.

**Past Due Bills** – Not covered – bills for expenses that were incurred prior to disability are not covered. The OE policy is to reimburse expenses incurred while disabled, not to help liquidate prior obligations.

**Payroll Taxes** – Covered – use 10 percent of payroll expense as a reasonable rule of thumb for payroll tax expense. This covers: FICA Expense – 7.65 percent; Federal Unemployment – .8 percent; and State Unemployment – 1.6 percent.

**Personal Taxes** – Not covered.

**Professional Dues and Memberships** – Covered – generally covered since continued membership in professional organizations is necessary to maintain an insured's professional level of knowledge. Dues and membership to private clubs, country clubs, etc., would not be covered.

**Professional Fees** – Sometimes covered – Covered: fees to professional organizations. Legal and accounting fees subject to comments noted for specific expense account. Not covered: services performed by individual organizations of same or similar profession, or supporting professions.

**Real Estate Taxes** – Covered – only if building is owned by the business, houses the business, and is not a real estate investment of the business.

**Rent/Mortgage** – Covered – both rent and mortgage interest and principal are covered; however, generally not together. If business owns and occupies the building, then only mortgage interest and principal is covered (cannot rent from itself). If there are two locations which are occupied by the business, it is possible to have both rent and mortgage interest (owns one building and rents the other).

**Rental Equipment** – Covered – if necessary for continuation of the business.

**Repairs** – Sometimes covered – equipment repairs would be covered.

**Replacement Expense** – Covered – the compensation to employ a replacement must be reasonable in relation to the duties performed and should not exceed a maximum of 50 percent of the client's earned income.

**Salaries** – Sometimes covered – generally, salaries and benefits for administrative non-income producing employees are covered.

Not covered salary expenses include: salaries, wages, fees, drawing accounts, advances, bonuses and other remuneration, including benefits for:

- The client,
- Any person sharing business expenses with the client,
- Any member of the client's profession,
- Any individual hired to perform the client's duties during disability\* may be covered under Replacement Expense as noted above,
- Any person responsible for the generation of income in the business, and
- Any member of the client's immediate family who was not a full-time paid employee of the business for at least 60 days before disability began.

\* This includes any person capable of performing the same duties as the client. For example, a legal assistant is not considered to be in the same profession as an attorney. Note, however, that a legal assistant may be included as "any person responsible for the generation of income in the business."

**School Loans** – Not covered – this is a personal obligation, not a business expense.

**Subscriptions** – Sometimes covered – the maintenance and renewal of professional materials are covered (i.e., subscriptions for medical, legal or accounting journals and research texts).

**Telephone** – Covered.

**Travel** – Not covered.

**Utilities** – Covered.

**Water** – Covered.

**Workers' Compensation Insurance** – Covered – for eligible employees only.

## Select Professional Issue and Participation Limits

Select Professional Overhead Expense and BLP limits are for professionals in their first two years of practice who have business ownership.

The following occupations qualify for up to \$10,000/month of combined Overhead Expense and BLP rider coverage:

Architect, Degreed	Nurse Practitioner
Attorney	Optometrist
Certified Public Accountant (CPA)	Pharmacist
Certified Registered Nurse Anesthetist (CRNA)	Ph.D. Psychologist
Dentist - DDS	Physician Assistant
Doctor - M.D., D.O	Podiatrist
Engineer, Degreed	Veterinarian

Tax returns are not required. A fully completed Overhead Expense Statement is required, and if applying for the BLP rider loan documentation is required.

## Overview

The objective of Overhead Expense (OE) insurance is to reimburse a business owner for business expenses incurred during a disability. Our policy is designed for owners of small- and medium-sized businesses, whose personal service is key to the continued earning of business income.

Unlike DI policies, OE policies are reimbursement policies which pay an amount of monthly benefit based on actual expenses incurred, less earned income. Overhead Expense coverage is not a substitute for personal disability income coverage. It is important to have adequate disability income insurance to meet personal needs.

Overhead Expense insurance is only available to business owners. Exception is a non-owner who has a legal written document stating responsibility for a percentage of the business expenses. The percentage of total business expenses covered per owner equals the percentage of the owner's interest in the business. Not all benefits, features and riders are available in all states or to all occupation classes.

## Occupation classes/policy forms

Each client is classified according to their occupation. There are eight occupation classes for OE: 5A, 5A-M, 4A, 4A-M, 3A, 3A-M, 2A and A. Premiums, benefits and the availability of riders vary by occupation class. The premium class may be standard or an extra percentage of standard.

Policy Form – Overhead Expense HH702

## Premium rates

Premiums are dependent on many factors: age, occupation class, smoking status, benefit factor, elimination period, riders and others. All Overhead Expense policies are issued with male and female rates.

	SINGLE LIFE	MULTI-LIFE
Overhead Expense	Sex Distinct*	Sex Distinct*

\* Note: Written state of Montana requires unisex rates.

Two hundred dollars of annual pre-discounted premium is the minimum premium required to qualify for overhead expense insurance.

Premium quotes are available through the DI illustration system.

### **Issue ages**

The client's issue age has a direct impact on the premium paid for coverage – the older the client, the higher the premium. We use age as of last birthday. Backdating to save age is allowed for a maximum of 30 days prior to the application date. Our issue ages are 18-60.

### **Elimination periods**

The elimination period (EP) is the number of days the insured must wait before benefits begin to accrue. No benefits are paid for this period. Once disabled, the insured will receive benefits one month after the elimination period is satisfied. The shorter the elimination period, the higher the premium. The following are our available elimination periods:

30, 60, 90 days

For Business Loan Protection rider elimination periods, see Business Loan Protection rider section.

### **Benefit factors**

The benefit factor multiplied by the maximum monthly benefit equals the maximum aggregate benefit. The maximum aggregate benefit is the maximum amount payable for any one continuous disability. The following are our available benefit factors:

12, 18 and 24 times.

# Policy Description

**Note:** This policy description is a *general* summary. All features, provisions and riders may not be available in all states and may be subject to state variations. Refer to your state policy and rider forms for the full definition of all policy provisions, benefits, limitations and exclusions.

**Renewability** – The policies are non-cancelable and guaranteed renewable to age 65. This means we can't change or cancel the policy (except for nonpayment of premiums) or increase the premiums before age 65, regardless of changes in the insured's expenses, occupation or health. The Owner may renew the policy on a year-to-year basis after the Insured's Age 65 Policy Anniversary if:

1. The Insured has been actively Working an average of 30 hours a week for the year preceding renewal; and
2. The Insured is Working at least 30 hours a week at the time of renewal; and
3. The policy is in force with no premium in default; and
4. You pay the renewal policy premium, which will be based on those rates in effect for Your age at the time of renewal.

For Disabilities beginning on or after the Insured's Age 65 Policy Anniversary, the Maximum Monthly Benefit and Maximum Aggregate Benefit will be the same.

*State variation of provision – TX*

**Definition of Total Disability** – Total Disability means solely due to Injury or Sickness:

1. You are unable to perform the substantial and material duties of Your Occupation; and
2. You are not Working; and
3. You satisfy the requirements of the Claim Information section of the policy.

*State variation of provision – MD, UT, VA*

**Benefit Payable** – For Total Disability, we will pay an amount equal to the Covered Overhead Expenses the Insured incurs each month up to the Maximum Monthly Benefit, but not to exceed the Maximum Aggregate Benefit.

Benefits start to accrue at the end of the Elimination Period and will continue during the Insured's Disability. Benefits will not be paid for more than three months beyond the Insured's Age 65 Policy Anniversary except as described under the Renewal After Age 65 section.

*State variation of provision – MD, NY*

**Carry Forward Feature** – The Insured's Covered Overhead Expenses in any one month of Disability may be less than the Maximum Monthly Benefit. If so, any unused benefit will be carried forward and applied to the Insured's Covered Overhead Expenses in a later month for the same continuous disability when the Insured's Covered Overhead Expenses exceed the Maximum Monthly Benefit.

The Insured's Covered Overhead Expenses in any one month of Disability may be greater than the Maximum Monthly Benefit. If so, any excess Covered Overhead Expenses will be carried forward and reimbursed in a later month for the same continuous disability when the Insured's Covered Overhead Expenses are greater than the Maximum Monthly Benefit.

*State variation of provision – MD*

**Covered Overhead Expenses** – Your share, based on Your percentage of ownership or contractual agreement, of the usual and customary monthly Business expenses You are responsible for in the operation of the Business. These expenses must be incurred during Your Disability. Covered Overhead Expenses must be deductible for Federal Income Tax purposes and each expense cannot exceed what it was prior to Disability. Expenses paid other than monthly are considered on a pro-rata basis as if paid monthly.

Covered Overhead Expenses include, but are not limited to:

1. Lease or principal and interest payments for space which You occupy and use in the operation of Your Business
2. Premiums for malpractice, property or liability insurance
3. Utilities and telephone
4. Accounting, billing, legal and collection fees
5. Janitorial, security and maintenance services
6. Professional and trade dues and subscriptions
7. Leasing costs or principal and interest payments on loans for furniture and equipment used in the operation of Your Business for which You were obligated to make payments prior to Disability
8. Employee salaries and benefits which are not excluded by number 1 in the list of Overhead Expenses NOT Covered (See below.)
9. Miscellaneous office supplies and postage
10. Real estate taxes
11. Replacement Salary Expense

Overhead Expenses NOT Covered:

1. Salaries, wages, fees, drawing accounts, advances, bonuses, and other compensation, including benefits and pension and profit sharing contributions, for:
  - a. You,
  - b. Any other owner of the Business,
  - c. Any person sharing Business expenses with You,
  - d. Any person responsible for the generation of income in Your Business, and
  - e. Any person related to You by blood or marriage who was not a full-time paid employee, working at least 30 hours per week, in Your Business for at least 60 days before Your Disability began.
2. Overhead expenses which are covered under another overhead expense policy

3. The cost of medical/dental supplies, lab fees, x-ray fees and expenses passed on directly to a client
4. The cost of goods, inventory, merchandise, products and services
5. Depreciation, insurance premiums waived during Disability or any expense that does not require a cash payment
6. Any ongoing expenses after the sale of Your Business, excluding lease agreements or mortgage payments, that are not terminated with the sale of the Business
7. Any expense You were not liable for in the normal course of Your Business prior to a Disability

**Death Benefit** – If the Insured dies after satisfying the Elimination Period and while benefits are being paid, we will pay benefits during the three-month period immediately following the Insured's death for his or her portion of any Covered Overhead Expenses. Benefits will be paid as if the Insured was Totally Disabled with no Monthly Gross Income, subject to the Maximum Aggregate Benefit.

*State variation of provision – GA, MD, MN, SC*

*Not available – IL, NJ*

**Exchange Privilege** – Prior to age 60, the Insured may exchange the policy for an individual disability income policy without medical evidence of insurability. The premium will be based on our then current rates, the Insured's attained age and occupation. The new policy's Maximum Benefit Period will not be more than two years and the Elimination Period will be 90 days or greater. Its Maximum Monthly Benefit will be the lesser of \$2,500 or the maximum amount we are willing to offer under our current underwriting guidelines.

*Not available – NY*

**Interrupted Elimination Period** – This provision allows the combination of separate periods of disability to satisfy the elimination period. These periods of disability must occur within a period of time that is up to twice as long as the elimination period and less than one year. The disabilities can be from the same or different causes.

**Legal/Accounting Fee Benefit** – If legal and accounting fees are incurred in the termination of the business due to disability, we will reimburse to the loss payee such fees up to a maximum of \$3,000. This benefit is paid in addition to the maximum monthly benefit and maximum aggregate benefit.

**Military Suspension** – This provision suspends the policy if the insured enters the military service on a full-time basis. The policy may be restored if active duty ends within five years of the suspension. The owner must request this within 180 days of the end of service. No premium is due during the service and no policy benefits are provided during that time. The policy restored is the same as before the suspension.

**Monthly Gross Income** – The insured's share of the monthly gross receipts and other income of the business during the Insured's Disability, less the cost of goods, merchandise, products or services. This includes income generated by the Insured, his or her replacement, or income attributed to the Insured. If totally disabled, monthly gross income is not considered.

At the time a claim begins, the Insured can choose either the cash or accrual accounting method to determine Monthly Gross Income during Disability. In either case, gross receipts or other income received during Disability for work performed prior to the start of Disability will not be included as Monthly Gross Income during Disability.

**Presumptive Disability Benefit** – Is an Injury or Sickness resulting in total loss of use for any and every purpose or activity without any possibility of recovery of:

1. Power of speech; or
2. Hearing in both ears; or
3. Sight of both eyes; or
4. The use of both hands, both feet, or one hand and one foot.

We will consider you disabled and pay benefits for Total Disability under the Benefit section, regardless of your ability to work or earn an income if you incur a Presumptive Disability. You will be considered Disabled as long as your Presumptive Disability continues.

You are not required to be under the regular care of a doctor. No new Elimination Period is required and the benefit will start to accrue on the date of loss. Monthly Benefits are paid as long as the loss continues, subject to the policy's Maximum Aggregate Benefit.

*State variation of provision – IA, NJ*

**Recovery Benefit** – We will provide a benefit if:

1. You are no longer Disabled; and
2. You are not receiving benefits under the Benefit Section;
3. You return to Full-Time Work in Your Occupation immediately after a Continuous Disability for which benefits were payable under the Benefit Section;
4. You have a Loss of Net Income;
5. Your Loss of Net Income is solely due to the prior Injury or Sickness that caused disability; and
6. You satisfy the requirements of the Claim Information section of the policy.

The amount of benefit payable will be 50 percent of the Maximum Monthly Benefit for a maximum three-month period, but not to exceed the Maximum Aggregate Benefit or the insured's Age 65 Policy Anniversary.

**Recurring Disability Benefit** – Means a continuation of a prior Disability when:

1. The disability results from the same or a related cause as a prior period of Disability for which we paid benefits or provided the Waiver of Premium Benefit; unless
2. After the prior disability ends you return to work at least 40 hours per week in any occupation for at least six consecutive months.

A Recurring Disability is a continuation of the prior Disability. No new Elimination Period is required. Benefits will be paid for the remainder of the Maximum Aggregate Benefit, if any.

*State variation of provision – UT, VA*

**Reinstatement** – This provision allows the policy to be reinstated any time within one year after its termination, subject to our then current underwriting guidelines. A formal reinstatement application will also be required. A reinstated policy covers disabilities from a sickness that first manifests itself more than 10 days after reinstatement date, or an injury occurring after the reinstatement date.

**Transplant Surgery Benefit** – We will pay benefits under the Benefit Section if your disability results from surgery involving a transplant of a part of your body to another person.

**Waiver of Premium Benefit** – If Insured is Disabled, after the lesser of 90 days or the Elimination Period, we will:

1. Refund the monthly pro rata portion of any premium paid for coverage after the date a continuous Disability began; and
2. Waive the payment of premiums which come due during the continuous Disability.

Premium payments will begin on the next premium due date after the insured is no longer receiving benefits under this policy or the disability ends.

**Exclusions and Limitations** – This policy does not pay benefits for Injury or Sickness which in whole or in part is caused by, contributed by, or which results from:

1. Intentional, self-inflicted injury; or
2. Your commission of or your attempt to commit a criminal act, or your involvement in an illegal occupation or activity; or
3. The suspension, revocation or surrender of your professional or occupational license or certification; or
4. Active military service during a military action or conflict.

No benefits are payable for any period of Disability in which you are incarcerated in a penal or correctional institution for a period of 30 consecutive days or longer.

A sickness resulting from pregnancy will be covered if the Elimination Period is equal to or greater than 90 days.

There may be other exclusions or limitations in the policy in addition to those stated above. Any additional exclusions or limitations (if any) will be described in riders or endorsements attached to the policy. Examples include, but are not limited to: Modified Coverage rider, Additional Exception riders, etc.

*State variation of provision – GA, IA, ID, MD, MN, MO, MT, NE, NJ, NY, PA, SC, TX, UT, VA, VT, WA*

# HH702 Benefit Riders

**Automatic Increase Option (AIO) Rider** – The AIO rider automatically increases base policy benefits subject to the maximum issue and participation limit on each policy anniversary for six years, based on the change in the CPI-U. *Evidence of insurability is not required for the annual increases.* The minimum guaranteed increase is four percent compounded, and the maximum is 10 percent compounded. *There is no additional premium required for this rider.*

The AIO rider is issued automatically on all standard-premium policies for all occupation classes. Issue ages are 18-55. The rider may be renewed every six years, by submitting financial evidence of insurability. Premiums for AIO increases are based on the insured's attained age and the rates in effect at the time of the increase.

See the AIO Maximum Issue and Participation Limits Table. The AIO rider is not available on policies exceeding the benefit amounts indicated in the table.

The AIO rider does not apply to the Business Loan Protection rider.

The AIO rider is available in conjunction with Benefit Update.

*State variation of provision – GA, MD, NC, NY*

**Benefit Update (BU) Rider** – The BU rider is a truly unique feature to Principal Life. For no additional premium this rider is automatically added to all standard premium policies for all occupation classes if at least 75 percent of eligible coverage is purchased at issue. Issue ages are 18-55. This feature allows the policyowner to increase policy benefits every three years without medical evidence of insurability. It's important to note the client maintains one policy and all definitions, provisions, current rates (at the attained age) and discounts of the original policy apply.

At three year intervals beginning with the policy date, Principal Life sends the insured correspondence regarding the opportunity for a BU review. The client must return a completed application and financial documentation.

Depending on the information submitted, we may offer to increase the coverage up to the maximum issue and participation limits for which they qualify – **there is no cap (or age restriction)**. The no cap feature is a competitive advantage over most companies' future insurability options which usually have pre-set benefit caps. At each BU option, the client must accept a minimum of 50 percent of the additional OE benefit offered or the rider will be removed from the policy.

You are kept up-to-date with client correspondence through the IDI Benefit Update Activity Report available on Principal eFP ([www.principal.com/financialprofessional](http://www.principal.com/financialprofessional)). You will receive a weekly e-mail notification (prompting you to login) when you have any BU activity on your inforce book of business. Confirm your e-mail address at [www.principal.com/verifyemail](http://www.principal.com/verifyemail).

**Business Loan Protection (BLP) Rider** – This rider may be added to the policy for an additional premium and is available to all occupation classes (3A and above preferred).

The BLP rider provides reimbursement for a monthly business loan obligation in the event of the insured's Total Disability. The maximum monthly disability benefit for this rider is based on the amount of the monthly loan payment, rounded up to the nearest dollar amount.

### BLP Issue and Participation Limits

BLP MAXIMUM MONTHLY AND AGGREGATE BENEFIT & PARTICIPATION LIMITS	
Maximum Monthly Benefit Issue Limit	\$10,000
Maximum Monthly Participation Limit	The amount of the monthly loan obligation
Maximum Aggregate Benefit Issue Limit	\$1,000,000
Maximum Aggregate Participation Limit	The total aggregate loan obligation

**Example 1:** A client has a total aggregate loan obligation (including principal and interest) of \$1,000,000 and the loan has monthly loan payments of \$20,000 payable over 50 months. The client would be eligible for:

- \$10,000/month BLP and
- \$10,000/month with another carrier.

**Example 2:** If the total aggregate loan obligation (including principal and interest) is \$3,000,000 and the loan has monthly loan obligations of \$15,000 payable over 200 months, clients could choose to have their BLP rider have either a:

- \$10,000/month for 100 months (total payout of \$1,000,000) or
- \$5,000/month for 200 months (total payout of \$1,000,000)

The balance of the monthly loan obligation or the total aggregate loan obligation could be funded with another carrier.

Total Disability – means solely due to Injury or Sickness:

1. You are unable to perform the substantial and material duties of Your Occupation; and
2. You are not Working, and
3. You satisfy the requirements of the Claim Information Section.

There must also be no reasonable job or work site modifications which would allow you to work.

This rider is not renewable beyond age 65.

The available Elimination Periods are 30, 60, 90, 180 and 365 days.

The BLP Termination Date will be based on the end of the financial obligation, with a minimum of three years and a maximum of 30 years, but may not exceed the loan termination date or the age 65 Policy Anniversary of the Overhead Expense Policy.

This rider provides reimbursement coverage for a variety of business-related financial loan obligations, such as:

- Purchase of a practice or existing business
- Purchase of a large piece of equipment
- Expansion of the business or practice
- Facility renovations and improvements
- Purchase of a building used solely for the business

We will consider covering the following types of loan obligations in the event of a total disability:

- Balloon<sup>1</sup>
- Term
- Variable rate<sup>2</sup>
- Commercial mortgage
- Lease financing
- Loans for working capital or increase in inventory

Types of loans not covered:

- Investment<sup>3</sup>
- Line of credit
- Credit card
- Revolving line of credit
- Interest only

**NOTE:** Client can purchase an Overhead Expense insurance policy with a zero dollar benefit to obtain loan coverage with the BLP rider. No additional riders will be available.

*State variation of provision – IL, MA, NJ, PA, TN, VA*

*Not available – CA, FL, LA, MD, NY, UT*

<sup>1</sup>Balloon loans are written for a specific number of years, with a balloon payment at the end of the period. These loans may be amortized over a longer period of time. The BLP rider covers the amount of the payment for the contractual time period as started in the loan agreement (minimum of three years) rather than the amortized payment over the longer time period.

<sup>2</sup>Variable interest rate loans can result in fluctuations in the monthly loan payment. The eligible monthly BLP amount is calculated using the lowest interest rate stipulated in the loan agreement.

<sup>3</sup>Investment loans are loans that are taken out solely to finance an investment. They are not eligible loans because the proposed insured is not actively working on a full-time basis in the business.

**Residual Disability Benefit Rider** – This rider may be added to the policy for an additional premium and is available to 5A, 5A-M, 4A, 4A-M, 3A, 3A-M and 2A occupation classes.

Residual Disability means:

1. You are not Totally Disabled; and
2. Solely due to Injury or Sickness:
  - a. You are able to perform some, but not all, of the substantial and material duties of Your Occupation; and
  - b. You incur a monthly Loss of Net Income; and
3. You satisfy the requirements of the Claim Information section.

We will pay an amount equal to the Loss of Net Income the Insured incurs each month up to the Maximum Monthly Benefit, but not to exceed the Maximum Aggregate Benefit.

Loss of net income is the amount by which monthly gross income is less than covered overhead expenses.

For the first six months of a Residual Disability following the elimination period, the benefit payable will not be less than 50 percent of the Maximum Monthly Benefit. The Residual Disability Benefit does not apply to the Business Loan Protection rider.

*State variation of provision – MD, NC, NJ, NY, VA*

# Overhead Expense Underwriting Guidelines

## Maximum Issue and Participation (I&P) Limits by occupation class

The maximum monthly benefit issued with other companies (excluding key person replacement, disability buy-out, business loan protection and disability income insurance) is:

OCCUPATION CLASS	ELIMINATION PERIOD	12-MONTH BENEFIT FACTOR	18-MONTH BENEFIT FACTOR	24-MONTH BENEFIT FACTOR
5A-5A-M 4A-4A-M 3A-3A-M	30 Days	\$30,000/month		
5A-5A-M 4A-4A-M 3A-3A-M	60/90 Days	\$50,000/ month	\$40,000/ month	\$30,000/ month
2A-A	30/60/90 Days	\$10,000/month		

## Automatic Increase Option (AIO) rider Maximum Issue and Participation Limits by occupation class

The AIO rider is available on Overhead Expense policies (excluding any Business Loan Protection rider coverage) according to the following issue and participation limit guidelines:

OCCUPATION CLASS	ELIMINATION PERIOD	12-MONTH BENEFIT FACTOR	18-MONTH BENEFIT FACTOR	24-MONTH BENEFIT FACTOR
5A-5A-M 4A-4A-M 3A-3A-M	30 Days	\$28,000/month		
5A-5A-M 4A-4A-M 3A-3A-M	60/90 Days	\$46,000/month	\$37,000/month	\$28,000/month
2A-A	30/60/90 Days	\$8,000/month		

These AIO Maximum Issue and Participation Limits are also the basis for renewal of the AIO rider. If in force and applied for coverage with all companies exceeds the AIO Maximum Issue and Participation Limit, the AIO rider will not be renewed.

### Number of owners

Overhead Expense is available to professional fee-for-service businesses if there are eight or less owners. Other businesses are eligible for Overhead Expense if there are four or less owners

## **Income-producing, non-owner employees**

Overhead Expense insurance reimburses the business owner for eligible business expenses when the owner is unable to work, resulting in a loss of income to the business. If there are other non-owner employees that are able to continue to generate income in the absence of the owner, there may not be a need for overhead expense insurance. For example: If the owner of a florist shop became disabled and there were other employees capable of arranging and selling flowers, there would be little loss of income to the business, and little need for overhead expense insurance. The real test is whether or not the business would incur a significant, and reasonably immediate, loss of income in the event of the disability of the owner. Contact your DI underwriter if you have questions about the eligibility of your client for Overhead Expense insurance.

## **Expense and BLP verification requirements**

Minimum earned income is \$15,000/year as indicated on federal tax returns. Verification of personal earned income is not required for overhead expense unless requested by your DI underwriter.

If the proposed insured is overinsured for personal disability income insurance, Overhead Expense coverage and/or any Business Loan Protection coverage is not available. A proposed insured that is overinsured for individual disability income insurance will have less incentive to return to work. This results in the DI claim and the OE claim being for a longer duration than might otherwise be expected.

The Overhead Expense Statement must be submitted with all OE applications, as it is made part of the policy.

If total Overhead Expense insurance and/or Business Loan Protection rider in force and applied for with all companies exceeds \$10,000 per month, expense verification is required. In addition, expense verification may be requested to clarify or justify the benefit applied for.

Expense verification, when required, needs the following forms submitted:

**Sole Proprietorship** – Schedule C (including all supplemental schedules) or Profit and Loss (Income) Statement for the last 12 months.

**Partnership** – 1065 Partnership return (including all supplemental schedules), or Profit and Loss (Income) Statement for the last 12 months.

**Limited Liability Company** – If Partnership: 1065 Partnership return (including all supplemental schedules), or Profit and Loss (Income) Statement for the last 12 months. If S-Corporation: 1120S S-Corporation return (including all supplemental schedules), or Profit and Loss (Income) Statement for the last 12 months.

**C-Corporation** – 1120 C-Corporation return (including all supplemental schedules), or Profit and Loss (Income) Statement for the last 12 months.

**S-Corporation** – 1120S S-Corporation return (including all supplemental schedules), or Profit and Loss (Income) Statement for the last 12 months.

**Loan Documentation** – When applying for the BLP rider, loan documentation must be submitted. The following will serve as loan documentation:

- Loan has closed:
  - Copy of executed loan agreement that has been dated, signed by all parties and includes the name of the borrower, name of lender, loan number, loan amount, amount of the monthly loan payment, date of the initial loan payment, duration of the loan and purpose of the loan
- Loan has not closed:
  - Either of the following may be submitted – commitment letter, promissory note or letter or email from bank personnel

- Commitment letters and promissory notes should be dated and appropriately signed by all parties.
- A letter or email from bank personnel should be dated, signed and contain the title of the bank personnel.
- All should include the name of the borrower, name of the lender, amount of the loan, amount of monthly loan payment, projected initial loan payment due, duration of the loan, purpose of the loan and expiration date of the letter, note or offer.
- If the expiration date has been reached the document is no longer valid and updates will be required.
- If the loan has closed, a copy of the loan agreement should be submitted. If the loan has not yet closed, updated documents could be included with an updated commitment letter, promissory note or a letter/email from bank personnel providing updated details.
- If there are any conditions listed in the document that must be met before the loan can be made, there needs to be a realistic expectation that the conditions can be met.

### Covered overhead expenses

A business owner has many business expenses; however, not all of them may be covered by an OE policy. The amount of benefit issued is based on the owner's share of the usual and customary monthly business overhead expenses the owner is responsible for in the operation of the business/practice. OE coverage is based on percent ownership in the business.

The expenses must be deductible for federal income tax purposes. Covered overhead expenses include, but are not limited to:

**Accountant or Accounting Services** – Covered – if a recurrent and ongoing expense. See "Professional Fees" for further guidance.

**Advertising** – Covered – if an ongoing, contracted expense.

**Answering Service/Beeper** – Generally covered – since usually on a fixed monthly basis.

**Car Insurance** – Sometimes covered – to the extent vehicle is used for business purposes and is necessary for continuation of the business, this item is covered on a pro-rata basis. Personal use is not covered.

**Car Loan** – Sometimes covered – to the extent vehicle is used for business purposes, this item is covered on a pro-rata basis. Interest expense is only covered if vehicle is necessary for continuation of the business.

**Car Rental** – Sometimes covered – expense is only covered if vehicle is necessary for continuation of the business.

**Conventions** – Not covered.

**Cost of Goods Sold, Merchandise or Products** – Not covered.

**Credit Bureau Collection** – Generally not covered – because if the insured is disabled, there should not be any current services being performed to warrant any current collection activities. This expense would normally only relate to income earned prior to disability (1-2 years from date of service).

**Depreciation** – Not covered.

**EKG Service** – Not covered – expense is usually passed on to the patient.

**Electricity** – Covered.

**Employee Benefits** – Sometimes covered – medical, life, LTD, etc., on eligible employees only. Benefits for the client or members of the same profession are not covered.

**Entertainment** – Not covered.

**Equipment Loans** – Covered.

**Heat** – Covered.

**Insurance Premiums (Malpractice, Liability, Property)** – Covered – if premiums are not waived during disability.

**Janitorial/Maintenance/Security Services** – Covered.

**Lab Fees** – Not covered – expenses are usually passed on to the patient.

**Laundry** – Covered.

**Leased Equipment** – Covered – if necessary for continuation of the business.

**Legal Fees** – Sometimes covered – need to know purpose of the fee. If nonrecurrent, expense not covered.

**Liability Insurance** – Covered.

**Life and Medical Insurance** – Sometimes covered – on eligible employees only.

**Loan to Buy a Business** – Not covered\* – this is a capital asset that is appreciating in value. Where business acquisition loans include equipment and other depreciable assets which are generally covered expenses, give the breakdown as to the percentage of the loan payment that applies.

\* May be considered under the Business Loan Protection rider.

**Loan to Purchase Business-Related Equipment and Real Estate** – Covered – Interest and principal are covered expenses. Covered assets: examples: medical/dental equipment, office furniture and equipment, building (to the extent owned and occupied by the firm.) Not covered assets: insured's personal vehicle, airplane, investment real estate.

**Malpractice Insurance** – Covered.

**Medical Supplies/X-Ray Supplies** – Not covered.

**Mortgage/Rent** – Covered – both rent and mortgage interest and principal are covered; however, generally not together. If the business owns and occupies the building, then only mortgage interest and principal is covered (cannot rent from itself). If there are two locations which are occupied by the business, it is possible to have both rent and mortgage interest (owns one building and rents the other).

**Moving Expenses** – Not covered.

**OE Premium** – Not covered.

**Office Supplies** – Covered – examples: paper, writing utensils, etc. Supplies directly related to the insured's work are NOT covered.

**Parking Fees** – Not covered.

**Past Due Bills** – Not covered – bills for expenses that were incurred prior to disability are not covered. The OE policy is to reimburse expenses incurred while disabled, not to help liquidate prior obligations.

**Payroll Taxes** – Covered – use 10 percent of payroll expense as a reasonable rule of thumb for payroll tax expense. This covers: FICA Expense – 7.65 percent; Federal Unemployment – .8 percent; and State Unemployment – 1.6 percent.

**Personal Taxes** – Not covered.

**Professional Dues and Memberships** – Covered – generally covered since continued membership in professional organizations is necessary to maintain an insured's professional level of knowledge. Dues and membership to private clubs, country clubs, etc., would not be covered.

**Professional Fees** – Sometimes covered – Covered: fees to professional organizations. Legal and accounting fees subject to comments noted for specific expense account. Not covered: services performed by individual organizations of same or similar profession, or supporting professions.

**Real Estate Taxes** – Covered – only if building is owned by the business, houses the business, and is not a real estate investment of the business.

**Rent/Mortgage** – Covered – both rent and mortgage interest and principal are covered; however, generally not together. If business owns and occupies the building, then only mortgage interest and principal is covered (cannot rent from itself). If there are two locations which are occupied by the business, it is possible to have both rent and mortgage interest (owns one building and rents the other).

**Rental Equipment** – Covered – if necessary for continuation of the business.

**Repairs** – Sometimes covered – equipment repairs would be covered.

**Replacement Expense** – Covered – the net expense incurred to employ a replacement. The net expense is the replacement’s compensation minus the monthly gross income of the replacement. The maximum Replacement Expense is 50 percent of the client’s earned income. This expense is included in the total amount of eligible overhead expenses.

*Examples of Replacement Expense Calculations*

Example 1:

Compensation of Replacement	\$5,000/month
Gross Income Generated by Replacement	<u>– 4,000/month</u>
Replacement Expense	\$1,000/month

Example 2:

Compensation of Replacement	\$5,000/month
Gross Income Generated by Replacement	<u>– 5,500/month</u>
Replacement Expense	None

**Salaries** – Sometimes covered – generally, salaries and benefits for administrative non-income producing employees are covered.

Not covered salary expenses include: salaries, wages, fees, drawing accounts, advances, bonuses and other remuneration, including benefits for:

- The client,
- Any person sharing business expenses with the client,
- Any member of the client’s profession,
- Any individual hired to perform the client’s duties during disability\* may be covered under Replacement Expense as noted above,

- Any person responsible for the generation of income in the business, and
  - Any member of the client's immediate family who was not a full-time paid employee of the business for at least 60 days before disability began.
- \* This includes any person capable of performing the same duties as the client. For example, a legal assistant is not considered to be in the same profession as an attorney. Note, however, that a legal assistant may be included as "any person responsible for the generation of income in the business."

*State variation of provision – GA, NE, NJ, NY, TX*

**School Loans** – Not covered – this is a personal obligation, not a business expense.

**Subscriptions** – Sometimes covered – the maintenance and renewal of professional materials are covered (i.e., subscriptions for medical, legal or accounting journals and research texts).

**Telephone** – Covered.

**Travel** – Not covered.

**Utilities** – Covered.

**Water** – Covered.

**Workers' Compensation Insurance** – Covered – for eligible employees only.

## Select Professional Issue and Participation Limits

Select Professional Overhead Expense and BLP limits are for professionals in their first two years of practice who have business ownership.

The following occupations qualify for up to \$10,000/month of combined Overhead Expense and BLP rider coverage:

Architect, Degreed	Nurse Practitioner
Attorney	Optometrist
Certified Public Accountant (CPA)	Pharmacist
Certified Registered Nurse Anesthetist (CRNA)	Ph.D. Psychologist
Dentist - DDS	Physician Assistant
Doctor - M.D., D.O	Podiatrist
Engineer, Degreed	Veterinarian

Tax returns are not required. A fully completed Overhead Expense Statement is required, and if applying for the BLP rider loan documentation is required.



## Section 3

# Disability Buy-Out (HH703)

This section provides detailed information on the features, riders and underwriting of our Disability Buy-Out (DBO) policy. Our illustration system will calculate rates for you.

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## Overview

The objective of Disability Buy-Out (DBO) insurance is to reimburse the purchase of a business owner's interest under a buy-sell agreement, by one or more other owners in the same firm, in the event of a long-term total disability. The policy is designed for full-time professionals and owners of small- and medium-sized companies. Not all benefits, features and riders are available in all states or to all occupation classes.

The best prospects for DBO are two or more business owners who are full-time, active and key to the continuation of the business. A one person or single owner DBO is not considered. DBO works best for small businesses rather than large ones, where the principals can more easily fill in if another principal becomes disabled. A three-person professional partnership, with equal ownership, is an example of an ideal DBO situation.

Other types of businesses are eligible, too. However, the ownership details and objectives of the buy-out must be looked at more closely. Where these factors are favorable, DBO cases between two or more non-related principals are generally good risks. There are additional guidelines when the buy-out is between close relatives. Because of possible anti-selection, familial cases (spouses, parent-child) generally are not considered. Other family relationships (siblings, cousins, etc.) may be considered. Business owners with large differences in age may represent an uninsurable disability buy-out risk. Contact your DI underwriter for details.

Cross purchase, stock redemption and trusteed buy-sell agreements are all eligible. Trusteed buy-sell arrangements are also available for C corp owners. The client's attorney and/or financial advisor should assist the client in determining the appropriate buy-out method. The number of owners, their ages and desired tax results will all affect the decision on the structure of the agreement. Sample buy-sell agreements are available on Principal eFP.

A buy-sell agreement is not required in order to purchase DBO insurance, but one must be in place at the time of a disability claim. In the state of New York, the buy-sell agreement must be in place before purchasing DBO insurance.

## Occupation classes/policy forms

Each client is classified according to their occupation. There are eight occupation classes for DBO: 5A, 5A-M, 4A, 4A-M, 3A, 3A-M, 2A and A. Premiums, benefits and the availability of optional riders vary by occupation class. The premium class may be standard or an extra percentage of standard.

Policy Form: Disability Buy-Out HH703 (HH735 in NY)

## Premium rates

Premiums are dependent on many factors: age, occupation class, smoking status, elimination period, benefit amount, riders and others. All Disability Buy-Out policies are issued with male and female rates. Premium quotes are available through the DI Illustration system.

	SINGLE LIFE	MULTI-LIFE
Disability Buy-Out	Sex Distinct*	Sex Distinct*

\* Note: Written state of Montana requires unisex rates.

\$200 of annual pre-discounted premium is the minimum premium required to qualify for Disability Buy-Out insurance.

## Issue ages

The client's issue age has a direct impact on the premium paid for coverage – the older the client, the higher the premium. We use age as of last birthday. Backdating to save age is allowed for a maximum of 30 days prior to the application date. Our issue ages for disability buy-out policies are 18-60.

## Elimination periods

The elimination period (EP) is the number of days the insured must wait before benefits begin to accrue. No benefits are paid for this period. Once disabled, the insured will receive benefits one month after the elimination period is satisfied. The shorter the elimination period, the higher the premium. The following are our available elimination periods:

365, 540, 730 days

## Payment methods

There are three payment methods available:

- lump sum
- monthly installment
- combination of lump sum and monthly installment

Benefit factors available on the monthly installment and combination payment methods are 24, 36 and 60 times.

The benefit factor multiplied by the maximum monthly benefit equals the maximum aggregate benefit. The maximum aggregate benefit is the maximum amount payable for any total disability.

# Disability Buy-Out Policy Description

**Note:** This policy description is a general summary. All features, provisions and riders may not be available in all states and may be subject to state variations. Refer to your state policy and rider forms for the full definition of all policy provisions, benefits, limitations and exclusions.

**Renewability** – The policy is renewable to age 65. During the term of the policy, and while this policy is in force, we cannot change the policy or change the premium rate.

The term of the policy continues until the earliest of the:

1. Insured's Age 65 Policy Anniversary; or
2. Date the Insured terminates Active Full-time Employment with the Firm for any reason other than Total Disability; or
3. Date the Buy-Sell Agreement is terminated; or
4. Date the maximum Aggregate Benefit or the final Buy-Out Expense payment is paid; or
5. Date of the owner's written request to terminate the policy;  
or
6. End of the grace period; or
7. Death of Insured.

*State variation of provision – NY*

**Definition of Total Disability** – The insured is considered totally disabled when due to Injury or Sickness, he or she:

1. Is unable to perform the substantial and material duties of his or her Occupation,
2. Is not Working in any other occupation for the firm, and
3. The requirements of the Claim Information section are satisfied.

*State variation of provision – MD*

**Benefit Payable** – The Buy-Out Expense benefit will become payable to the Owner the later of the end of the Elimination Period or the date a Buy-Out Expense is incurred if:

1. The Insured incurs a Total Disability while engaged in Active Full-Time Employment in the Firm;
2. The Insured has an ownership interest in the Firm when the Buy-Out Expense is incurred;
3. The Owner incurs a Buy-Out Expense in performance of the terms of the Buy-Sell Agreement that is in force at the time the Total Disability begins; and
4. The requirements of the Claim Information section are satisfied.

We will refund any excess premium paid for the 12 months prior to the date of Total Disability if the total Buy-Out Expense amount incurred is less than the benefits shown on the current Data Pages.

We will waive the requirements of Total Disability during the Insured's lifetime after a payment of a Buy-Out Expense benefit has been made.

If the Insured has Buy-Out Expense coverage with another company in effect at the time of Total Disability, the benefits of this policy will be adjusted to a proportion equal to the percentage this policy's benefits bears to the total amount of Buy-Out Expense coverage. The total benefits provided by this policy and any other Buy-Out Expense coverage in effect at the time of Total Disability will not exceed the total Buy-Out Expense incurred.

After age 61, benefits are reduced as follows:

<u>Age When Disabled</u>	<u>Maximum Benefit</u>
Under 61	100%
61-62	80%
62-63	60%
63-64	40%
64-65	20%
Over 65	0%

*State variation of provision – GA, NJ, NY*

**Death Benefit** – This benefit pays a lump sum benefit of two times the maximum monthly benefit if the insured dies after satisfying the elimination period while monthly benefits are being paid. This benefit is payable in addition to any other policy benefits. This benefit is not available with the lump sum payment method and is restricted in some states.

*State variation of provision – GA, MD, MN, SC*

*Not available – IL, NJ*

**Exchange Privilege** – On or before age 60, the Insured may exchange the policy for any individual disability income policy based on our then current underwriting guidelines, without medical evidence of insurability. The new policy's Maximum Benefit Period will not be more than two years and the Elimination Period will be 90 days or greater. The Maximum Monthly Benefit will be the lesser of \$2,500 or the maximum amount we are willing to offer under our then current underwriting guidelines.

*Not available – NY*

**Legal/Accounting Fee Benefit** – This benefit reimburses the Owner up to a maximum of \$3,000 in legal and accounting fees if such fees are incurred in performance of the buy-sell agreement as a result of the Insured's Total Disability. This benefit is paid in addition to the Maximum Aggregate Benefit.

**Military Suspension** – This provision suspends the policy if the insured enters the military service on a full-time basis. The policy may be restored if active duty ends within five years of the suspension. The owner must request this within 180 days of the end of service. No premium is due during the service and no policy benefits are provided during that time. The policy restored is the same as before the suspension.

**Reinstatement** – This provision allows the policy to be reinstated anytime within one year after its termination, subject to our then current underwriting guidelines. A formal reinstatement application may be required. A reinstated policy covers disabilities from a sickness that first manifests itself more than 10 days after reinstatement date, or an injury occurring after the reinstatement date.

**Transfer Privilege** – On or before age 60, the Insured may become the Insured under any form of buy-out policy available without medical evidence of insurability if:

1. The policy has been in force for at least two years and;
2. The policy terminates because the Insured ends Active Full-Time Employment with the Firm and;
3. The Insured starts Active Full-Time Employment for another Firm in which the Insured has an ownership interest; and
4. The Insured is not Totally Disabled and is not receiving benefits under the policy.

Underwriting requirements, other than medical, must be met. The benefit limits of the new policy cannot be greater than those provided by the current policy.

*Not available – NY*

**Waiver of Premium Benefit** – If Insured is Disabled, after the lesser of 90 days or the Elimination Period, we will:

1. Refund the monthly pro-rata portion of any premium paid for coverage after the date a continuous Disability began; and
2. Waive the payment of premiums which come due during the continuous Disability.

Premium payments will begin on the next premium due date after the insured is no longer receiving benefits under this policy or the disability ends.

**Exclusions and Limitations** – This policy does not pay benefits for Injury or Sickness which in whole or in part is caused by, contributed by, or which results from:

1. Intentional, self-inflicted injury; or
2. Your commission of or your attempt to commit a criminal act, or your involvement in an illegal occupation or activity; or
3. The suspension, revocation or surrender of your professional or occupational license or certification; or
4. Active military service during a military action or conflict.

No benefits are payable for any period of Disability in which you are incarcerated in a penal or correctional institution for a period of 30 consecutive days or longer.

A sickness resulting from pregnancy will be covered if the Elimination Period is equal to or greater than 90 days.

There may be other exclusions or limitations in the policy in addition to those stated above. Any additional exclusions or limitations (if any) will be described in riders or endorsements attached to the policy. Examples include, but are not limited to: Modified Coverage rider, Additional Exception riders, etc.

*State variation of provision – GA, IA, ID, MD, MN, MO, MT, NE, NJ, NY, PA, SC, TX, UT, VA, VT, WA*

# HH703 Benefit Rider

**Benefit Update (BU) Rider** – The BU rider is a truly unique feature to Principal Life. For no additional premium this rider is automatically added to all standard premium policies for all occupation classes, if at least 75 percent of eligible coverage is purchased at issue. Issue ages are 18-55. This feature allows the policyowner to increase policy benefits every three years without medical evidence of insurability. It's important to note the client maintains one policy and all definitions, provisions, current rates (at the attained age) and discounts of the original policy apply.

At three year intervals beginning with the policy date, Principal Life sends the insured correspondence regarding the opportunity for a BU review. The client must return a complete application and financial documentation.

Depending on the information submitted, we may offer to increase the coverage up to the maximum issue and participation limit for which they qualify – **there is no cap (or age restrictions)**! The no cap feature is a competitive advantage over most companies' future insurability options which usually have pre-set benefit caps.

At each BU option, the client must accept a minimum of 50 percent of the additional DBO benefit offered or the rider will be removed from the policy.

You are kept up-to-date with client correspondence through the IDI Benefit Update Activity Report available on Principal eFP ([www.principal.com/financialprofessional](http://www.principal.com/financialprofessional)). You will receive a weekly e-mail notification (prompting you to login) when you have any BU activity on your inforce book of business. Confirm your e-mail address at [www.principal.com/verifyemail](http://www.principal.com/verifyemail).

# Disability Buy-Out Underwriting Guidelines

## Maximum Issue and Participation Limits by occupation class

ELIMI- NATION PERIOD	5A, 4A, 3A	5A-M 4A-M	3A-M	2A	A
<b>Lump Sum</b>					
365 day	\$1,500,000	\$1,250,000	\$1,250,000	\$750,000	\$250,000
540 day	1,750,000	1,500,000	1,500,000	1,000,000	500,000
730 day	2,000,000	1,500,000	1,500,000	1,250,000	750,000
<b>Monthly Benefit Factors 24 and 36</b>					
365 day	1,750,000	1,500,000	1,250,000	1,250,000	500,000
540 day	2,000,000	1,500,000	1,500,000	1,500,000	750,000
730 day	2,500,000	1,500,000	1,500,000	1,750,000	1,000,000
<b>Monthly Benefit Factor 60</b>					
365 day	2,000,000	1,500,000	1,250,000	1,500,000	500,000
540 day	2,500,000	1,500,000	1,500,000	1,750,000	750,000
730 day	3,000,000	1,500,000	1,500,000	2,000,000	1,000,000

**NOTE:** When a combination of lump sum and monthly payments is desired, the aggregate benefit limit (lump sum plus monthly payments) is the maximum issue and participation limit for the monthly benefit factor selected. The lump sum amount of the combination cannot exceed the lump sum limit for the selected elimination period and occupation class.

Example: A combination of lump sum with a 365 day elimination period and a benefit factor of 24 is desired by two optometrists (5A) with an aggregate benefit of \$1,750,000 each (the business valuation equals \$4,000,000).

The maximum issue and participation limit (per the table) is \$1,750,000. Of this amount, each optometrist may have any number of combinations, as long as the lump-sum amount does not exceed \$1,500,000.

For Benefit Update offers, the Maximum Issue and Participation Limit is based on the current limit of the insured's current occupation.

## Financial verification requirements

Documentation for business valuation is required for:

- Any application not using TeleApp
- If over age 50
- If benefit amount applied for is more than \$360,000 total aggregate benefit, regardless of age

The required documentation is:

- Profit and Loss (Income) Statement year-to-date
- Past two years business federal income tax return
- Current Balance Sheet

## General guidelines

Minimum earned income is \$15,000/year as indicated on federal tax returns. Verification of personal earned income is not required for disability buy-out unless requested by your DI underwriter.

If the proposed insured is overinsured for personal disability income insurance, disability buy-out coverage is not available. A proposed insured that is overinsured for individual disability income insurance will have less incentive to return to work. This results in the DI claim and the DBO claim being for a longer duration than might otherwise be expected.

A business valued at over \$20 million may not be an acceptable risk for DBO. There are often underwriting concerns relating to the value of the business and the division of ownership.

Contact your DI Underwriter before submitting an application when the total of business value is above \$10 million.

#### Minimum number of business owners:

The minimum number of business owners for DBO is two, in all cases. Single person or sole business owners are not eligible. Businesses which have more than one owner, but which desire DBO on only one owner, are not eligible. Insurable DBO cases need to represent an arms-length transaction between two or more current, full-time, active owners of the business. In a one-person DBO situation, there is an increased element of anti-selection. The single insured client may be using DBO coverage to easily transfer ownership of the business to another person, and it ceases to be an arms-length transaction.

#### Maximum number of business owners:

- Occupation classes 5A, 5A-M, 4A and 4A-M = 10
- Occupation classes 3A, 3A-M and 2A = 8
- Occupation class A = 6

Business owners with at least 5 percent ownership interest in the business are eligible if there are at least four active owners and no one owner has more than 80 percent ownership interest; otherwise, 10 percent ownership is required. Business owners must be actively working on a full-time basis for the business named in the application. All eligible owners of the business must apply for coverage in the same proportion as their business ownership.

#### Minimum number of years in the business:

- Service professionals (i.e., M.D., CPA, attorney) – 1 year
- Other business owners – 3 years

The insured may not be the owner of the policy.

A copy of the Buy-Sell agreement is not required at the time of application. (New York requires the Buy-Sell agreement to be in effect at the time of application.) However, policy provisions require an agreement to be in effect at the start of disability.

Closely-held family businesses involving siblings or cousins are eligible for DBO. However, due to the increased risk of anti-selection associated with family relationships, husband-wife and parent-child businesses are not considered.

## Business valuation

The underwriter's purpose in evaluating the DBO risk is to determine if the amounts applied for are reasonable in relation to the value of the business. This is the most important process of underwriting disability buy-out coverage. The process of business valuations is not an exact science. It is based on the underwriter's assessment of economic and financial conditions, industry and market data, financial condition of the business being insured and common sense.

The underwriter is not acting as a business appraiser or attempting to establish a true market value or sale price for the business. The process is comparable to the valuation conducted by a bank during a mortgage application. As part of the mortgage process, the bank conducts an appraisal (valuation) of the property involved. The bank is not looking to set a sale price for the property but simply to determine a reasonable value in the event of a forced sale during a foreclosure. The disability buy-out valuation follows a similar course by attempting to assess a reasonable value for the business in the event of a forced sale resulting from the disability of a shareholder.

## Definitions

**Valuation** – A multiple of the earned income of all of the owners plus book value.

To determine the value of a business, it is important to have an understanding of the following definitions:

**Book Value (Net Worth)** – Total assets minus total liabilities at the beginning of the year underwriting reviews. This information is found on the Balance Sheet.

**Goodwill** – An intangible asset of a business (i.e., customer list, location, reputation) which is generally not carried on the balance sheet but is a factor in the business valuation. The factor typically ranges from 1-5. The majority of businesses use a factor of 2-3.

### Valuation methods

The following method is used to determine business valuation for DBO insurance purposes.

100% owner's salary plus business profit x goodwill multiplier\* + book value = DBO business value.

Example: Manufacturing company with two owners and total owner compensation of \$200,000; business profit of \$100,000 and book value of 150,000

$$(200,000 + 100,000) \times 3^* + 150,000 = \$1,050,000$$

$$\$1,050,000 / 2 \text{ owners} = \$525,000 \text{ of DBO insurance}$$

\* The multiplier selected in all scenarios should be based on the overall factors of the case, i.e., earnings trends, number of years in the business and the nature of the business.







## Section 4

# Key Person Replacement (HH772)

This section provides detailed information on the features, riders and underwriting of our Key Person Replacement (KPR) policy. Our illustration system will calculate rates for you.

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## Overview

The objective of Key Person Replacement (KPR) insurance is to provide a benefit to the Owner (employer) if the Key Person (insured) becomes totally disabled. The policy is designed for minority or non-owner employees who earn \$30,000 or more a year and who are critical to the success of the business. Key Person coverage provides a lump-sum benefit with the ability to add on a monthly benefit for a period of time before the lump sum is paid. Not all benefits or features are available in all states or to all occupation classes.

*Not available – CA, FL, MT, NY, ND, VT*

## Occupation classes/policy forms

Each client is classified according to his/her occupation. There are seven occupation classes for KPR: 5A, 5A-M, 4A, 4A-M, 3A and 3A-M. Premiums and benefits vary by occupation class. The premium class may be standard or an extra percentage of standard.

Policy Form: Key Person Replacement HH772

## Premium rates

Premiums are dependent on many factors: age, occupation class, smoking status, elimination period, benefit amount and others. All Key Person Replacement policies are issued with male and female rates. Premium quotes are available through the DI Illustration system.

	SINGLE LIFE	MULTI-LIFE
Key Person Replacement	Sex Distinct*	Sex Distinct*

\* Note: Written state of Montana requires unisex rates.

\$200 of annual pre-discounted premium is minimum premium required to qualify for Key Person Replacement.

## Issue ages

The client's issue age has a direct impact on the premium paid for coverage – the older the client, the higher the premium. We use age as of last birthday. (Backdating to save age is allowed for a maximum of 30 days prior to the application date.) Our issue ages for Key Person Replacement policies are 18-55.

## Elimination periods

The elimination period (EP) is the number of days the insured must be disabled and the owner waits before benefits begin to accrue. No benefits are paid for this period. The owner will receive benefits one month after the elimination period is satisfied. The lump-sum benefit is payable after the elimination period is satisfied. The shorter the elimination period, the higher the premium. The following are our available elimination periods:

- **Monthly benefit** - 90 and 180 days\*
- **Lump sum benefit** - 180, 365 and 730 days

\* If applying for both monthly and lump-sum payouts, the elimination period on the monthly benefit must be less than the elimination period on the lump-sum benefit.

## Payment methods

There are two payment methods available:

- **Lump sum**
- **Combination of monthly installments and lump sum**

If the combination of monthly installments and lump sum is chosen, the monthly benefit will be paid for the period between the monthly elimination period and the lump-sum elimination period.

# Key Person Replacement Policy Description

Note: This policy description is a general summary. All features and provisions may not be available in all states and may be subject to state variations. Refer to your state policy form for the full definition of all policy provisions, benefits, limitations and exclusions.

The term of the policy continues until the earliest of the:

1. Insured's Age 65 Policy Anniversary; or
2. Date the Insured terminates the Key Person Occupation or Actively Working Full-Time for any reason other than Disability; or
3. Date the Maximum Lump-Sum Benefit is paid; or
4. Date of the owner's written request to terminate the policy; or
5. End of the grace period; or
6. Death of Insured.

**Renewability** – The policy is continuable to age 65. The policy may be terminated based on the Termination Provision. During the term of the policy and while this policy is in force, we cannot change the policy or the premium rate.

**Definition of Total Disability** – The insured is considered totally disabled when due to Injury or Sickness, he or she:

1. Is unable to perform the substantial and material duties of his or her Key Person Occupation,
2. Is not Working in any other occupation which is comparable by duties and/or earnings for the firm, and
3. The requirements of the Claim Information section are satisfied.

There must also be no reasonable job or work site modifications which would allow the Insured to work in the Key Person Occupation.

*State variation of provision – MO, NJ, VA*

**Benefit Payable** – The Key Person Replacement benefit will become payable to the Owner at the end of the Lump-Sum Elimination Period and the Maximum Monthly Benefit will start to accrue at the end of the Monthly Elimination Period if applicable, providing:

1. A disability occurs while the Insured is Actively Working Full Time for the Owner of the policy; and
2. A Disability begins on or after the effective date of the policy and while the policy is in force and subject to the policy provisions; and
3. The requirements of the Claim Information section are satisfied.

**Military Suspension** – This provision suspends the policy if the insured enters the military service on a full-time basis. The policy may be restored if active duty ends within five years of the suspension. The owner must request this and pay premiums within 180 days of the end of service. No premium is due during the service and no policy benefits are provided during that time. The policy restored is the same as before the suspension.

*State variation of provision – IN, MD, NJ, PA, TN*

**Reinstatement** – This provision allows the policy to be reinstated anytime within one year after its termination. We may require an application and evidence of insurability under our then current underwriting guidelines.

*State variation of provision – LA, MN, NH, NJ, NM, PA, SC, SD, TN, VA, WI*

**Waiver of Premium Benefit** – If Insured is Disabled for the Elimination Period, and the requirements of the Claim Information Section are satisfied, we will:

1. Refund the monthly pro-rata portion of any premium paid for coverage after the date Disability began; and
2. Waive the payment of premiums which come due during the Disability.

The Waiver of Premium Benefit will end when the Insured is no longer Disabled or the policy is terminated under the Termination Provision of the policy.

**Exclusions and Limitations** – This policy does not pay benefits for Injury or Sickness which in whole or in part is caused by, contributed to by, or which results from:

1. The suspension, revocation or surrender of your professional or occupational license or certification; or
2. Active military service during a military action or conflict; or
3. Loss we have excluded by name or specific description in any attached rider or endorsement.

There may be other exclusions or limitations in the policy in addition to those stated above. Any additional exclusions or limitations (if any) will be described in riders or endorsements attached to the policy. Examples include, but are not limited to: Modified Coverage rider, Additional Exception riders, etc.

*State variation of provision – ID, NJ, SC, VA*

**Pre-Existing Condition Limitation** – We will not pay any claim for a Disability or loss which:

1. Begins within two years after the effective date of coverage(s); and
2. Results from a pre-existing condition which was not disclosed or was misrepresented in the policy's application.

*Pre-existing condition* means a condition:

1. For which medical treatment, testing or medication was recommended by a Doctor or received from a Doctor within the two-year period prior to the effective date of coverage(s); or
2. Which has caused symptoms within the two-year period prior to the effective date of coverage(s) that would cause an ordinarily prudent person to seek diagnosis, care or treatment.

*State variation of provision – DC, ID, KY, MA, NJ, NM, NC, PA, SC, SD, VA*

# Key Person Replacement Underwriting Guidelines

## Maximum Issue and Participation Limits

Maximum Issue and Participation limit for monthly payout, all occupation classes, is \$20,000.

## Combination of Monthly and Lump Sum

1. The maximum monthly benefit allowed is based on the insured's earned income, using the same rules and calculations and issue limits used when applying for individual disability income, based on the *DI Issue and Participation (I&P) Limit Individual Pay* table (see page 1-49) times two, not to exceed \$20,000/month.
2. Lump-Sum amount will be calculated by taking salary plus bonus times two minus maximum monthly benefit times the benefit period.
3. Total of lump sum and monthly benefits not to exceed \$500,000.

**Example:** A combination of lump sum and monthly benefit is desired with an annual salary of \$200,000.

1. \$200,000 times two equals \$400,000
2. 90-day elimination period on monthly benefit and 180-day elimination period on lump sum equals 90 days (or three months)
3. DI I&P-Individual Pay amount is \$9,150/month times two equals \$18,300/month
4. \$400,000 minus \$54,900 (\$18,300 times three months) equals \$345,000
5. Benefits would be \$345,000 lump sum and \$18,300/month

### Lump Sum only

1. Salary plus bonus times two.
2. Not to exceed the maximum limit of \$500,000.

**Example:** A lump sum benefit is desired with:

- Annual salary of \$200,000
  1. \$200,000 times two equals \$400,000, which is less than the \$500,000 maximum benefit, so use \$400,000
- Annual salary of \$400,000
  1. \$400,000 times two equals \$800,000, which is greater than the \$500,000 maximum benefit, so use \$500,000.

### Financial verification requirements

Minimum earned income is \$30,000/year as indicated on federal tax returns. Verification of personal earned income is:

1. **Employee** – Same documentation as required for individual disability income
  - a. Will accept third party verification of salary and bonus, but not a letter from the employer. (May include a payroll census or letter from Human Resources or Payroll department.)
2. **Owner** – Same as required for individual disability income; see pages 1-41 through 1-44 for requirements based on business entity owned.

Key Person coverage will not impact the Insured's Issue and Participation limits for personal disability coverage issued with us, unless he/she is overinsured for Key Person coverage or is using an individual DI policy to fulfill a key person need. If the insured Key Person is significantly over-insured for any other disability product, he/she is not eligible for the requested Key Person coverage.

Monthly and lump-sum benefits will be directly offset, dollar for dollar, with other inforce key person coverage.

### General guidelines

To be eligible, the insured:

- Must have an employee relationship or be an actively working owner
- Cannot own more than 50 percent of the business
- Can only be insured as a Key Person under one business entity
- Cannot be a government employee
- Cannot be in seasonal employment
- Must be actively working full time in the key person position (at least 30 hours per week)
- Must be a business in operation one year for fee-for-service and three years for others (if insured is an owner)
- Must be employed in the Key Person position for 12 months

**Ownership** – The owner of the policy must be the business and only one owner is allowed. The owner may not be the Insured.

#### **Change of Ownership:**

The owner cannot be changed to an Individual or the Insured.

**Payment of Benefit:** The benefit will be paid to the Owner (business) and may not be assigned to the Insured.







## Section 5

# Sales Programs and Discounts

This section provides detailed information on the Sales Programs and Discounts available.

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## Overview

Principal Life offers a variety of sales programs and discounts to help you market our complete line of disability insurance products. Our goal is simple: to be easy to do business with. That's why we offer such a comprehensive array of programs to help you meet the needs of both personal and business clients.

### Association sales program

The Association sales program allows you to offer quality Individual Disability Insurance products and a 10 percent discount to qualifying members on Disability Income, Overhead Expense and Disability Buy-Out insurance.

**Association target market** – Associations with at least 100 or more active members with 3A or higher occupation classes preferred.

- Occupations that are homogeneous in nature for example:
  - CPAs
  - Architects
  - Engineers
- Some target occupations are:
 

<ul style="list-style-type: none"> <li>– Accountants</li> <li>– Advertising Executives</li> <li>– Architects</li> <li>– Engineers</li> <li>– Funeral Directors</li> <li>– Graphic Designers</li> <li>– Hospital Administrators</li> </ul>	<ul style="list-style-type: none"> <li>– Manufacturing Reps</li> <li>– Opticians – Optometrists</li> <li>– Paralegal/Legal Assistants</li> <li>– Pharmacists</li> <li>– Public Relations Consultants</li> <li>– Sales/Marketing Executives</li> <li>– Veterinarians</li> </ul>
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**Association program guidelines** – The association must be a dues-paying local, county, state, professional or trade association that must have been in existence for at least two years and formed for the purpose of promoting the interest of the

profession (not for the sole purpose of obtaining insurance for members). It must have a constitution or by-laws (regardless of whether incorporated) and have an obtainable membership roster. We also require pre-approval by Principal Life before marketing to the association.

<b>Products Available</b>	<ul style="list-style-type: none"> <li>• Disability Income (DI) HH750</li> <li>• Overhead Expense (OE) HH702</li> <li>• Disability Buy-Out (DBO) HH703</li> </ul> <p>Subject to state approval –  <a href="http://www.principal.com/distateapprovals">www.principal.com/distateapprovals</a></p>
<b>Issue Ages</b>	18-60
<b>Number of Lives</b>	100+ eligible lives preferred
<b>Occupation Class</b>	3A and above preferred
<b>Rates</b>	Sex distinct (except MT)
<b>Discount</b>	10%
<b>Discounts Available*</b>	<ul style="list-style-type: none"> <li>• Select Occupation – <b>10%</b></li> <li>• Mental/Nervous Substance Abuse (MNSA) Disorder Limitation* – <b>10% (Required for DI only)</b></li> </ul>
<b>Required Rider</b>	MNSA rider required on all association disability income policies (except in Vermont).
<b>Available Riders</b>	All riders are available based on current underwriting guidelines.

\* See Discount Section for guidelines.

**Other sales programs available to Associations** – You can combine the Association sales programs with other sales programs we offer. See each Sales Program Section for guidelines:

- Fully Underwritten
- Simplified DI, OE and DBO
- DI Retirement Security

**Approved States** – Not all products are approved in each State. For a current listing of approvals, go to:

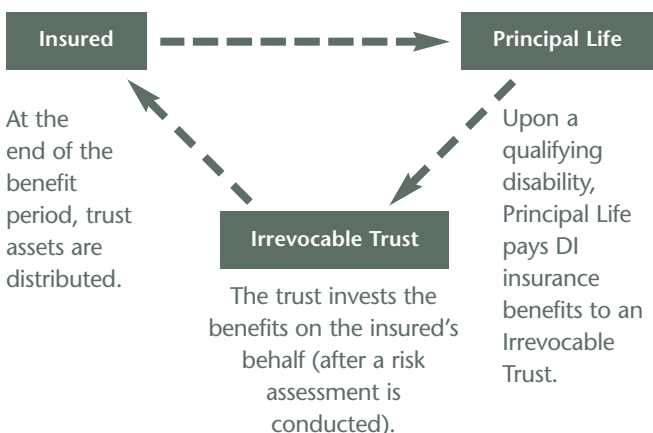
<http://www.principal.com/distateapprovals>.

## DI Retirement Security (DIRS) sales program

This program is designed for business owners and individuals in the executive/professional market who have maxed out their traditional DI coverage and are committed to saving for retirement. DIRS is not available to government workers.

### How DIRS works

Before a disability, the insured pays DI insurance premiums to Principal Life.



## DIRS program guidelines

<b>Benefit Amounts as of January 2011</b>	<ul style="list-style-type: none"> <li>• Minimum: \$1,000/month</li> <li>• Maximums: Individual Pay (non-taxable) – \$4,125/month; Employer Pay (taxable) – \$5,325/month (these amounts include the \$50 trust administration fee). These maximum amounts may be adjusted when IRS contribution guidelines are increased.</li> <li>• Select Professionals are eligible for \$1,000/month in DIRS benefit.</li> </ul>
<b>Occupation Classes</b>	All
<b>Issue Ages</b>	18-60
<b>Benefit and Your Occupation Periods</b>	<ul style="list-style-type: none"> <li>• Benefit Periods: To Age 65 or To Age 67</li> <li>• Your Occupation Periods: 2 year, 5 year, To Age 65 or To Age 67</li> </ul>
<b>Elimination Periods</b>	180 or 365 days
<b>Riders Available</b>	<ul style="list-style-type: none"> <li>• Future Benefit Increase</li> <li>• Cost of Living Adjustment</li> <li>• Mental/Nervous Substance Abuse Disorder Limitation*</li> </ul>
<b>Discounts Available*</b>	<ul style="list-style-type: none"> <li>• Select Occupation – <b>10%</b></li> <li>• Multi-Life – <b>20%</b></li> <li>• Association – <b>10%</b></li> <li>• Mental/Nervous Substance Abuse Disorder Limitation – <b>10%</b></li> </ul>

\* See Discount Section for guidelines.

*(continued on next page)*

## DIRS program guidelines (cont'd.)

<p><b>Medical Underwriting</b></p>	<ul style="list-style-type: none"> <li>• If DIRS is written as a stand-alone policy with no other coverage applied for or in force with Principal Life, the underwriting decision will be based on the TeleApp and Application. No other medical underwriting requirements will be requested.</li> <li>• If applying for other Principal Life DI policy along with the DIRS policy, then full medical underwriting will apply.</li> </ul>
<p><b>Financial Underwriting</b></p>	<ul style="list-style-type: none"> <li>• If DIRS only – Part A of the Application will be the only requirement – no financials required.</li> <li>• If disability income <b>plus</b> DIRS, full financial underwriting will apply (including all income documentation).</li> </ul> <p><b>Be sure to complete the DIRS Supplemental Application.</b></p>

**Taxability** –The tax rules for our DIRS program are the same as for regular DI. Schedule C business owners would not be able to deduct the premiums as a business expense. Benefits received under the policy would be tax-free.

Partners or more than two percent shareholders in S-Corps are required to bonus the premiums to the owners, so their benefits would be tax-free. Owners of C-Corps can do either salary continuation (deduct the premiums without including them in the owner's income, thus taxable benefits at claim time) or executive bonus (include the premiums in their income, thus non-taxable benefits at claim time).

Trust earnings are taxable annually to the client and declared on their tax return each year, unless benefits are invested in a tax-deferred annuity option. Once the insured is eligible to receive disability benefits and money has been deposited into the Trust, the Trustee/Trust Administrator will send a 1099 to the Grantor for all interest, dividends and capital gain distributions each year. Any increase in market value is not taxable until the funds are sold and the Grantor “recognizes” the gain.

The value of the Trust will be included in the Trust grantor/insured’s estate regardless of when the insured dies since the grantor/insured has a “retained interest” in the Trust. In some cases, this could create estate tax liability but should not be seen as a negative. Virtually any retirement income savings product is going to be included in the plan participant’s estate. The use of irrevocable designations is often used to get property out of the estate of the individual making the designation and this is not the case for the DI Retirement Security program.

Since the value of the Trust will be included in the estate of the Trust grantor/insured, there should be a step-up in basis for the Trust property. The only exception that may apply would be investment property that generates untaxed ordinary income. The earnings in a deferred annuity, for example, would be subject to income tax. Also, interest earnings for the year of death would be taxable. Unrealized capital gain, however, would receive a step-up in basis.

PREMIUMS PAID BY	TAX CONSIDERATIONS*
Employee with after-tax dollars	Benefits received are income tax-free; trust earnings are taxable annually and declared on the insured's tax return unless benefits are invested in a tax-deferred annuity.
Employer	Benefits received are taxable; trust earnings are taxable annually and declared on the insured's tax return unless benefits are invested in a tax- deferred annuity.
Employer, but bonused to employee	Benefits received are income tax-free; trust earnings are taxable annually and declared on the insured's tax return unless benefits are invested in a tax- deferred annuity.

\* Upon a qualifying disability, benefits are paid to the irrevocable trust.

**Calculating the DIRS Benefit** – Calculating the amount of eligible DIRS benefit is done using the following formulas:

**Non-Taxable (Individual Pay)**

**Non-Business Owner**

Earned Income plus any employer-qualified retirement contributions (up to \$5,000/yr.) times 15 percent. Not to exceed maximum contributions.

**Example:** Earned Income \$230,000 with \$1,000 employer contributions for total of \$231,000.

$\$231,000 \times 15 \text{ percent} = \$34,650 \div 12 \text{ months} = \$2,888 + \$50/\text{mo. trust administration fee} = \$2,938$  (round to \$2,925).

$\$2,925 < \$4,125$  (maximum benefit allowed) so you would apply for **\$2,925** a month.

**Business Owner**

Earned Income plus any qualified retirement contributions (up to \$44,000/yr.) times 15 percent. Not to exceed maximum contributions.

**Example:** Earned Income \$300,000 with \$41,000/yr. qualified retirement contributions for a total of \$341,000.

$\$341,000 \times 15 \text{ percent} = \$51,150 \div 12 \text{ months} = \$4,263 + \$50/\text{mo. trust administration fee} = \$4,313/\text{mo.}$  (round to \$4,325).

$\$4,325 > \$4,125$  (maximum benefit allowed) so you apply for **\$4,125** a month.

**Taxable (Employer Pay)****Non-Business Owner**

Earned Income plus any employer-qualified retirement contributions (up to \$5,000/yr.) times 19 percent (not to exceed maximum contributions allowed).

**Example:** Earned Income \$230,000 with \$1,000/yr. employer contributions for a total of \$231,000.

$\$231,000 \times 19 \text{ percent} = \$43,890 \div 12 \text{ months} = \$3,658 + \$50/\text{mo. trust administration fee} = \$3,708/\text{mo. (round to } \$3,700).$

$\$3,700 < \$5,325$  (maximum benefit allowed) so you apply for **\$3,700** a month.

**Business Owner (C-Corp Owner Only\*)**

Earned Income plus any qualified retirement contributions (up to \$44,000/yr.) times 19 percent (not to exceed maximum contributions allowed).

**Example:** Earned Income \$300,000 with \$41,000/yr. qualified retirement contributions for a total of \$341,000.

$\$341,000 \times 19 \text{ percent} = \$64,790 \div 12 \text{ months} = \$5,399 + \$50/\text{mo. trust administration fee} = \$5,449/\text{mo. (round to } \$5,450).$

$\$5,450 > \$5,325$  (maximum benefit allowed) so you apply for **\$5,325** a month.

\* S Corp Owners, LLC or Sole Proprietor do not qualify for employer pay limits.

Once you have calculated the benefit available, you will need to subtract any existing retirement protection coverage the client has. This calculation is:

If applying for Individual Pay DIRS:

If the existing retirement protection coverage benefit is non-taxable, use 100 percent of benefit; if taxable, multiply by .75 and subtract from the answer above.

**Example Non-Taxable:** Income – \$300,000 Annual; Available Non-Taxable (Individual) Pay DIRS Benefit of \$4,125/month and existing non-taxable retirement coverage of \$2,000/month.

Maximum DIRS Benefit	\$4,125
Less \$2,000 Retirement Protection	<u>-2,000</u>
Eligible Benefit	<b>\$2,125</b>

**Example Taxable:** Income – \$300,000 Annual; Available Non-Taxable (Individual) Pay DIRS Benefit of \$4,125/month and existing taxable retirement coverage of \$2,000/month.

Maximum DIRS Benefit	\$4,125
Less \$2,000 Retirement Protection x .75	<u>-1,500</u>
Eligible Benefit	<b>\$2,625</b>

If applying for Employer Pay DIRS:

Subtract the entire existing taxable retirement protection coverage benefit from the answer above.

**Example:** Income – \$430,000 Annual; Available Taxable (Employer Pay) DIRS Benefit of \$5,000/month and existing taxable retirement coverage of \$2,000/month.

Maximum DIRS Benefit	\$5,325
Less \$2,000 Retirement Protection	<u>-2,000</u>
Eligible Benefit	<b>\$3,325</b>

The DI illustration system will automatically calculate the maximum benefit available when entering existing retirement coverage if you check the Retirement Security check box on the Existing Coverage tab.

## Other sales programs available

We offer various sales programs for you to best meet your clients' needs:

PROGRAM:	GUIDELINES:
Association	Available to approved Associations with 10% Association discount available
Multi-Life	Available on Multi-life with a 20% discount*
GSI	With underwriting approval available with 20% or greater discount

\* See Discount Section for guidelines.

## Guaranteed Standard Issue (GSI)/Standard Issue (SI) sales programs (requires home office approval)

Whether employer-paid (GSI) or employee-paid (SI), this program is designed to handle large cases with ease. It provides standard coverage for the entire group with virtually no medical underwriting, and discounts are offered based on the number of participating lives – up to 30 percent for 100+ (20 percent in CA). Eligible employees are able to obtain an individually-owned income protection policy with a discount that continues even if they leave their employer.

## GSI/SI program guidelines

<b>Products Available</b>	Disability Income (DI) Key Person Replacement (KPR) Overhead Expense (OE)
<b>Issue Age</b>	18-70 DI 18-55 KPR (not available in CA) 18-60 OE (18-57 in CA)
<b>Number of Lives</b>	<ul style="list-style-type: none"> <li>• Minimum participation – 15</li> <li>• 100% employer pay or our Standard Issue voluntary program, available with 30% participation of eligible group.</li> </ul>
<b>Occupation Class</b>	3A and above
<b>Rates</b>	Unisex
<b>Multi-Life Discounts Available</b>	<b>20%</b> – for 15-49 lives <b>25%</b> – for 50-99 lives <b>30%</b> – for 100+ lives (20% maximum discount on OE in CA)
<b>Additional Discounts*</b>	<ul style="list-style-type: none"> <li>• Select Occupation – <b>10%</b></li> <li>• Mental/Nervous Substance Abuse Disorder Limitation rider. – up to <b>10%</b></li> </ul>
<b>Riders Available</b>	Cost of Living Agreement and Conditionally Renewable Policy. Other riders may be available based on Underwriting approval.
<b>Renewability of Program</b>	Program renewals available annually at employer request and Principal Life approval.
<b>First-Year Case Commissions</b>	Percentage determined at time of submission.

\* See Discount Section for guidelines.

## Fully underwritten

Fully underwritten cases are evaluated according to required medical and financial criteria.

- Maximum Issue and Participation (I&P) limits
- All riders available based on current underwriting guidelines and state availability
- Single Life:
  - Sex-distinct rate (except MT) for DI, OE, DBO and KPR
  - Issue ages 18-60 for DI, OE & DBO; 18-55 for KPR
  - 10% Select Occupation and/or 10% or 5% Mental/Nervous and Substance Abuse discounts\* may be available.
- Multi-Life:
  - Unisex rate for DI
  - Sex-distinct rate (except MT) for OE, DBO and KPR
  - Issue ages 18-64 for DI
    - Issue ages 65-70 may be available with underwriting approval, and the Conditionally Renewable Policy rider is approved in your state.
  - Issue ages 18-60 for OE and DBO
  - Issue ages 18-55 for KPR
  - 20% multi-life discount\*
  - 10% Select Occupation and/or 10% or 5% Mental/Nervous and Substance Abuse discounts\* may be available and stacked.
  - Can be voluntary or employer-paid.
  - DI policies and discounts are portable should the insured leave the employer; for information regarding portability of OE and DBO policies, please see your DI Underwriter. KPR policies are not portable.

\* See Discount Section for guidelines.

## Simplified sales program

This program can help you meet your clients' disability insurance needs faster and easier than ever before. Your job is less complicated because of the streamlined underwriting - no blood, urine, EKGs or APSs required.<sup>1</sup>

The Simplified Sales Program applies to DI, OE and DBO insurance and is available for single- or multi-life. This program is not available for KPR.

Key highlights:

- Full commissions are paid.
- All riders are available.
- No income verification required when client's age is under 50 and their income is less than \$150,000/year<sup>2</sup> (for Simplified DI and Simplified Multi-Life).
- 48-hour turnaround time once the application and TeleApp interviews are completed and received.<sup>3</sup>

<sup>1</sup> Unless a significant medical condition is reported by MIB, significant medical information is obtained from the TeleApp or other available information, or any other disability coverage has been issued or applied for on a non-medical basis. Applications could be rated, ridered or declined based on all underwriting information available; this is not a guaranteed issue program. Urine/HIV test is required in Maine. Subject to Issue & Participation limits and minimum premium requirement. **Combined Simplified DI and Simplified OE benefits cannot exceed \$10,000/month.**

<sup>2</sup> Financial documentation will be required for the following occupations (regardless of income): stockbroker/bond trader (not on trading floor), mutual fund manager, real estate agent/broker, mortgage loan originator/broker, investment banker/analyst, private equity firms, venture capitalist, attorney specializing in real estate and residential construction.

<sup>3</sup> OE and DBO supplements must also be completed and received.

## Simplified DI single-life and Simplified DI multi-life

FEATURE	SINGLE-LIFE (SERIES 700)	MULTI-LIFE (SERIES 700)
Maximum Benefit Amount	\$3,000/month	\$5,000
Standard Number of Lives	N/A	3+ lives
Maximum Issue Age	50	64
Occupation Class	All	All
Elimination Periods	All (30 day not available in CA)	All (30 day not available in CA)
Benefits Periods	All	All
Your Occupation Periods	All	All
Rates	Sex Distinct (except in MT)	Unisex
Riders Available	All	All
Discounts Available <sup>1</sup>	<ul style="list-style-type: none"> <li>• Association – <b>10%</b></li> <li>• MNSA – up to <b>10%</b></li> <li>• Select Occupation – <b>10%</b></li> </ul>	<ul style="list-style-type: none"> <li>• Multi-Life – <b>20%</b></li> <li>• MNSA – up to <b>10%</b></li> <li>• Select Occupation – <b>10%</b></li> </ul>

<sup>1</sup> See Discount Section for guidelines.

## Simplified OE

FEATURE	ALL STATES (SERIES 700)	CALIFORNIA (SOLUTIONS II)
Maximum Monthly Benefit Amount	\$10,000/month <sup>1</sup>	Same
Maximum Issue Age	50	Same
Occupation Classes	All	All (except A)
Elimination Periods	All	Same
Benefit Factors	All	Same
Rates	Sex Distinct (Unisex in MT)	Unisex
Riders Available	All	Same
Discounts Available <sup>2</sup>	Association -10% Select Occupation -10% Multi- Life – 20%	N/A Same Same <sup>3</sup>

<sup>1</sup> Combined Simplified DI and Simplified OE benefits cannot exceed \$10,000/month

<sup>2</sup> See Discount Section for guidelines.

<sup>3</sup> Discount percentage may vary based on elimination period.

## Simplified DBO

FEATURE	ALL STATES (SERIES 700)	CALIFORNIA (SOLUTIONS II)
Maximum Aggregate Benefit	\$360,000	Same
Maximum Issue Age	50	Same
Occupation Classes	All	Same
Elimination Periods	All	Same
Benefit Factors	All	Same
Rates	Sex Distinct (Unisex in MT)	Unisex
Riders Available	All	Same
Discounts Available <sup>2</sup>	Association – 10% Multi-Life – 20% Select Occupation – 10%	N/A Same Same

Also, Underwriting can request medical requirements if the existing policy indicates a rating based on information we have received.

Examples:

- If a Simplified DI Multi-Life policy for \$1,500/month and a DIRS policy for \$1,500/month are sold to the same client, medical requirements are not required. (\$1,500 of Simplified DI plus \$1,500 of DIRS is less than the DIRS maximum of \$4,125/month.)
- If a DI policy for \$2,500/month and a DIRS policy for \$1,050/month are sold to the same client, medical requirements are not required. (\$2,500 of DI plus \$1,050 of DIRS is less than the DIRS maximum of \$4,125/month.)
- If that same insured had \$15,000/month inforce and had a blood profile, exam and EKG done originally, he would not be eligible for any DI coverage since he is at our Maximum Issue Limit of \$15,000. He would be eligible for \$4,125/month DIRS since DIRS coverage is above our I&P limits.
- If a Simplified DI policy for \$3,000/month and a Simplified OE for \$7,000/month are sold to the same client, medical requirements are not required. (\$3,000 of DI plus \$7,000 of OE is less than the \$10,000/month maximum for DI and OE).
- If an existing client wanted a DBO lump sum of \$250,000, he would not need medical requirements for this coverage, as DBO limit stands alone from the other limits and is under the \$360,000 aggregate benefit.

All of the above guidelines apply assuming inforce coverage from all sources and does not exceed our current Issue and Participation limits. See Section 9 for complete Medical Underwriting Guidelines.

## Medical requirements guidelines for sales programs

We have created these sales programs and underwriting guidelines to help when selling Individual Disability Insurance (IDI). These programs and guidelines include determining when you should order medical requirements. Here is an overview of these guidelines:

No medical requirements needed<sup>1</sup> if your client is applying for:

1. Up to **\$3,000/month benefit** for single-life Disability Income (DI) (between ages 18-50)
2. Up to **\$5,000/month benefit** multi-life DI (between ages 18-64)
3. Up to **\$10,000/month<sup>2</sup> benefit** for Overhead Expense (between ages 18-50)
4. Up to **\$360,000 aggregate benefit** for Disability Buy-Out (between ages 18-50)
5. Guaranteed Standard Issue or Standard Issue – **Offer made is the maximum limit;**
6. Up to **\$4,125/month benefit** for DI Retirement Security (DIRS) (Employee Paid) Sales Program
7. Up to **\$5,325/month benefit** for DIRS (Employer Paid) Sales Program

<sup>1</sup> If application is written in ME and the TeleApp process is used, then a Urine-HIV test is required.

<sup>2</sup> Combined Simplified DI and Simplified OE benefits cannot exceed \$10,000/month.

A client may own or apply for more than one of these IDI products and sales programs or may have bought one in the past and wants to apply for an additional policy. **To determine if the medical requirements are needed, the limits (amount applied for and inforce coverage with us) for each program must be added together. If this total exceeds the program with the highest limit, medical requirements are required.**

## Discounts

These discounts are only available to disability policies with form numbers HH750, HH702, HH703 and HH772. Previous policies remain eligible for the discount programs (if any) in effect when they were originally issued.

All discounts are available on standard, rated and ridered policies.

**Guidelines for Mental/Nervous and Substance Abuse (MNSA)** – This rider is mandatory on DI for residents of, or applications written in:

Single-Life	Multi-Life
California Florida Louisiana Nevada	California <i>Optional in all other states for employer-sponsored cases.</i>

The existence of this rider on the policy will reduce premiums based on the Benefit Period:

- To Age 65 or greater = 10% (5% in TX)
- 2 Year or 5 Year = 5% (3% in TX; not available on 2 Year BP)

This rider is also required on all DI policies written under the Association Sales Program or if the Regular Occupation rider is selected on a 5A-M or 4A-M policy.

MNSA is not available in the written state of VT.

### Guidelines for Select Occupation Discount

The Select Occupation Discount is a 10 percent discount that is available for all products (DI, OE, DBO and KPR). The occupations are marked as Select 5A in the Occupational Class Schedule section. This discount is available for the following occupations:

Actuary	CPA	Judges
Architect	Engineer	Pharmacists
Attorney	Executive (earning over \$60,000)	

## Guidelines for Multi-life Discount

The Multi-life discount is a 20% discount that is available on DI, OE, DBO and KPR:

- Qualification for the discount is three or more employees with a common employer who purchase any combination of individual disability insurance policies.\*
- Eligibility for this discount requires the proposed insured still be employed by the company/organization on the day the policy is issued and placed in force. This includes the completion and submission of any amendments, exclusion riders, money or any other delivery requirement.

**NOTE:** The Multi-Life Discount is not available for Key Person Replacement, Overhead Expense and Disability Buy-Out policies written in Ohio. This includes any Multi-Life Discount given for fully underwritten, Simplified Multi-Life and Guaranteed Standard Issue cases. Policies taken on these products will not count towards the three lives qualification for multi-life in Ohio.

## Guidelines for Multi-Life Discount on Medical Residents and Fellows

The following are the guidelines to follow when adding the multi-life discount to an approved medical resident/fellowship:

- The multi-life discount will apply if the application for coverage is signed while an active member of the resident/fellowship program.
- If a member of the resident/fellowship program has entered into an employment contract, we will give consideration to the income outlined in the contract. We will program around any group or other IDI the insured may have in force or be eligible for under the new employment agreement. A copy of the employment contract is needed.
- If a member of the resident/fellowship program applies for coverage and during underwriting completes the program, but has not entered into an employment contract or obtained employment, we will still extend the resident/fellowship limits and program discount.

\* If a single life case is submitted and during the following year applications for at least two additional employees from the same employer group are submitted, all three would be eligible for the Multi-life discount. The first policy issued would be rewritten and the discount and unisex rates would be effective as of the original issue date.

	MULTI-LIFE <sup>1,2</sup>	ASSOCIATION <sup>3</sup>	MENTAL/NERVOUS SUBSTANCE ABUSE (MNSA)	SELECT OCCUPATION
<b>Products Available</b>	DI, OE, DBO, KPR <sup>3</sup>	DI, OE, DBO	DI	DI, OE, DBO, KPR
<b>Minimum Group Size</b>	Three employees with common employer	100+ eligible lives preferred	One	One
<b>Eligible Occupations</b>	All Occupation Classes	All Occupation Classes (3A and above preferred)	All Occupation Classes (3A and above preferred)	Actuaries, Architects, Attorneys, CPAs, Engineers, Executives earning over \$60,000, Judges and Pharmacists
<b>Restrictions</b>	None	Requires the MNSA rider	Required in some states, optional in multi-life for all states (except CA), and required on all DI and DIRS casesold under the Association Sales Program. <sup>4</sup>	None
<b>Discount Percentage</b>	20%, 25%, 30%	10%	<ul style="list-style-type: none"> <li>• 10% – To Age 65, To Age 67 or To Age 70 Benefit Periods (5% in TX)</li> <li>• 5% – 2 or 5 Year Benefit Periods (3% on 5 Year in TX)</li> </ul>	10%

<sup>1</sup> All policies must be issued within one year.

<sup>2</sup> Not available on KPR, OE and DBO in OH

<sup>3</sup> Not available in all states.

<sup>4</sup> See Discount Section for guidelines.

## Stacking discounts for Series 700

DISCOUNT PERCENTAGE <sup>1</sup>	MULTI-LIFE – 20%	ASSOCIATION – 10% <sup>2</sup>	SELECT OCCUPATION – 10%
With 10% Select Occupation	30%	20%	N/A
With 10% / 5% MNSA <sup>3</sup> (To age 70, 67 or 65 / 2 or 5 yr. BP)	30% / 25%	20% / 15%	20% / 15%
With 10% Select Occupation and 10% / 5% MNSA <sup>3</sup> (To age 70, 67 or 65 / 2 or 5 yr. BP)	40% / 35%	30% / 25%	N/A

BP=Benefit Period

<sup>1</sup> See Discount Section for guidelines.<sup>2</sup> Not available in all states.<sup>3</sup> Not available in VT.





## Section 6

## Federal Income Tax Guide

The type of disability income plan chosen greatly affects the amount of federal income taxes payable. This section shows the effects of various federal income tax laws on the premiums and benefits of individual disability income insurance.

While this Federal Income Tax Guide may be used to promote or market a transaction or an idea that is discussed in the publication, it is intended to provide general information about the subject matter covered and is provided with the understanding that The Principal is not rendering legal, accounting, or tax advice. It is not a marketed opinion and may not be used to avoid penalties under the Internal Revenue Code. Your clients should consult with appropriate counsel or other advisors on all matters pertaining to legal, tax, or accounting obligations and requirements.

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The type of disability income plan chosen greatly affects the amount of federal income taxes payable. This guide shows the effects of various FEDERAL income tax laws on the premiums and benefits of individual disability income insurance. While an understanding of tax fundamentals will help identify the right insurance plan, individuals should consult with their own tax or legal counsel. **This guide is not intended to be, nor should it be interpreted to be, formal tax advice.**

### Personal insurance

Most individual disability income policies are set up with the insured as the owner, premium payor and receiver of the benefits. Under these circumstances, premiums are not deductible, and benefits are received income tax-free.

### Business insurance

There are at least three business uses for disability insurance: salary continuation, reimbursement of overhead expenses, funding of disability buy-sell agreements and replacement of a key employee lost due to a disability. The federal income tax effects on all of these uses are shown in the Tax Guide Table.

Under a traditional employer-pay-all “salary continuation plan,” benefits are taxable to the insured. To offset this taxation, higher issue limits are available. Under a “bonus plan” where premiums are included in the taxable income of the insured, benefits are received income tax-free. Whether to use a salary continuation plan or an executive bonus program is a matter for the insured and their legal and/or tax counsels. Insureds who have an ownership interest in a sole proprietorship, partnership, S-corporation or Limited Liability Company may not participate in a salary continuation plan provided by that business. Because of its complexity, more information follows for insured salary continuation plans.

## Salary continuation plans

Special requirements must be met to minimize federal income taxes on salary continuation plans. Court decisions make it clear that a “formal plan” must exist for favorable income tax treatment.

### Where no “formal plan” exists

Tax effect on premiums:

- Premiums may be reported as taxable income to the employee.
- The value of the coverage for a stockholder-employee may be taxed as informal dividends.

Tax effect on benefits:

- The employee may not qualify for a tax credit.
- Benefits could be subject to Social Security tax on both the employer and employee after the first six months of disability.
- Benefits paid directly by the employer may be considered additional compensation to the employee which is deductible by the employer as a business expense, but is taxable to the employee.
- Benefits paid to stockholder-employees may be taxed as informal dividends to the employee, but they are not deductible by the employer.

### A formal plan must be

- In effect prior to a disability.
- Detailed and known to the employee. Court rulings imply that a “plan” must be in writing.

- For the benefit of the employee. However, different plans may be offered to different levels of employees. Stockholders can be protected if they are identified as a separate class of employees. That class must, however, serve a function other than solely being a stockholder.
- Reasonable in amount of benefit considering the employee's salary and other compensation.

### Tax effects

- The employer may deduct premiums paid from company funds under a formal plan. These premiums are considered ordinary and necessary business expenses.
- Employer-paid premiums are not included in the employee's income.
- Disability benefits are taxable to the employee, but not subject to Social Security taxes after the first six months of disability.

### Tax credit

Effective January 1, 1984, employees retired on disability who are under age 65 may be eligible for a tax credit. The tax credit is based on a formula that considers age, adjusted gross income, benefits not subject to tax and federal tax filing status.

In essence, if the disabled employee's reportable income from all sources exceeds certain amounts, some or all of the credit will be lost. Benefit amounts received from Social Security which are not taxed would also reduce the possible tax credit. Employees whose income during total disability would be above \$25,000 per calendar year would not be eligible for any tax credit. Also, certain other employees with different tax filing statuses and incomes may not be eligible for the tax credit. Employees retired on disability should consult with appropriate tax counsel.

## Disability tax guide table

POLICY OWNER	PREMIUM PAYER	BENEFITS PAYABLE TO (Loss Payee)	TAX RESULTS	
			PREMIUMS	BENEFITS
<b>Individual Disability Income</b>				
Individual	Individual	Individual	Non-deductible (IRC § 213, 262 § 265).	Tax free (IRC § 104 (a)(3)).
<b>Formal salary continuation plan using disability policies</b>				
Sole Proprietor	Sole Proprietor	Sole Proprietor	Any form of business entity may establish a plan. However, since sole proprietors, partners and owners with greater than 2% interest in S-corporations are not considered employees (IRC § 1372), they cannot participate in the plan. (They can, however, establish a plan for their employees.) On the other hand, owners of C-corporations are considered owner employees and may participate in the plan.	N/A
Partner, Limited Liability Company (LLC)/Member	Partnership/Limited Liability Company (LLC)	Partner/Limited Liability Company (LLC) Member		
S-Corporation owner a (more than 2% Ownership)	S-Corporation	S-Corporation owner		
C-Corporation owner/employee	C-Corporation	C-Corporation owner/employee	Deductible by employer (IRC § 162) and non-taxable to employee (IRC § 106).	Taxable (IRC § 105 (a)) with tax credit possible (IRC § 22).

(continued on next page)

POLICY OWNER	PREMIUM PAYER	BENEFITS PAYABLE TO (Loss Payee)	TAX RESULTS	
			PREMIUMS	BENEFITS
Employee with no ownership	Any business entity	Employee	Deductible by employer (IRC § 162) and non-taxable to employee (IRC § 106).	Taxable (IRC § 105(a)) with tax credit possible (IRC § 22).
Employee with no ownership	Any business entity shared by employer and employee	Employee	Employer share deductible to employer (IRC § 162) and non-taxable to employee (IRC § 106). Employee share non-deductible (IRC § 213).	Employer share taxable (IRC § 105(a)) with tax credit possible (IRC § 22). Employee share tax free (IRC § 104(a)(3)).
<b>Executive bonus plan using disability policies</b>				
Sole Proprietor	Sole Proprietor	Sole Proprietor	Non-deductible (IRC § 213, 262 & 265).	Tax free (IRC § 104(a)(3)).
Partner/LLC Member	Partnership/LLC	Partner/LLC Member	Deductible by Partnership; includible in income of partner as guaranteed payments (Rev. Rul. 91-26).	Tax free (IRC § 104(a)(3)).
S-Corporation Owner (more than 2% ownership)	S-Corporation	S-Corporation owner	Deductible by S-Corporation; includible in W-2 income of Shareholder/Employee (Rev. Rul. 91-26).	Tax free (IRC § 104(a)(3)).
C-Corporation Owner/Employee	C-Corporation	C-Corporation Owner/Employee	Deductible by C-Corporation as regular compensation (IRC § 162); taxable as income to Employee.	Tax free (IRC § 104(a)(3)).

## Disability tax guide table

POLICY OWNER	PREMIUM PAYER	BENEFITS PAYABLE TO (Loss Payee)	TAX RESULTS	
			PREMIUMS	BENEFITS
Employee with no ownership	Any entity	Employee	Deductible by business as regular compensation (IRC § 162); taxable as income to Employee.	Tax free (IRC § 104(a)(3)).
<b>Premium only plan using disability policies</b>				
Employee	Employee	Employee	Non-deductible by Employer. However premiums are paid by the employee with before-tax dollars, resulting in federal, state and FICA tax savings for the employee and FICA tax savings for the employer (IRC § 105(5)).	Taxable (IRC § 104 (a)(3)).
<b>Overhead Expense</b>				
Sole Proprietorship	Sole Proprietorship	Sole Proprietorship	Deductible (Rev. Rul. 55-264, 1955-1 C.B. 11).	Reportable as income (Rev. Rul. 55-264, 1955-1 C.B. 11). Although the benefits are taxable as income, the actual business expenses are deductible.
Partnership/LLC	Partnership/LLC	Partnership/LLC		
Corporation	Corporation	Corporation		

(continued on next page)

POLICY OWNER	PREMIUM PAYER	BENEFITS PAYABLE TO (Loss Payee)	TAX RESULTS	
			PREMIUMS	BENEFITS
<b>Disability Buy-Out and Key Person Replacement — The insured may not be the policyowner</b>				
Partnership/Limited Liability Company (LLC)	Partnership/Limited Liability Company (LLC) – Entity Purchase	Partnership/Limited Liability Company (LLC)	Non-deductible (IRC § 265; Rev. Rul. 66-262, 1966-2 C.B. 105).	<ul style="list-style-type: none"> <li>• Tax free (IRC § 104 (a)(3); Rev. Rul. 66-262, 1966-2 C.B. 105).</li> </ul>
Partner/LLC Member	Partner/LLC Member – Cross Purchase	Partner/LLC Member		<ul style="list-style-type: none"> <li>• The disabled owner is taxed only on the gain from the sale of the business. The gain may be considered an installment sale if at least one payment is to be received after the close of the tax year in which the sale was made. Please consult your tax advisor for details.</li> </ul>
Corporation	Corporation – Entity Purchase	Corporation		
Individual Shareholder	Individual Shareholder – Cross Purchase	Individual Shareholder		





## Section 7

# General Underwriting

This section provides general underwriting guidelines for all three of our disability insurance products (DI, OE and DBO).

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The following guidelines apply to all disability insurance products: Disability Income (DI), Overhead Expense (OE), Disability Buy-Out (DBO) and Key Person Replacement (KPR):

**Adjustments** – All current series DI, OE, DBO and KPR policies are adjustable through age 64. Adjustments are underwritten based on the current underwriting requirements and guidelines in effect at the time the adjustment is requested. Contract and rider availability are also considered underwriting guidelines applied to the underwriting of adjustments.

An adjustment application is required to adjust a policy. Other underwriting requirements may also be requested by the underwriter.

Adjustments resulting in an increase in liability require evidence of insurability and are underwritten based on the underwriting guidelines, including product and rider availability, in effect at the time of the requested adjustment. Based on current underwriting guidelines, some adjustments may result in a second policy.

To change a policy from smoker to non-smoker, the client must not have smoked within 12 months of the adjustment application date, and not had a change in health, such as a heart attack, which was related to their smoking history.

To change the occupation class on a policy, the client must have a change in their occupation, such as going from a Registered Nurse to a Physician Assistant. This change will be considered an underwritten adjustment and the appropriate application will still be required.

**Aviation** – Commercial airline and company pilots and crew are not eligible for disability insurance. Strict medical standards set by the Federal Aviation Administration prevent pilots and crew members from working due to medical conditions which would not be considered disabling in most other occupations (i.e., inner ear disorder). Clients who are engaged in full-time occupations, but fly as a pilot or crew member for business and/or pleasure, usually are considered standard, without an aviation exclusion. If medical factors or type of flying make the

risk uncertain, coverage may be considered with an aviation exclusion. When the TeleApp process is not used, the Aviation Statement must be completed when the client answers “yes” to the aviation question on the application.

**Avocations** – Non-hazardous recreational activities are acceptable risks for disability insurance. However, some recreational activities (i.e., scuba diving, sky diving, auto racing) present additional risk and may require an exclusion rider. Similar activities that are an inherent part of a client’s work, or are completed for pay, are typically uninsurable risks for disability insurance. When the TeleApp process is not used, the Sports Statement must be completed when the client answers “yes” to the sports activity question on the application.

**Bankruptcy** – Guidelines are:

Years from date of discharge or dismissal, whichever is later*	Decision
0-2	Offer for coverage will not be made.
3-5	<ul style="list-style-type: none"> <li>• Individual consideration with possible monthly benefit up to \$10,000/month.</li> <li>• If unfavorable factors are present, the benefit period may be limited to 5 years.</li> </ul>
Over 5 years	No adverse action needed.

\* If bankruptcy is filed but not discharged or dismissed, no offer for coverage will be made.

The following information and documentation will be required at the time of application:

- The type, chapter and circumstances of bankruptcy
- 2 years personal tax returns on all cases
- 2 years business tax returns, if an owner of a C-Corporation
- Documentation of bankruptcy discharge or dismissal

An offer for coverage will not be made if the proposed insured has a history of more than one bankruptcy filed or any evidence of fraud.

**Favorable Factors:**

- Medically Standard
- Stable Job and Income History
- Employee of a Business
- Honest Debtor (partner caused bankruptcy)
- Bankruptcy Discharged

**Unfavorable Factors:**

- Adverse Health History (especially history of mental nervous disorder)
- Unstable Job and Income History
- Business Owner (especially one showing negative income)
- Working From Home

**Home-Based Workers** – Individuals whose occupations do not require them to leave their residence for a substantial percentage of their working time are eligible for a DI policy. Due to the potential problems inherent in separating residence and business expenses for administration of a claim, Overhead Expense insurance coverage is not available in a home-based working situation. The following considerations may apply:

- Individuals who are W-2 income, employed by an outside firm, will generally have no restrictions on coverage.
- Self-employed business owner or contractor working greater than 75 percent of the time in their residence for less than two years, with prior stable employment, can be considered with a maximum five-year benefit period, no Residual rider, and a two-year Your Occupation rider.

- Coverage would be based on income level at 60 percent of the income level prior to working in the home.
- If the individual has been doing this for more than two years, with two years of income documentation available, they would be eligible for unrestricted benefit amount, benefit period and option riders.
- Self-employed individuals who are working 50 percent to 75 percent of their time in the home would be eligible for the Short-Term Residual Disability Benefit rider.
  - If working at that arrangement for over two years with two years of income documentation available, the client would be eligible for unrestricted coverage.
- Self-employed individuals working 50 percent or less in the home would be eligible for unrestricted coverage.
- A minimum 90 day elimination period will be required on coverage for individuals working in the home, with two years of financial documentation requested.

**Note:** Individuals whose office has a separate entrance accessible to the public, or whose office is in a separate building on the property, would not be subject to the above limitations.

For more information, contact your DI underwriter.

**Conditional Receipt** – The maximum coverage for Disability Income (DI), Overhead Expense (OE), and Business Loan Protection rider (available on OE) provided by our conditional receipt is \$5,000/month. **If you are submitting an application for DI, OE or BLP rider in excess of \$5,000/month, do not submit premium with the application and do not give the insured the Conditional Receipt.**

The maximum coverage for Disability Buy-Out (DBO), provided by our conditional receipt, is \$500,000 aggregate benefit. **If you are submitting an application for DBO in excess of \$500,000 aggregate benefit, do not submit premium with the application and do not give the insured the Conditional Receipt.**

The maximum coverage for Key Person Replacement (KPR) insurance, provided by our conditional receipt, is \$2,500/month and \$200,000 lump-sum benefit. **If you are submitting an application for KPR in excess of \$2,500/month and \$200,000 lump-sum benefit, do not submit premium with the application and do not give the insured the Conditional Receipt.**

The best way to provide some conditional receipt coverage for your client is to apply for \$5,000/month, submit the premium based on \$5,000/month (or \$500,000 Aggregate Benefit for DBO), submit the premium based on that amount, and request an alternate C.O.D. policy for the higher benefit actually desired.

In select multi-life cases, Conditional Receipt coverage may be provided even when no premium check is submitted with the application. In these special situations, we offer the ability to obtain Conditional Receipt coverage by using a Payroll Deduction form instead of a premium check. The use of this form to obtain Conditional Receipt coverage requires pre-approval by a multi-life underwriter.

**Criminal/Illegal Offenses** – Clients who are currently on parole or probation are not eligible for disability insurance. If a client has been arrested without legal resolution, coverage will not be available until the outcome of the legal action has been determined. Upon completion of parole or probation, we will require complete details of the illegal or criminal history before considering offering coverage.

### **Difference Between Life and Disability Insurance**

**Underwriting** – It is important to understand the differences between the underwriting of life insurance and disability insurance because realistic underwriting expectations will avoid frustration later. Disability insurance and life insurance are very different products, each with its own set of risks. Therefore, attempting to compare life and disability underwriting decisions leads to unrealistic expectations. The following risk factors are of primary importance in the underwriting of disability insurance cases, but of less concern in the majority of life insurance cases:

- **Income** – For disability insurance, an in-depth evaluation of income is necessary on every application. For life insurance, income typically is a significant risk factor only for large amount cases.
- **Occupation** – For disability insurance, classifying the client in the correct occupation class is critical in determining the proper premium rate. Occupation, unless extremely hazardous, has little impact on life insurance.
- **Medical Impairments** – Potentially disabling medical impairments, which may be of little concern for life insurance, require a thorough evaluation for disability insurance (i.e., back pain, psychological history). These are in addition to impairments which can be significant to the underwriting of life insurance (i.e., cancer, diabetes, heart attack).

The fact a client has qualified for life insurance does not imply a satisfactory risk for disability insurance. If a client has been issued a life insurance policy by any company, it should not be assumed he or she can qualify for disability insurance. The client should never be advised regarding insurability for disability insurance based on life insurance underwriting action.

**Driving** – Injuries sustained in motor vehicle accidents account for a major portion of disability claims. Accident rates increase in relation to the number of driving violations. Age, medical history/impairments, medications, alcohol or drug abuse, participation in aviation/avocations and occupation are factors taken into consideration when determining if a client with a poor driving record is eligible for disability insurance. Any person convicted of driving under the influence of alcohol or drugs within one year of the date of the application is not eligible for disability insurance. Other driving offenses may result in a variety of underwriting decisions, including an extra premium, extended elimination period, reduced benefit period and/or the denial of optional benefit riders.

**Foreign Nationals** – Foreign nationals, who are Permanent Residents of the United States (also known as Green Card holders) and have lived in the U.S. for at least one year, are eligible for the same unrestricted coverage as a U.S. citizen.

Foreign nationals who currently hold a H1B, L1 or J1 temporary visa will be considered for disability coverage. Consideration for foreign nationals who currently hold these types of temporary visas will be reviewed on a case-by-case basis and will require completion of a Non-U.S. Citizen Questionnaire.

**Foreign Travel** – Clients traveling outside of the United States for pleasure or business for less than three months are usually considered on a standard basis. For clients traveling more than three months out of the year, a Foreign Travel Exclusion\* rider may be added to the policy.

Traveling abroad may be a poor disability insurance risk factor for the following reasons:

- Lower-quality medical care in the foreign country
- Standard of living in the foreign country is not as good as in the United States
- Difficulty in administering a claim

Clients traveling outside of the United States more than six months out of the year are usually not eligible for coverage, but may be considered on a case-by-case basis depending on the country visited. (Contact your disability underwriter.)

Consideration is not given to any client who plans to travel to an area where a state of war or armed conflict exists, or to an area that is remote or unsettled. Other clients living and working abroad will be given individual consideration.

\*The Foreign Travel Exclusion rider states that benefits are not payable for an injury occurring or sickness beginning while the insured is in the excluded location, and for any period he/she is in the excluded location. Not available in FL and VT.

**Full-Time and Part-Time Employment** – Clients are eligible for disability insurance only if working a minimum of 30 hours per week in one job. If there is a “second job,” it may affect the occupation class and coverage available. The underwriter considers the entire range of occupational activity. Specific action depends on the facts. Full details should be provided with the application.

**Impaired Risks** – Policies are issued to select impaired risks on an extra premium basis, exclusion rider basis and/or modified coverage rider basis.

- **Extra Premium Basis** – Policies written solely on the extra premium basis usually provide the same coverage as standard policies (except for Benefit Update). Moderate to high extra premium classes, however, may be approved with a shortened benefit period, a lengthened elimination period and/or denial of optional benefit riders.
- **Exclusion Rider Basis** – The Exclusion rider states no coverage is provided for disability resulting from a specified impairment or condition. The use of an exclusion rider provides coverage to a client who would otherwise be declined because of an existing impairment or medical history. Policies written on the exclusion rider basis usually are issued at standard premium rates. Sometimes both an exclusion rider and an extra premium may be required to fully offset the high risk presented by certain medical conditions.
- **Modified Coverage Rider Basis** – Policies written on this basis usually are issued at standard premium rates, but provide coverage for a specified impairment or condition with a limited benefit period and/or extended elimination period. As with the exclusion rider, the modified coverage rider may be approved with an extra premium in some situations. The following is an example of a modified coverage rider:

*Any injury to/disease or disorder of the cervical spine, its muscles, ligaments, discs or nerve roots, including any treatment or operation therefore, or complication thereof. Elimination Period for named condition - 180 days. Benefit Period for named condition – two years.*

- **Multiple Policy Owners** – Principal Life will not issue DI, OE, DBO or KPR policies with multiple owners, as there are complications that can result when there are multiple owners on one policy. Ownership rights can be sacrificed if all owners are not available to sign any policy transaction that requires the owner's signature.

**Reconsideration of a Modified Policy** – Sometimes coverage is issued on a modified basis (i.e., exclusion rider, modified coverage rider, extra premium, reduced benefit period, longer elimination period). At the time the policy is issued, the underwriter indicates when the modification can be reconsidered. After a reasonable period of time, we may be able to remove or reduce the modification. This does not mean the modification will automatically drop off the policy at the end of the reconsideration period. The reconsideration action is solely dependent on the insurability status of the client at the time of reconsideration, including any medical condition which may have developed since the issue date of the policy.

Examples of reconsideration periods include:

- The first policy anniversary (one year)
- The second policy anniversary (two years)
- Modification appears permanent (the nature of the medical history is such that the modification might never be removed)

A fully completed adjustment application is required to begin the reconsideration process. Other underwriting requirements also may be requested by the underwriter.

**Reinstatements** – Any disability insurance policy that has lapsed may be reinstated within one year of the date of lapse. Reinstatements requested more than one year from the date of lapse are not considered. Those clients must apply for coverage using a new business application. All reinstatements are underwritten based on the then current underwriting requirements, guidelines, products and riders in effect at the time the reinstatement is requested.

A reinstatement application is required to reinstate a policy. Other underwriting requirements also may be requested by the underwriter.

**Responsibility of Producer** – The producer plays an important role in the selection of risks for Principal Life; therefore, great care should be exercised in selecting disability insurance business. If timely service is to be provided by the company with satisfactory morbidity results, the producer must:

- Be as familiar as possible with the company's underwriting requirements and avoid soliciting applications from persons who obviously do not satisfy those requirements
- Guard against overinsurance, which may lead to an increased incidence or duration of claims
- Use extreme care in completing the application. It is a legal document and will be attached to and become part of the contract of insurance. All questions on the application must be answered completely and legibly in the presence of the proposed insured.

When an application is completed, the proposed insured and owner, if other than the proposed insured, must review all questions and answers as recorded, before signing. **Any additions or deletions must be initialized by the proposed insured and owner, if other than the proposed insured.** "White out" should not be used to correct mistakes on the application. Under no circumstances should a blank application be signed or should applications be taken by phone or mail. Typed applications are not permitted.

**Seasonal Employment** – Unstable or short-term seasonal occupations are not eligible for disability insurance. Occupations such as snow plowers and lifeguards do not provide long-term job stability or strong potential for a consistent earned income. Many seasonal jobs at parks and resorts are dependent on the weather, which creates even greater job instability.

**Smoker/Non-Smoker Guidelines** – Clients are classified as a smoker according to the following guidelines:

- Cigarette use within the past 12 months.
- Use of a nicotine patch, prescription drugs, gum, inhaler or other nicotine cessation product within the past 12 months.

Use of chewing tobacco, cigars or pipes is considered to be a non-smoker classification.





## Section 8

# Occupational Underwriting

This section provides occupational underwriting guidelines for all three of our disability insurance products (DI, OE and DBO).

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## General guidelines

Occupation is the primary factor in determining the client's policy features and the premium rate. The occupation classes are 5A, 5A-M, 4A, 4A-M, 3A, 3A-M, 2A and A.

### Factors affecting the occupation class

The following factors are considered in determining the appropriate occupation class:

**Duties** – Specific duties are an important factor. Clients are placed in an occupation class based on their most physically demanding and hazardous duties. If a proposed insured is employed in a job which includes physical and manual duties, along with some administrative responsibility, the occupation class should be based on the physical and manual duties. For example, the manager of a business machine repair and service company, with managerial and administrative duties only, would be a 3A occupation class. However, if that manager actually spent time repairing and servicing machines, the appropriate occupation class would be A.

**Education** – Typically, the higher the level of education, the higher the occupation class. Formal education is recognized as a favorable factor when considering occupation classification. Clients with graduate degrees and specialty designations are considered to be generally more motivated than clients that have not invested as much in their chosen occupation or profession. A higher level of education also enhances the probability of a disabled client being able to return to work as it broadens their employment opportunities.

**Environment** – Higher occupation classes apply to occupations which are in favorable physical environments. A contractor with office duties only is a more favorable risk than a contractor working out of a trailer at the job sight, even if neither one ever does any physical or manual labor.

**Financial** – Stable income levels affect occupation class. Consistently high income generally indicates long-term job stability and a greater motivation to return to work.

Occupations which are subject to volatile income changes (i.e., real estate) are generally not considered to be as favorable a risk as those with more even and consistent earning patterns.

## Select Occupations

Certain occupations have been designated as Select Occupations. This is based on overall favorable claims experience in the disability insurance industry. All of these occupations are classified at 5A occupation class. In addition, they are all given a 10 percent premium discount known as the Select Occupation Discount. The discount will be applied to the following 5A occupations:

Actuary*	Engineer*
Architect	Executive*
Attorney	Judge
CPA	Pharmacist

\* See the occupation schedule for additional qualifying criteria.

The Select Occupation Discount is available for DI, DIRS, OE, DBO and KPR policies.

## “M” occupation class

Certain occupations have been designated as 5A-M, 4A-M or 3A-M. These occupations are limited to:

OCC CLASS	ISSUE AND PARTICIPATION LIMIT	PARTICIPATION LIMITS W/GROUP INSURANCE
5A-M, 4A-M* & 3A-M*	\$15,000/month	\$25,000/month

\* Issue Limit will remain \$10,000/month and participation limit with other coverage at \$20,000/month for all policies written prior to the 700 Policy Series.

Note: The rates for the 5A and the 5A-M occupation class are the same. The rates for the 4A and the 4A-M occupation class are the same. The rates for the 3A and the 3A-M occupation class are the same.

# How to classify a business owner

## The Enhancer

The Enhancer (business owner grid) has been specifically designed to classify your business owner client in a fair, precise and progressive manner.

### Eligibility Guidelines

- At least 25% ownership interest
- Duties to include sales, administration and management, but no more than 20% physical or manual duties
- Other business owners with less than 25% ownership interest or with more than 20% physical or manual duties should be classified according to the general occupation schedule.

Three variables affect the occupation class of a business owner:

1. Occupation
2. Years owning current business
3. Annual earned income

To determine the class for the business owner:

- Verify at least 25% ownership interest.
- Verify less than 20% physical or manual duties.
- Obtain the occupation class from the Occupation Schedule. If an asterisk (\*) appears next to the occupation, your client is eligible to use the Enhancer; otherwise, use the occupation class indicated.
- Using the two factors indicated in the Enhancer, determine if the initial occupation class is to stay the same or move up (one or two classes).
  - "Same" means occupation class stays the same.
  - "+1" means raise occupation by one ( $3A + 1 = 4A$ ).
  - "+2" means raise occupation class by two ( $A + 2 = 3A$ ).

## Unique situations

As with any classification, all of the unique situations which may occur cannot be anticipated. It is possible other circumstances exist that may alter the Enhancer criteria. Those situations include:

- Years of owning a similar business
- Years of experience (not owning) in the same type of business

These situations should be covered and expressed in a cover memo, letter or in the Remarks Section of the application.

## The Enhancer

ANNUAL INCOME		
YEARS OWNING THE BUSINESS	\$60,000-100,000	GREATER THAN \$100,000
0-2 Years	Same	Same
More than 2 years	+1	+2

See page 8-4 for Eligibility Guidelines.







## Section 9

# Occupational Class Schedule

This section will help you determine accurate occupational classifications for your applicants. Occupational classes are assigned based on the requirements of the job and the risks that job poses to the applicant's health.

The key to easy reference in this schedule is to first look for the specific title of the client's occupation. If the job title is not listed, refer to the industry in which the client's job belongs.

Job title should not be the sole basis for selection of occupation class. In some instances, titles can be very misleading. Titles such as optometrist or CPA, for example, give the correct class (5A) automatically. Titles like owner, supervisor, president and manager are less helpful, since duties could range from 100 percent administrative to 100 percent manual labor. It is appropriate for clients to be classified by job title if the title is representative of their actual duties. If job title does not truly reflect job duties, the occupation class should be based on the day-to-day duties, financial stability, environment, education, training and experience of the client. In Michigan, for any occupation listed as a "no," please contact your DI underwriter for issue consideration.

***If you are unable to find or unsure how to classify an occupation, call your DI underwriter.***

*ABTRACTOR .....	3A
*ACCOUNTANT	
CPA .....	Select 5A
With 4 year accounting degree .....	4A
Other .....	3A
ACTOR, ACTRESS .....	No
ACTUARY	
FSA, FCAS, ASA, ACAS .....	Select 5A
Other .....	4A
*ACUPUNCTURIST .....	A
ADMINISTRATIVE ASSISTANT .....	3A
ADVERTISING	
Executive .....	(See Executive)
Sales .....	3A
*AIR CONDITIONING INSTALLER, SERVICER .....	A
AIRLINE INDUSTRY .....	(See Transportation)
AIR TRAFFIC CONTROLLER .....	No
ALARM INSTALLER, SERVICER .....	A
AMBULANCE DRIVER .....	No
ANESTHETIST .....	(See Health Care)
*ANTIQUA DEALER .....	A
*APPRAISER .....	3A
ARCHITECT .....	Select 5A
ARMED FORCES PERSONNEL .....	No
*ART GALLERY MANAGER .....	3A
*ARTIST	
Commercial artist, graphic designer .....	3A
Other artists .....	No

ASSESSOR (if government employee, see Government Services) . . . . .	2A
ATHLETE . . . . .	No
ATHLETIC INDUSTRY . . . . . (See Sports)	
ATTORNEY . . . . .	Select 5A
*AUCTIONEER . . . . .	A
*AUDIOLOGIST . . . . .	3A
*AUDITOR (if government employee, see Government Services) . . . . .	3A
AUTHOR . . . . .	No
*AUTO BODY REPAIRER, PAINTER, CUSTOMIZER, PINSTRIPER . . . . .	A
AUTOMOBILE INDUSTRY . . . . . (See Transportation)	
BAGGAGE HANDLER . . . . .	No
*BAIL BONDSMAN . . . . .	A
BAILIFF . . . . .	No
*BAKER . . . . .	A
*BANKING INDUSTRY	
Executive, officer or manager . . . . . (See Executive)	
Teller . . . . .	2A
Guard or armored car driver . . . . .	No
BARBER . . . . .	A
BARTENDER . . . . .	No
BEAUTICIAN . . . . .	A
BELLBOY, BELLHOP, BELL CAPTAIN . . . . .	No
*BILL COLLECTOR	
Office duties only . . . . .	2A
Field duties . . . . .	No
BIOCHEMIST . . . . . (See Scientist)	
BIOLOGIST . . . . . (See Scientist)	

BLACKSMITH .....	No
BOND TRADER (no floor trading) .....	3A
*BOOKKEEPER .....	3A
BOTANIST .....	(See Scientist)
BOWLING ALLEY WORKER .....	(See Sports)
*BRICKLAYER .....	A
BUILDING INSPECTOR, SUPERINTENDENT .....	2A
BUS DRIVER .....	No
*BUSINESS MACHINE REPAIRER .....	A
BUTCHER .....	No
BUYER .....	3A
CAB DRIVER .....	No
*CABINET MAKER .....	A
*CABLE INSTALLER, SERVICER (telephone, TV) .....	A
CAMERA OPERATOR .....	(See Entertainment)
CAR WASH ATTENDANT .....	No
*CARPENTER .....	A
*CARPET CLEANER, LAYER, INSTALLER .....	A
CASHIER .....	A
CASINO WORKER .....	No
*CATERER .....	A
CHAPLAIN .....	2A
CHAUFFEUR .....	No
CHEF .....	(See Restaurant)
CHEMIST .....	(See Scientist)
*CHILD CARE, DAY CARE PROVIDER (not operating out of residence) .....	A
CHIMNEY SWEEP .....	No

CHIROPRACTOR .....	No
*CLAIMS ADJUSTOR, EXAMINER	
Office duties only .....	3A
Other .....	2A
*CLEANING SERVICE WORKER (commercial, residential)	
Manager, no cleaning duties .....	A
Worker .....	No
CLERGY .....	3A
CLERK	
Medical records .....	(See Office Worker)
Parts .....	A
Postal .....	No
Retail sales	
Merchandise .....	2A
Liquor .....	A
Shipping and receiving .....	A
Stock .....	A
*CLOCK, WATCH MAKER OR REPAIRER .....	A
*COACH (amateur athletics only)	
Public school .....	No
Other .....	A
*COMMERCIAL ARTIST .....	3A
COMMODITY BROKER OR FLOOR TRADER .....	No

## COMMUNICATION INDUSTRY

*Printing and Publishing – magazine and newspaper manager, publisher, writer, copy writer, editor – office duties only . . . . .	3A
Photographer, reporter, proofreader, distribution manager (no delivery), foreman, compositor, electrotyper, jobber, typesetter, lithographer, engraver, etcher, finisher, stripper . . . . .	2A
Press worker, printer, router, bookbinder . . . . .	A
Foreign correspondent, newsstand proprietor or attendant, delivery person . . . . .	No
*Printing, copy shop or franchise manager – office duties only . . . . .	2A
Other manager, worker . . . . .	A
*Telephone Manager, switchboard operator, dispatcher, tester . . . . .	2A
Exchange and residence wirer, installer and repair person, foreman, groundworker, cable placer, splicer, lineman, tree trimmer . . . . .	A
Tower erector, pole-setter, trench machine operator, heavy equipment operator . . . . .	No
COMPTROLLER . . . . .	(See Executive)

## COMPUTER INDUSTRY

Director of information systems . . . . .	Select 5A
Computer engineer (4-year degree required) . . . . .	Select 5A
Systems analyst, programmer, consultant (earning over \$70,000) . . . . .	5A
Other systems analyst, programmer, consultant . . . . .	4A
Computer operator . . . . .	3A
Key punch, repairs, services . . . . .	2A

CONSTRUCTION INDUSTRY

- \*Contractor, general contractor
  - Office duties and supervising on the job site,  
no manual labor . . . . . 2A
  - Other . . . . . (See specific occupation)
- \*Surveyor . . . . . 2A
- Foreman . . . . . A
- \*Asphalt paver, bricklayer, cabinet maker, carpenter, carpet  
layer or installer, concrete finisher, drywall installer,  
electrician, elevator installer or repairer, floor finisher or  
sander, heating and air conditioning installer, mason,  
painter, paper hanger, pipe fitter, plasterer, plumber, sheet  
metal worker, steam fitter, swimming pool installer or  
maintenance person, sprinkler installer, stone setter, stucco  
worker, tile setter, welder . . . . . A
- Air hammer operator, antenna worker, crane operator,  
driver, explosives handler, heavy equipment operator,  
iron worker, laborer, roofer, steeplejack, sandblaster . . . No

CONSULTANT

- \*Financial, management, public relations . . . . . 3A
- Computer . . . . . 4A
- If at least 25 percent ownership, classify as business owner.
- If executive, classify as executive.

CONTRACTOR . . . . . (See Construction)

CONTROLLER . . . . . (See Executive)

CONVENIENCE STORE

- \*Manager . . . . . A
- Other employee . . . . . No

COOK . . . . . A

\*COPYWRITER . . . . . 3A

COPYING SERVICES . . . . . (See Communication)

CORONER .....	No
CORRECTION OFFICER .....	No
COSMETOLOGIST .....	A
COUNSELOR .....	(See Health Care)
COURIER .....	No
COURT CLERK .....	No
COURT REPORTER .....	2A
CRANE OPERATOR .....	No
CUSTODIAN .....	No
DANCER .....	No
*DAY CARE PROVIDER (not operating out of residence) .....	A
DEAN OF COLLEGE OR UNIVERSITY (if government employee, see Government Services) .....	4A
DELIVERY PERSON .....	No
DENTAL ASSISTANT .....	2A
DENTAL HYGIENIST .....	2A
*DENTAL LAB TECHNICIAN .....	2A
DENTIST .....	4A-M
DETECTIVE .....	No
*DIETICIAN .....	(See Health Care)
DIRECTOR	
Entertainment (motion picture, TV, radio) .....	(See Entertainment)
Other .....	(See Executive)
DISC JOCKEY .....	A
DISPATCHER (if government employee, see Government Services) .....	2A
DISTRICT ATTORNEY (see Government Services) .....	Select 5A
DOCTOR .....	(See Health Care)

DOG CATCHER, GROOMER, HANDLER, TRAINER . . . . .	No
*DRAFTSMAN . . . . .	3A
*DRESSMAKER (not working from residence) . . . . .	A
DRIVER (armored car, bus, cab, chauffeur, truck) . . . . .	No
*DRY CLEANING WORKER (no delivery) . . . . .	A
EDITOR . . . . .	3A
EDUCATION (if public school employee, see Government Services)	
Full college professor, superintendent, principal, department head, (with graduate degree and earning over \$50,000 for the last 2 years) . . . . .	4A
Other education administrator, teacher of academic or commercial subjects, guidance counselor, special education, driver education, private music instructor, choir director . . . . .	3A
*Dance, vocational, trade, physical education . . . . .	2A
ELECTROLOGIST . . . . .	A
*ELEVATOR INSTALLER, REPAIRER . . . . .	A
EMBALMER . . . . .	A
EMERGENCY MEDICAL TECHNICIAN . . . . .	No
*EMPLOYMENT RECRUITER . . . . .	3A
ENDODONTIST . . . . .	4A-M
ENERGY INDUSTRY (electric, nuclear, solar, oil, gas)	
Superintendent, foreman, other worker . . . . .	A
Any worker with exposure to radiation or radiation monitoring duties . . . . .	No
Any offshore worker . . . . .	No
ENGINEER (i.e., chemical, mechanical, electrical)	
Office and consulting (4 year engineering degree) . . . . .	Select 5A
Field or lab duties . . . . .	3A

\*ENGRAVER . . . . . A

## ENTERTAINMENT INDUSTRY

General entertainment, motion picture, audio-visual  
production, infomercial

Talent agent, producer, director (not self employed) . . . 3A

Management (office only) . . . . . 3A

Writer/editor (not self employed) . . . . . 2A

Film editor . . . . . 2A

Camera operator, projectionist, make-up artist . . . . . A

All performers live or recorded; manager, promoter,  
scout, other administrative personnel, including  
composer, and all non-management  
support employees . . . . . No

Television, cable, radio

Announcer . . . . . 2A

Producer/director (not self employed) . . . . . 3A

Writer/editor (not self employed) . . . . . 2A

Reporter (studio/field) . . . . . 2A

Camera operator, make-up artist . . . . . A

All performers, on-air personalities, live or  
recorded; self-employed or under contract,  
and clients who work away from a station or  
studio; all other reporters . . . . . No

Property manager, wardrobe or make-up,  
worker stagehand . . . . . No

Not syndicated, not national, not out of  
residence, salaried, station manager, executive,  
in present job 3 years, no royalties or residuals . . . . . 3A

Administrative employee, audio or visual mixer,  
engineer, controller, scheduler . . . . . 2A

Theater-local only, not national

All performers, live or recorded; agent, scout,  
writer (self employed, composer, stagehand) . . . . . No

- Director, producer (salaried, no royalties or residuals) . . . . . 3A
- Property handler, wardrobe or make-up personnel . . . . . A
- Stage manager, writer/editor (not self employed) . . . . . 2A
- Other theater employee . . . . . No

EQUESTRIAN SCHOOL OWNER/WORKER . . . . . No

EXECUTIVE

A managerial, technical, administrative, full-time employee of a well-established firm whose occupation is not classified elsewhere in this Occupation Schedule.

- Daily duties are office, managerial, sales, administrative, technical or supervisory
- No physical or manual duties
- Earning over \$30,000 for last 2 years OR
- 4-year college degree . . . . . 3A
- Daily duties are office, managerial, administrative or supervisory
- No physical or manual duties
- No technical duties
- More than 10 full-time, year-round employees in the business
- Earning over \$45,000 for the last 2 years . . . . . 4A
- Daily duties are office, managerial, administrative or supervisory
- No physical or manual duties
- No technical duties
- More than 10 full-time, year-round employees in the business
- Earning over \$60,000 for the last 2 years . . . . . Select 5A

EXPLOSIVES HANDLER .....	No
*EXPORTER/IMPORTER .....	2A
*EXTERMINATOR .....	A
FACTORY WORKER .....	(See Manufacturing)
*FARMING INDUSTRY (grain, dairy, livestock, orchard, ranch or hatchery)	
Farmer or manager .....	A
Other worker or hired hand .....	No
*FASHION DESIGNER .....	2A
FEDERAL MARSHALL .....	No
*FILM DEVELOPER, PROCESSOR .....	A
FINANCIAL PLANNER	
Full-time, active in the business for 5 years, earning over \$75,000 for the last 2 years .....	4A
Earning over \$30,000 for the last 2 years .....	3A
Other .....	2A
FIRE DEPARTMENT PERSONNEL .....	No
FISH AND GAME WARDEN .....	No
FISHERMAN .....	No
FLIGHT ATTENDANT, FLIGHT INSTRUCTOR .....	No
FLOOR TRADER (Commodities, stocks or bonds) .....	No
*FLORIST .....	A
FOOD PROCESSING PLANT WORKER .....	(See Packing Plant)
FOREST RANGER .....	No
FOSTER HOME PARENT .....	No
FUNERAL DIRECTOR	
*Not embalming .....	3A
Embalmer .....	A
*FURNACE INSTALLER, SERVICER .....	A
FURNITURE MOVER .....	No

*FURNITURE RESTORER/UPHOLSTERER	A
GAME WARDEN	No
*GAS STATION MANAGER, EMPLOYEE	A
GEOLOGIST	(See Scientist)
*GOLDSMITH	A
*GOLF COURSE MANAGER (year-round work only – no instruction)	2A
GOLF INSTRUCTOR, PRO (year-round work only)	A
GOVERNMENT SERVICES (see Government Employees Guidelines)	
District attorney	Select 5A
Dean of college or university	4A
Judge	Select 5A
Teacher	
Full college professor, superintendent, principal, department head, (with graduate degree and earning over \$50,000 for the last 2 years)	4A
Other education administrators, teacher of academic or commercial subjects, guidance counselor, special education, driver education, private music instructor, choir director	3A
Dance, vocational, trade, physical education	No
Auditor, interpreter, librarian, tax agent/auditor	3A
Immigration official	
Office duties only earning over \$75,000 for the last 2 years	4A
Other	No
Office worker (secretary, bookkeeper, receptionist, stenographer, typist or other office worker)	No

Social worker	
Office duties only and MSW . . . . .	3A
Other . . . . .	No
Armed forces personnel, assessor, bailiff, coroner, correction officer, court clerk, dispatcher, elected and appointed official, federal marshall, fire department personnel, fish and game warden, forest ranger, harbor master or pilot, military personnel, park superintendent, ranger or other worker, parole officer, police department personnel, postal service worker, prison warden, probation officer, sheriff, trash collector . . . . .	
	No
*GRAPHIC DESIGNER . . . . .	3A
GROUNDSCKEEPER . . . . .	A
GUARD . . . . .	No
GUIDE	
Tour . . . . .	A
Hunting, fishing . . . . .	No
GUNSMITH . . . . .	A
HAIRDRESSER . . . . .	A
HARBOR MASTER OR PILOT . . . . .	No
HEALTH CARE INDUSTRY	
*Acupuncturist . . . . .	A
Ambulance driver . . . . .	No
Anesthetist . . . . .	3A
*Audiologist . . . . .	3A
Certified medical aide . . . . .	No
Certified nurse's aide . . . . .	No
Chiropractor . . . . .	No
Counselor	
MSW degree . . . . .	3A
Other . . . . .	2A
Dental assistant . . . . .	2A

Dental hygienist	2A
*Dental lab technician	2A
Dentist	4A-M
Dermatologist (MD or DO only)	5A-M
*Dietician	
Not preparing food	3A
Other	A
Doctor	(See Physician)
Emergency Medical Technician (EMT)	No
Home health care	No
Hospital administrator	(See Executive)
Hospital attendant, orderly, aide	No
Medical assistant	2A
Medical records clerk	2A
Naturopathic doctor	3A-M
Nurse	
Nursing director or instructor	3A
RN	2A
LPN	A
Midwife	A
Home health care nurse, aide	No
Nurse anesthetist	3A
Nurse practitioner (not functioning as RN)	3A
*Nutritionist	
Not preparing food	3A
Other	A
*Ocularist	2A
*Optician	
Not grinding lenses	3A
Grinding lenses	2A

Optometrist . . . . .	5A
Oral hygienist . . . . .	2A
Orderly . . . . .	No
Otologist . . . . .	4A-M
Paramedical examiner . . . . .	2A
Emergency Medical Technician (EMT) . . . . .	No
Perfusionist . . . . .	3A
Pharmacist . . . . .	Select 5A
Physician (M.D. or D.O. only)	
Anesthesiologist . . . . .	4A-M
Emergency room . . . . .	4A-M
Obstetrician/gynecologist . . . . .	4A-M
Ophthalmologist . . . . .	4A-M
Otolaryngologist . . . . .	4A-M
Pathologist . . . . .	5A-M
Surgeon . . . . .	4A-M
Urologist . . . . .	4A-M
Other . . . . .	5A-M
Physician assistant . . . . .	3A
Podiatrist . . . . .	3A-M
*Prosthetist . . . . .	2A
Psychiatrist . . . . .	5A-M
Psychologist	
Ph.D. degree . . . . .	5A-M
Other graduate degree . . . . .	4A-M
*Technician	
Dental or medical . . . . .	2A
Dialysis . . . . .	2A
Emergency Medical Technician (EMT) . . . . .	No
Surgical . . . . .	2A

X-Ray .....	2A
*Therapist	
Occupation .....	2A
Physical .....	2A
Rehabilitation .....	2A
Respiratory .....	3A
Speech .....	3A
*HEALTH CLUB WORKER .....	(See Sports)
HEAVY EQUIPMENT OPERATOR .....	No
HEDGE FUND MANAGER .....	3A
HOME HEALTH CARE .....	No
HORSE TRAINER .....	No
HOSPITAL ADMINISTRATOR .....	(See Executive)
HOSPITAL ATTENDANT, ORDERLY, AIDE .....	No
HOTEL, MOTEL WORKER	
*Manager .....	2A
Desk clerk .....	A
Housekeeper, cleaner, porter, bellhop, elevator operator, service employee .....	No
IMMIGRATION OFFICIAL .....	(See Government Services)
*IMPORTER, EXPORTER .....	2A
INSURANCE ADJUSTOR, EXAMINER	
*Office and consulting duties .....	3A
Other .....	2A
INSURANCE AGENT .....	(See Sales)
*INTERIOR DECORATOR .....	A
*INTERIOR DESIGNER (4-year interior design degree)	
Office and consulting duties .....	3A
Other .....	A
INTERPRETER (if government employee, see Government Services) .....	3A

INVESTMENT ANALYST .....	3A
INVESTMENT BANKING	
Investment banker (earning over \$75,000) .....	4A
Other .....	3A
JANITOR .....	No
*JEWELER	
Sales/administration only .....	3A
Other .....	2A
KENNEL OPERATOR, EMPLOYEE .....	No
*LANDSCAPE ARCHITECT	
No manual labor, 4-year professional degree, less than 20 percent in field .....	4A
Other .....	3A
*LANDSCAPE, NURSERY AND HORTICULTURE WORKER	
Manager, office duties only .....	2A
Other manager or worker .....	A
Heavy-equipment operator .....	No
LAUNDRY WORKER .....	No
LAWYER .....	Select 5A
LEGAL ASSISTANT .....	3A
LEGAL SECRETARY .....	3A
LIBRARIAN (if government employee, see Government Services) .....	3A
LIGHTING DESIGNER/ TECHNICIAN .....	(See Entertainment)
LINEMAN – telephone, telegraph or electrical .....	A
LIQUOR INDUSTRY	
*Retail sales/liquor store worker	
Manager .....	2A
Sales person/cashier .....	A

*Distributorship manager	2A
Tavern, bar, lounge, nightclub worker	No
LITHOGRAPHER	2A
LOAN OFFICER	(See Executive)
LOBBYIST	3A
*LOCKSMITH	A
*LOGGING, LUMBERYARD WORKER	
Computer control operator	2A
Foreman, inspector, sealer, tallyman, grader, machinist, millwright, machine operator, buffer, grinder, polisher . . .	A
Trucker, loader, piler, heavy-equipment operator, other worker	No
*MACHINIST	A
MAIL CARRIER, MAIL CLERK	No
MAKEUP ARTIST	(See Entertainment)
MANICURIST	No
MANUFACTURER'S REPRESENTATIVE	(See Sales)
*MANUFACTURING INDUSTRY	
Designer, draftsman	3A
Manager, superintendent, foreman (office duties only), lab technician, timekeeper, computer control operator	2A
Assembly worker, cutter, fabricator, fireman, foreman (any manual duties), glazier, grinder, installer, inspector, machine operator, molder, sheet metal worker, tool and die maker, welder	A
Laborer, cleaner, sweeper, yardman, unskilled worker, heavy-equipment operator	No
MARINE INDUSTRY	(See Transportation)
*MARKET RESEARCH ANALYST	3A
*MASON	A
MASSEUR, MASSEUSE	No

MEAT PACKING PLANT WORKER . . . . .	(See Packing Plant)
*MECHANIC (i.e., aircraft, auto, boat, truck) . . . . .	A
MEDICAL CARE INDUSTRY . . . . .	(See Health Care)
MEDICAL LAB TECHNICIAN . . . . .	2A
MILITARY PERSONNEL . . . . .	No
*MINING, QUARRYING WORKER	
Office duties only . . . . .	2A
Outside foreman (not underground) . . . . .	A
Other workers . . . . .	No
MINISTER . . . . .	3A
MODEL . . . . .	No
*MORTGAGE LOAN ORIGINATOR . . . . .	3A
MORTICIAN	
*Not embalming . . . . .	3A
Embalmer . . . . .	A
MOTEL WORKER . . . . .	(See Hotel)
MOTION PICTURE INDUSTRY . . . . .	(See Entertainment)
MUSICAL INSTRUMENT REPAIRER . . . . .	A
MUTUAL FUND MANAGER . . . . .	3A
MUSICIAN . . . . .	No
NATUROPATHIC DOCTOR . . . . .	(See Health Care)
NAVIGATOR . . . . .	No
NURSE . . . . .	(See Health Care)
NURSE ANESTHETIST . . . . .	(See Health Care)
NURSE PRACTITIONER . . . . .	(See Health Care)
NURSERY WORKER . . . . .	(See Landscape)
NUTRITIONIST . . . . .	(See Health Care)
*OFFICE MACHINE REPAIRER . . . . .	A

OFFICE WORKER (if earning over \$30,000) . . . . .	3A
Others . . . . .	2A
*OPERATOR (telephone, answering service) . . . . .	2A
*OPTICIAN	
Not grinding lenses . . . . .	3A
Grinding lenses . . . . .	2A
OPHTHALMOLOGIST . . . . .	4A-M
OPTOMETRIST . . . . .	5A
ORAL HYGIENIST . . . . .	2A
ORAL SURGEON . . . . .	4A-M
ORDERLY . . . . .	No
ORTHODONTIST . . . . .	4A-M
OTOLOGIST . . . . .	4A-M
*PACKING PLANT WORKER	
Manager, superintendent, foreman – office duties only . . . . .	2A
Other manager, superintendent, foreman, inspector . . . . .	A
Process worker, dressing operation worker, butcher, sticker, packer, other worker . . . . .	No
*PAINTER . . . . .	A
*PAPERHANGER . . . . .	A
PARALEGAL . . . . .	3A
PARAMEDIC . . . . .	No
PARK SUPERINTENDENT, RANGER, OTHER WORKER . . . . .	No
PARKING LOT, GARAGE ATTENDANT . . . . .	No
PAROLE OFFICER . . . . .	No
PASTOR . . . . .	3A
PATHOLOGIST . . . . .	5A-M
PAWNBROKER . . . . .	No

PERFUSIONIST .....	3A
PERIODONTIST .....	4A-M
PHARMACIST .....	Select 5A
PHOTOENGRAVER .....	2A
*PHOTOGRAPHER .....	2A
PHYSICIAN .....	(See Health Care)
PHYSICIAN ASSISTANT .....	(See Health Care)
PHYSICIST .....	(See Scientist)
*PIANO TUNER, RESTORER .....	A
PILOT (aviation) .....	No
*PIPE FITTER .....	A
*PLASTERER .....	A
*PLUMBER .....	A
PODIATRIST .....	3A-M
POLICE DEPARTMENT PERSONNEL .....	No
PRINCIPAL .....	(See Education)
PRINTING AND PUBLISHING .....	(See Communication)
PRISON WARDEN .....	No
PRIVATE EQUITY FIRM MANAGER .....	3A
PRIVATE INVESTIGATOR, DETECTIVE .....	No
PROBATION OFFICER .....	No
PROCESS SERVER .....	No
PRODUCER .....	(See Entertainment)
PROFESSOR (if government employee, see Government Services) .....	(See Education)
PROGRAM DIRECTOR, MANAGER .....	(See Entertainment)
*PROSTHETIST .....	2A
PSYCHIATRIST .....	(See Health Care)

PSYCHOLOGIST .....	(See Health Care)
PURCHASING AGENT .....	3A
QUARRY WORKER .....	(See Mining)
RABBI	
Synagogue only .....	3A
Food processing .....	No
RADIOLOGIST .....	5A-M
RADIO INDUSTRY .....	(See Entertainment)
RAILROAD INDUSTRY .....	(See Transportation)
RANCHER .....	(See Farming)
*REAL ESTATE APPRAISER .....	3A
REAL ESTATE PROPERTY MANAGER (no manual or maintenance duties)	
Earning over \$50,000 for the last 2 years .....	3A
Others .....	2A
Manual or maintenance duties .....	A
REAL ESTATE DEVELOPER .....	No
REAL ESTATE SALES (commercial, residential) .....	(See Sales)
RECEPTIONIST .....	2A
*RECRUITER (employment) .....	3A
REPORTER .....	(See Communications and Entertainment)
RESTAURANT INDUSTRY (liquor sales secondary)	
Manager, fast food manager .....	2A
Chef, cook .....	A
Waiter, waitress .....	No
Lunch wagon operator .....	No
ROOFER .....	No
SALES	
Agricultural (feed, grain, livestock, chemical, produce, implement) .....	2A

*Automobile	2A
Commodities, futures	No
Door to door	No
Floor trader, broker	No
In-home (i.e., cosmetic, kitchenware)	No
Insurance agent, broker, financial planner	
Full-time, active in the business for 5 years, earning over \$75,000 for the last 2 years	4A
Earning over \$30,000 for the last 2 years	3A
Other	2A
Manufacturer's representative	
Earning over \$75,000	4A
Other	3A
Real estate agent, broker	
Full-time, active in the business for 4 years, earning over \$75,000 for the last 2 years	3A
Other full-time agent	2A
Retail merchandise (if liquor, see Liquor Industry)	2A
Route (i.e., tools, bread, beverages)	No
Stocks, bonds (not on floor of Exchange)	(See Stockbroker)
<b>SALES MANAGER</b>	
Earning over \$75,000	4A
Other	3A
<b>SCIENTIST (biochemist, biologist, botanist, chemist, geologist, physicist)</b>	
Office and consulting	4A
Field or lab duties	2A
<b>SCULPTOR</b>	No
<b>SECRETARY</b>	3A
<b>SECURITY GUARD</b>	No

*SERVICE STATION MANAGER, EMPLOYEE	A
*SHEET METAL WORKER	A
SHERIFF	No
*SHOE REPAIRER	A
*SILVERSMITH	2A
SINGER	No
SOCIAL WORKER (if government employee, see Government Services)	
Office duties only and MSW	3A
Other	A
SPORTS INDUSTRY	
Athlete	No
*Bowling alley	
Manager, cashier	A
Other worker	No
*Coach (amateur athletics only)	
Public school	No
Other	A
Fishing guide	No
*Golf course (year-round work only)	
Manager (no instruction)	2A
Instructor, pro	A
Greenskeeper, maintenance worker	A
*Health, fitness club	
Manager (no instruction, training)	2A
Instructor, trainer	A
Horse trainer	No
Hunting guide	No
Masseuse, masseur	No

Tennis club (year-round work only)

Manager (no instruction) . . . . . 2A

Instructor, pro . . . . . A

\*STEAMFITTER . . . . . A

STEEPLEJACK . . . . . No

STENOGRAPHER . . . . . 2A

STOCKBROKER

Floor trader . . . . . No

Active in the business for 5 years, earning over  
\$75,000 for the last 2 years . . . . . 4A

Earning over \$30,000 for the last 2 years . . . . . 3A

Other . . . . . 2A

Day trader . . . . . No

STUDENT (if law, medical, dental, pharmacy, veterinary or  
podiatry, see Select Professional Limits) . . . . . No

\*SURVEYOR . . . . . 2A

\*SWIMMING POOL INSTALLER, maintenance worker . . . . . A

\*TAILOR (not working from residence) . . . . . A

TATTOO ARTIST . . . . . No

TAX AGENT, AUDITOR (if government employee,  
see Government Services) . . . . . 3A

TAXIDERMIST . . . . . A

TEACHER . . . . . (See Education)

TELEPHONE INDUSTRY . . . . . (See Communication)

TELEVISION INDUSTRY . . . . . (See Entertainment)

TELLER . . . . . 2A

TENNIS CLUB WORKER . . . . . (See Sports)

THEATRICAL INDUSTRY . . . . . (See Entertainment)

THERAPIST . . . . . (See Health Care)

\*TILE SETTER . . . . . A

## TRANSPORTATION INDUSTRY

\*Automobile, agricultural implement, trailer,  
truck, motorcycle, boat

Salesperson . . . . . 2A

Gas or service station manager/employee,  
auto painter, mechanic, body repairer, tire retreader,  
customizer, pinstriper . . . . . A

Washer, polisher, cleaner,  
parking lot attendant . . . . . No

\*Airline

Manager, supervisor, ticket agent, freight solicitor,  
dispatcher – office duties only . . . . . 2A

Foreman, inspector, weigher . . . . . A

Baggage handler, freight checker, ground  
crew maintenance, other skilled worker  
(not flight testing) . . . . . No

Pilot, flight attendant, flight instructor, air traffic  
controller, crop duster . . . . . No

\*Marine

Marina manager . . . . . A

Other worker . . . . . No

Land or in harbor

All personnel . . . . . No

Ocean-going ship, tug, barge

All personnel . . . . . No

\*Railroad

Manager, supervisor, ticket agent, freight  
solicitor, dispatcher, tower watchman –  
office duties only . . . . . 2A

Engineer, foreman, inspector, weigher, conductor,  
yardmaster, instructor, signalman . . . . . A

Other worker . . . . . No

*Taxicab	
Manager, dispatcher – office duties only . . . . .	2A
Driver . . . . .	No
*Trucking	
Manager, dispatcher – office duties only . . . . .	2A
Loader, warehouse worker . . . . .	No
Driver, heavy-equipment operator . . . . .	No
TRASH COLLECTOR . . . . .	No
*TRAVEL AGENT . . . . .	2A
*TOUR GUIDE . . . . .	A
*TREE SURGEON, PRUNER, TRIMMER . . . . .	A
TRUCK DRIVER . . . . .	No
*TYPESETTER . . . . .	2A
*TYPIST . . . . .	2A
*UPHOLSTERER . . . . .	A
VENTURE CAPITALIST . . . . .	3A
VETERINARIAN	
Small animal – in clinic . . . . .	4A
Other . . . . .	3A
WAITER, WAITRESS . . . . .	No
WAREHOUSE WORKER	
*Manager . . . . .	A
Other worker . . . . .	No
*WELDER . . . . .	A
*WINDOW DECORATOR . . . . .	A
WINDOW WASHER . . . . .	No
WRITER (not freelance or working from residence) . . . . .	3A
*X-RAY TECHNICIAN . . . . .	2A









## Section 10

# Medical Underwriting

This section includes all of our medical underwriting requirements as well as a glossary of medical conditions and abbreviations and the likely underwriting decision associated with each condition.

DI/OE/BLP Routine Requirements . . . . .	10-2
DBO/Key Person Replacement Routine Requirements . . . .	10-3
TeleApp Non-Medical Limits . . . . .	10-4
General Medical Requirements . . . . .	10-4
Routine APS Guidelines . . . . .	10-4
Exam Requirements Based on Height/Weight . . . . .	10-6
Medical Underwriting Guide . . . . .	10-7
Medical Impairments . . . . .	10-7

## DI/OE/BLP routine requirements

The proposed insured's state of residence, age, benefit amount and application type (TeleApp or traditional handwritten Part B) determine the medical requirements.

A paramedical exam, physical measurements, home office blood profile (HOBP), Urine-HIV test, home office urine specimen and/or EKG are required for disability income and overhead expense if the monthly benefit exceeds the limits stated in the table. Use an authorized paramedical company. For all medical exams and studies, the monthly benefit includes the total DI (Disability Benefit and SIS), OE (including any Business Loan Protection [BLP] rider benefit) coverage issued and applied for with all companies within six months of the application date and all in-force coverage with The Principal issued on a non-medical basis within the last five years.

Note: The following benefit amounts do not impact the monthly benefit amount when determining routine medical underwriting requirements.






- Catastrophic Disability Benefit (CDB)
- DI Retirement Security (DIRS) - if written as a stand-alone policy (No other coverage applied for or in force with Principal Life)

## Medical requirements of Disability Income (DI) and Multi-Life DI

MONTHLY AMOUNT	AGES 18-50		AGES 51+	
	TeleApp	Traditional	TeleApp	Traditional
Up to \$3,000 – Single-Life				
Up to \$5,000 – Multi-Life				
\$3,001 to \$7,500 – Single-Life				
\$5,001 to \$7,500 – Multi-Life				
\$7,501 to \$10,000 – Single- and Multi-Life				
\$10,000+ – Single- and Multi-Life				

## Medical requirements for Overhead Expense/Business Loan Protection rider

MONTHLY AMOUNT	AGES 18-50		AGES 51+	
	TeleApp	Traditional	TeleApp	Traditional
Up to \$7,500				
\$7,501 to \$10,000				
\$10,001+				

-  No routine medical requirements needed\*
-  Blood profile, urinalysis, physical measurements
-  Blood profile, urinalysis, Paramed exam
-  Blood profile, urinalysis, physical measurements, EKG
-  Blood profile, urinalysis, Paramed exam, EKG

\* If application is written in Maine, a Urine/HIV test is required.

## DBO/KPR routine requirements

For Disability Buy-Out (DBO) or Key Person Replacement (KPR) coverage, a paramedical exam, physical measurements, home office blood profile (HOBP), Urine-HIV test, home office urine specimen and/or EKG are required if the maximum aggregate benefit exceeds the limits stated in the table. This includes coverage issued and applied for with all companies within six months of the application date and all in-force coverage with Principal Life issued on a non-medical basis within the last five years. If the applicant is applying for both Disability Buy-Out and Key Person, the total of the two maximum aggregate benefit amounts will be used to determine the medical requirements. The maximum aggregate benefit is determined as follows:

### Disability Buy-Out






- For the Monthly Payment Method, the maximum aggregate benefit is the monthly benefit amount multiplied by the benefit factor (24, 36 or 60). For example, a \$4,000/month benefit multiplied by 24 times benefit factor equals a maximum aggregate benefit of \$96,000.
- For the Lump-Sum Payment Method, the maximum aggregate benefit equals the lump-sum payment amount. For example, a \$1,000,000 lump-sum benefit equals a maximum aggregate benefit of \$1,000,000.
- For the Combination Payment Method, the maximum aggregate benefit equals the lump-sum amount plus the monthly benefit amount multiplied by the benefit factor (24, 36 or 60). For example, a monthly payment aggregate of \$96,000 plus a lump-sum aggregate of \$1,000,000 equals a maximum aggregate of \$1,096,000.

### Key Person Replacement

- For the Lump-Sum Payment Method, the maximum benefit equals the lump-sum payment amount. For example, a \$500,000 lump-sum benefit equals a maximum benefit of \$500,000.
- For the Combination Lump-Sum plus monthly payout, the maximum benefit equals the lump-sum amount plus the monthly benefit amount multiplied by the number of months of the payout. For example, on a policy that has a \$10,000 monthly payment amount with a 90-day elimination period and a \$400,000 lump-sum benefit with a 180-day elimination period, the maximum benefit amount would be \$430,000: \$10,000 times three months equals \$30,000 plus \$400,000 lump-sum equals \$430,000.

## Medical requirements for Disability Buy-Out and Key Person Replacement

AMOUNT	AGE GROUP 18-50		AGES 51+	
	TeleApp	Traditional	TeleApp	Traditional
Up to \$50,000				
\$50,001 to \$100,000				
\$100,001 to \$200,000				
\$200,001 to \$360,000				
\$360,001 to \$500,000				
\$500,001+				

-  No routine medical requirements needed\*
-  Blood profile, urinalysis, physical measurements
-  Blood profile, urinalysis, Paramed exam
-  Blood profile, urinalysis, physical measurements, EKG
-  Blood profile, urinalysis, Paramed exam, EKG

\* If application is written in Maine, a Urine/HIV test is required.

### TeleApp non-medical limits

When using the TeleApp process, physical measurements can be used instead of a paramedical exam. When scheduling the TeleApp interview, you can request the TeleApp counselor to arrange your client’s medical requirements. Please make sure the Teleapp counselor is aware of all DI coverage applied for with all companies within six months of the application date and all in-force coverage with Principal Life issued as non-medical within the last five years.

### General medical requirements

Paramedical exam, physical measurements, blood profiles and urine specimens are acceptable for up to one year after the date of completion. Your underwriter may request new studies on an individual consideration basis.

State required blood authorization forms should be completed at the time of application and must accompany the application. The correct form is based on the state where the blood is actually drawn.

### Routine APS Guidelines

Medical records should be requested from the attending physician based on proposed insured’s age, disability benefit (does not include Catastrophic Disability Benefit amount) requested, and recentness of the physician examination. This includes annual physicals, executive physicals or comprehensive physician exams. Routine office visits or follow-up visits do not pertain to these guidelines.

The following charts show when you should request an APS.

**To Age 65, to Age 67  
or to Age 70 benefit periods**

AGES	OVER \$6,000/mo.	OVER \$10,000/mo.
18-34	6 months	1 year
35-44	1 year	2 years
45-50	2 years	3 years
51-64	Within 3 years, all benefit amounts	

**2 or 5 year benefit periods**

AGES	OVER \$6,000/mo.	OVER \$10,000/mo.
18-34	None	1 year
35-44	1 year	2 years
45-50	1 year	2 years
51-64	Within 3 years, all benefit amounts	

**Overhead Expense/Business Loan Protection Rider\***

AGES	OVER \$6,000/mo.	OVER \$10,000/mo.	OVER \$15,000/mo.
18-34	None	1 year	2 years
35-44	1 year	2 years	3 years
45-50	1 year	2 years	3 years
51-60	Within 3 years, all benefit amounts		

\* Maximum issue age for BLP is 60.

**Disability Buy-Out/Key Person Replacement\***

AGES	OVER \$500,000	OVER \$1,000,000	OVER \$1,500,000
18-34	None	1 year	3 years
35-44	1 year	2 years	3 years
45-50	1 year	2 years	3 years
51-60	Within 3 years, all benefit amounts		

\* Maximum issue age for KPR is 55.

# Exam Requirements Based On Height/Weight

Use this chart to determine if your client's height/weight requires physical measurements or a rating. A weight that is greater than the weights listed under the 100 percent column will be considered uninsurable. In order for weight loss to be included in the total weight, it must be kept off for 12 months; otherwise, you will need to add half of the weight loss back into the total weight.

HEIGHT	WEIGHT				
	PHYSICAL MEASUREMENTS REQUIRED	RATING PERCENTAGE INCREASE			
		25%	50%	75%	100%
5'0"	159	180	194	204	209
5'1"	163	185	199	209	214
5'2"	166	189	203	214	219
5'3"	171	194	208	219	225
5'4"	176	199	214	226	231
5'5"	181	205	220	232	237
5'6"	186	210	226	238	244
5'7"	191	216	233	245	251
5'8"	196	222	238	251	257
5'9"	201	227	244	257	263
5'10"	207	234	252	265	271
5'11"	211	239	257	271	278
6'0"	218	246	265	279	286
6'1"	222	252	271	285	292
6'2"	229	258	278	293	300
6'3"	235	265	285	300	308
6'4"	242	273	294	310	317
6'5"	248	281	302	318	326
6'6"	255	290	312	328	336

# Medical Underwriting Guide

Here's a listing of medical conditions often seen on applications for disability insurance. Keep this guide handy, so you can easily see what requirements are necessary and what the underwriting decision is likely to be. This will help you "pre-sell" your client and prepare him or her for possible adverse action. Eliminating a potentially unpleasant surprise could be the difference between a closed sale and a lost sale! **Remember, this is only a guide. The underwriting requirements and action will be based on the complete information developed during the underwriting process.**

**NOTE:** This Medical Underwriting Guide does not apply to residents of New York. If you desire medical underwriting information on a resident of New York, refer to the New York Medical Underwriting Guide. This guide is available from your DI Underwriting Team. You may also call or e-mail your DI Underwriting Team for help on any medical questions relating to residents of New York.

## Medical impairments

The following is a list of medical impairments, a short definition and the risk they create for DI. It also states the type of underwriting requirements and what a possible underwriting action might be. These actions are guidelines only and final underwriting action will be based on actual facts obtained during underwriting. Contact your DI underwriter if you have any questions.

Condition	Definition	Risk to DI	Underwriting requirements	Probable Action
<b>Adjustment disorder</b>	Emotional reaction to a single defined stressor. Usually occurs within 3 months of onset of the stressor and persists no longer than six months.	Association with stress, anxiety, reduced concentration or ability to focus on tasks at hand. If persists may evolve to another type of mental/nervous disorder.	TeleApp with complete details and an APS.	<ul style="list-style-type: none"> <li>• If controlled - Exclusion with some restriction in benefits</li> <li>• Others - Decline</li> </ul>
<b>Amputation</b>	Complete or partial loss of a limb due to trauma, infection or disease.	Phantom pain or grief over loss of limb. Physical demands of the job. If removed due to a medical condition, risks associated with that condition may continue (e.g. diabetes).	TeleApp with complete details and an APS may also be required.	<ul style="list-style-type: none"> <li>• First two years - Decline</li> <li>• After first two years - Possible consideration with exclusion due to capital sum and presumptive disability benefits.</li> <li>• If due to disease or there is loss of both extremities - Likely decline</li> </ul>
<b>Anemia</b>	Disorder where there is a lower than normal number of red blood cells in the blood.	Associated symptoms include fatigue, chest pain, shortness of breath, or the underlying disease actually causing the anemia.	TeleApp with complete details and an APS may also be required.	<ul style="list-style-type: none"> <li>• Within two years, mild cases - Often standard</li> <li>• Severe cases - Declined</li> </ul>
<b>Aneurysm</b>	A localized blood-filled dilation of a blood vessel caused by disease or weakening of the vessel wall.	The bulge in a blood vessel can burst leading to death or significant disability.	TeleApp with complete details and an APS.	<ul style="list-style-type: none"> <li>• If present or medical treatment only - Decline</li> <li>• If operated on, with full recovery for one year - Rating and reduced benefits</li> </ul>

Condition	Definition	Risk to DI	Underwriting requirements	Probable Action
<b>Anxiety</b>	A normal reaction to stress.	There is a wide variety of symptoms associated with anxiety disorders, all of which can range from mild to severe. If anxiety is excessive, symptoms can be disabling.	TeleApp with complete details and an APS may also be required.	<ul style="list-style-type: none"> <li>• Depending on severity, date of last symptoms and treatment - Standard to decline</li> <li>• Mild cases controlled for 3 years or more - Exclusion rider</li> <li>• Mild to moderate - Exclusion, limited benefits, and possible rating</li> <li>• Symptoms within a year or severe - Decline</li> </ul>
<b>Arteriosclerosis</b>	Hardening of the medium and large arteries associated with arterial plaque leading to decreased blood flow to major organs.	Heart attack, stroke, peripheral vascular disease, congestive heart failure and aneurysm.	Not applicable, see Probable Action.	<ul style="list-style-type: none"> <li>• Decline</li> </ul>
<b>Arthritis</b>	Joint inflammation.	Deformity and destruction of joints resulting in impairment to function.	TeleApp with complete details and an APS may also be required.	<ul style="list-style-type: none"> <li>• Depending on type and severity - Standard to decline</li> <li>• Without symptoms and discovered by testing - Standard</li> <li>• Mild symptoms - Exclusion rider</li> <li>• Rheumatoid, psoriatic, or any type if severe or on steroid medication - Decline</li> </ul>

Condition	Definition	Risk to DI	Underwriting requirements	Probable Action
<b>Asthma</b>	Disease in which inside walls of the airways are narrowed due to inflammation.	Attacks may be prolonged and are often disabling if severe. Continuous symptoms can cause scarring of the lungs and decreased pulmonary function. Occupational considerations include stress levels, exposure to allergens or environmental pollutants.	TeleApp with complete details and an APS may also be required.	<ul style="list-style-type: none"> <li>• Often standard</li> <li>• If moderate or severe symptoms - Rating and/or limited benefits</li> </ul>
<b>Back strain/sprain</b>	Acute muscle or ligament injury.	Pain severe enough to affect daily activities and the ability to work.	TeleApp with complete details and an APS may also be required.	<ul style="list-style-type: none"> <li>• Single acute episode - Exclusion for 1 year, then standard</li> <li>• Recurrent episodes - Exclusion for 3-5 years depending on frequency, severity and job duties</li> </ul>
<b>Barrett's Esophagus</b>	Pre-cancerous condition of the esophagus.	Increased risk of developing esophageal cancer.	TeleApp with complete details and an APS may also be required.	<ul style="list-style-type: none"> <li>• With good response to therapy and an esophagoscopy completed the past 2 years - Possible with exclusion, rating and reduced benefits</li> <li>• All other - Decline</li> </ul>

Condition	Definition	Risk to DI	Underwriting requirements	Probable Action
<b>Blindness</b>	Visual impairment/loss of vision.	Loss of visual acuity required to perform job tasks.	TeleApp with complete details and an APS may also be required.	<p>In all instances applicant must be fully functioning in their occupation.</p> <ul style="list-style-type: none"> <li>• One eye, due to trauma - Exclusion on the affected eye</li> <li>• One eye due to disease, or both eyes due to trauma or disease - Exclusion on both eyes</li> </ul>
<b>Breast Implants</b>	Surgical placement of mammary implants	Structural failure with rupture and leakage, displacement of the implants. Hardening and discomfort of surrounding breast tissue. Breast cancer risk, if implanted due to this history.	TeleApp with complete details and an APS may also be required.	<ul style="list-style-type: none"> <li>• If silicone implants - Exclusion</li> <li>• If saline implants - Exclusion until 1 year after implantation, then usually standard</li> <li>• If implanted due to breast cancer history, underwriting decision will also include action for the cancer history</li> </ul>
<b>Bronchitis</b>	Inflammation of the bronchi in the lungs.	If chronic is associated with chronic obstructive pulmonary disease. Risk may be increased if smoker or with certain occupational exposures.	TeleApp with complete details and an APS may also be required.	<ul style="list-style-type: none"> <li>• Acute and fully recovered - Standard</li> <li>• Chronic - Rating and limited benefits to decline</li> </ul>

Condition	Definition	Risk to DI	Underwriting requirements	Probable Action
<b>Bursitis</b>	Inflammation of bursa between tendons and muscles	Pain severe enough to affect daily activities and the ability to work. May be increased in occupations with manual duties.	TeleApp with complete details and an APS may also be required.	<ul style="list-style-type: none"> <li>• Single acute episode - Exclusion for one year, then standard</li> <li>• Recurrent episodes - Exclusion for two years, then standard</li> <li>• If diagnosed as Rheumatic - Likely decline</li> </ul>
<b>Cancer (carcinoma/sarcoma)</b>	Abnormal cell growth that invades and destroys adjacent tissue.	Pain, weight loss, anemia, fatigue, complications of treatment or progression to an incurable state. Risk of recurrence and metastasis (spread).	TeleApp with complete details and an APS may also be required.	<ul style="list-style-type: none"> <li>• All cases – Postpone for 1 year, thereafter possible offer if carcinoma in situ</li> <li>• Other types within 5 years - Usually decline</li> <li>• Other types after 5 years depending on location, type and stage/grade - Possible exclusion and rating</li> </ul>
<b>Carpal Tunnel Syndrome</b>	Compression of the median nerve at the wrist.	Pain, numbness, diminished grip strength decreasing one's ability to perform repetitive action duties. Occupational considerations include jobs with repetitive action duties or if hands are required to carry out normal duties.	TeleApp with complete details and an APS may also be required.	<ul style="list-style-type: none"> <li>• Symptoms within one year - Exclusion rider</li> <li>• If operated, or if two or more episodes - Permanent exclusion</li> </ul>

Condition	Definition	Risk to DI	Underwriting requirements	Probable Action
<b>Carcinoma In-situ</b>	An early form of carcinoma defined by the absence of invasion of surrounding tissue.	Progression to invasive cancer.	A TeleApp with complete details and an APS.	<ul style="list-style-type: none"> <li>• If removed and no personal or family history of cancer - Standard</li> </ul>
<b>Cataracts</b>	A clouding of the lens of the eye.	Vision loss and/or complications from surgery.	A TeleApp with complete details and an APS may also be required.	<ul style="list-style-type: none"> <li>• If present - Exclusion</li> <li>• If operated, completely recovered with no visual impairment - Standard.</li> </ul>
<b>Cerebral Hemorrhage</b>	A bleed into the cranial cavity	Loss of speech, motor activity, senses. It can also affect behavioral and thought patterns.	A TeleApp with complete details and an APS.	<ul style="list-style-type: none"> <li>• Usually - Decline</li> <li>• After 5 years - if a single episode, complete recovery with no other medical concerns - Limited consideration for rated and limited benefits</li> </ul>
<b>Cerebral Palsy</b>	A group of non-progressive conditions that cause physical disability in human development.	Varies widely depending on extent of disability in human development. Wear and tear on joints and muscles resulting in development of arthritis at a younger age.	A TeleApp with complete details and an APS.	<ul style="list-style-type: none"> <li>• If minimal involvement, working full-time, normal intellect, self-supporting and no seizures - Rating and limited benefit period</li> <li>• Otherwise - Decline</li> </ul>

Condition	Definition	Risk to DI	Underwriting requirements	Probable Action
<b>Cirrhosis</b>	Replacement of liver tissue by scar tissue and regenerative nodules.	Immune system dysfunction decreased cerebral function, esophageal bleeding, weakness, fatigue, anorexia, renal failure, shortness of breath, progressive liver failure.	Not applicable, see Probable Action	<ul style="list-style-type: none"> <li>Decline</li> </ul>
<b>Colitis</b>	Inflammation of the colon.	Severe diarrhea, abdominal pain, anemia, or fatigue. Increased risk of cancer if ulcerative colitis. Non-compliance with routine follow-up colonoscopies. Complications of steroid treatment.	TeleApp with complete details and an APS may also be required.	<ul style="list-style-type: none"> <li>Spastic colitis - Usually standard to rider</li> <li>Mild-moderate ulcerative - Decline for 2 years from last episode; then exclusion, rating, and limited benefits</li> <li>Severe or non-compliant with follow-up - Decline.</li> </ul>
<b>Concussion</b>	Injury to the brain that results in temporary loss of normal brain function. May be associated with loss of consciousness.	Ongoing headaches, cognitive problems or dizziness. If long-term symptoms, increased risk of psychiatric conditions. Development of post-traumatic epilepsy.	TeleApp with complete details and an APS may also be required.	<ul style="list-style-type: none"> <li>After three months, if no loss of consciousness and no residual symptoms - Standard</li> <li>All others, depending on length of unconsciousness and severity of residuals - Rating and limited benefits to decline</li> </ul>

Condition	Definition	Risk to DI	Underwriting requirements	Probable Action
<b>Coronary Artery Disease (CAD)</b>	Narrowing or hardening of the coronary arteries.	Chest pain, shortness of breath, heart attack, disability due to heart damage.	TeleApp with complete details and an APS and EKG will also be required.	<ul style="list-style-type: none"> <li>• Depending on location, type and stage/grade - Standard to decline</li> <li>• With surgery - Decline</li> </ul>
<b>Curvature of the Spine</b>	There are three types: Lordosis – a backward curving, Kyphosis – a hunchback, and Scoliosis – a bending of the spine to the side.	Pain severe enough to affect daily activities and ability to work, if moderate to severe, could affect respiratory system.	TeleApp with complete details and an APS may also be required.	<ul style="list-style-type: none"> <li>• If mild – Standard</li> <li>• Moderate or severe - Decline.</li> <li>• If operated, full recovery - Will consider with an exclusion after 5 years</li> </ul>
<b>Cyst</b>	A fluid-filled sac which can be located anywhere in the body.	Depending on size and location, pain or swelling may interfere with one's ability to work. Rare association to malignant cancers or serious infections.	A TeleApp with complete details and an APS may also be required.	<ul style="list-style-type: none"> <li>• If benign and without symptoms - Standard</li> <li>• Depending on type, location, size and symptoms - Exclusion to decline</li> </ul>
<b>Cystitis</b>	Inflammation of the urinary bladder.	Frequent and painful urination; may be secondary to obstruction of urinary flow or indicative of a problem with the prostate.	A TeleApp with complete details and an APS may also be required.	<ul style="list-style-type: none"> <li>• Usually standard</li> </ul>

Condition	Definition	Risk to DI	Underwriting requirements	Probable Action
<b>Deafness</b>	Reduced ability or inability to hear.	Loss of hearing affecting one's ability to perform job tasks.	TeleApp with complete details and an APS may also be required.	<p>In all instances, applicant must be fully functioning in their occupation.</p> <ul style="list-style-type: none"> <li>• One ear due to trauma - Exclusion of the affected ear</li> <li>• One ear due to disease or both ears due to trauma - Exclusion of both ears</li> </ul>
<b>Depression</b>	A mental illness characterized by sadness, apathy, loss of self-esteem, and feelings of guilt.	If severe can be disabling.	TeleApp with complete details and an APS.	<ul style="list-style-type: none"> <li>• If mild to moderate - Exclusion and limited benefits</li> <li>• If symptoms within a year, severe symptoms, or diagnosed as Major Depression – Decline</li> </ul>

Condition	Definition	Risk to DI	Underwriting requirements	Probable Action
<b>Diabetes</b>	A metabolism disorder resulting from insulin deficiency.	Association with retinopathy, kidney failure, neuropathy, cardiovascular conditions, peripheral vascular disease, seizure and coma.	TeleApp with complete details and blood profile and an APS may also be required.	<ul style="list-style-type: none"> <li>• Newly diagnosed - Decline for 1 year</li> <li>• Type 1 (also known as juvenile onset or insulin dependent) - Decline</li> <li>• Type II (also known as adult onset or non-insulin dependent) depending on age of applicant, duration and control - Rating and reduced benefit period to decline</li> </ul>
<b>Dislocation</b>	Displacement of a joint.	Destruction of a joint resulting in impairment to function; occupation considerations include manual labor and prolonged standing; chronic cases often require surgery.	A TeleApp with complete details and an APS may also be required.	<ul style="list-style-type: none"> <li>• Single acute episodes, complete recovery - Exclusion for one year, then standard.</li> <li>• Recurrent episodes mild to moderate residuals - Exclusion rider.</li> <li>• Severe deformity with restriction of activity - Decline.</li> </ul>
<b>Diverticulitis</b>	Inflamed diverticula which are pouches that form outside the colon.	Pain, bleeding, perforation and/or intestinal obstruction.	A TeleApp with complete details and an APS may also be required.	<ul style="list-style-type: none"> <li>• In history - Decline for six months</li> <li>• After 6 months - Standard if no complications</li> <li>• If complications present - Exclusion to a decline</li> </ul>

Condition	Definition	Risk to DI	Underwriting requirements	Probable Action
<b>Elevated Prostate Specific Antigen (PSA)</b>	A serum protein produced by the prostate gland. Typically, results over 4.0 are considered elevated.	Increased risk of prostate cancer.	A TeleApp with complete details and an APS may also be required.	<ul style="list-style-type: none"> <li>• Depending on cause and level - Standard to decline</li> </ul>
<b>Emphysema</b>	A type of chronic obstructive pulmonary disease involving damage to the air sacs in the lungs.	Shortness of breath with minimal exertion. Occupational considerations include stress levels, exposure to allergens or environmental pollutants. The progressive and irreversible nature of this disease.	TeleApp with complete details and an APS may also be required.	<ul style="list-style-type: none"> <li>• Mild - Rating may apply</li> <li>• Moderate - Rating with reduced benefits</li> <li>• Severe or with continued exposure to dust, toxic air or other irritants - Decline</li> <li>• Still smoking - Decline</li> </ul>
<b>Epilepsy</b>	A disorder of the central nervous system characterized by seizures.	Seizures may be difficult to control and may come without warning.	TeleApp with complete details and an APS may also be required.	<ul style="list-style-type: none"> <li>• Depending on type and severity - Standard to decline</li> <li>• First two years from date of diagnosis - No consideration (Substandard offers usually are in the form of a rating and limited benefits.)</li> </ul>

Condition	Definition	Risk to DI	Underwriting requirements	Probable Action
<p><b>Fibrocystic Breast Disease</b></p>	<p>Cysts in the breast, causing lumpiness.</p>	<p>Constant pain and tenderness in severe cases, elevated risk of developing breast cancer in some cases.</p>	<p>A TeleApp with complete details and an APS may also be required.</p>	<ul style="list-style-type: none"> <li>• If breast cancer history in a first degree family member - Exclusion to decline</li> <li>• Without family history of breast cancer - Standard to decline</li> </ul> <p>Presence and size of nodules, severity of symptoms, biopsy results and follow-up are important underwriting factors</p>
<p><b>Gallbladder Disease</b></p>	<p>Diseases of the gallbladder including but not limited to biliary pain, acute or chronic cholecystitis and cholelithiasis. Disease may be with or without stone formation.</p>	<p>Severe abdominal pain, chronic diarrhea, and risks associated with surgery.</p>	<p>A TeleApp with complete details and an APS may also be required.</p>	<ul style="list-style-type: none"> <li>• Depending on severity, number of occurrences, time since last - Standard to exclusion</li> <li>• If surgery is anticipated in the future - Decline with reconsideration a few months after surgery</li> </ul>
<p><b>Glaucoma</b></p>	<p>Eye disease characterized by increased intraocular pressure.</p>	<p>Damage to the optic nerve leading to visual loss.</p>	<p>TeleApp with complete details and an APS may also be required.</p>	<ul style="list-style-type: none"> <li>• Operated with unimpaired vision, - Exclusion of the eyes</li> <li>• Others - Exclusion plus possible rating</li> </ul>

Condition	Definition	Risk to DI	Underwriting requirements	Probable Action
<b>Gout</b>	A disease created by the buildup of uric acid, provoking inflammatory reaction in tissues.	Chronic joint changes, pain, formation of kidney stones or impairment to kidney function. Increased morbidity when associated with vascular disease and hypertension. Physical demands of the occupation.	A TeleApp with complete details and an APS may also be required.	<ul style="list-style-type: none"> <li>• If single attack and completely recovered for 3 yrs - Standard</li> <li>• If associated with renal or cardiovascular disease or if severe or chronic - Decline</li> <li>• All others - Rating or exclusion, with possibility of limited benefits</li> </ul>
<b>Headaches</b>	May be primary (migraine, tension, cluster) or secondary (due to an underlying condition such as brain tumor or bleeding).	Association with stress, anxiety, chronic pain, visual difficulties, reduced concentration or ability to focus on tasks at hand. The possibility of a significant underlying cause if they are of new onset, present for an extended period, or increasing in frequency or severity.	TeleApp with complete details and an APS if new onset or moderate to severe in nature.	<ul style="list-style-type: none"> <li>• Primary and mild - Standard</li> <li>• Severe or secondary - Decline</li> <li>• Moderate - Exclusion rider or rating</li> </ul>
<b>Heart Murmur</b>	An abnormal heart sound that is produced as a result of turbulent blood in or near the heart.	May indicate underlying heart disease.	TeleApp with complete details and an APS.	<ul style="list-style-type: none"> <li>• If innocent (or functional) - Likely standard</li> <li>• All others - Rating and limited benefits to decline</li> </ul>

Condition	Definition	Risk to DI	Underwriting requirements	Probable Action
<b>Hemophilia</b>	A bleeding disorder where blood does not clot normally.	Bleeding may occur more easily or last longer than normal. If internal bleeding, may lead to damage of organs, joints, muscles, tissues.	A TeleApp with complete details and an APS.	<ul style="list-style-type: none"> <li>Usually decline</li> </ul>
<b>Hepatitis</b>	Inflammation of the liver.	Progression to cirrhosis or liver cancer.	TeleApp with complete details and an APS may also be required.	<ul style="list-style-type: none"> <li>In history completely recovered, depending on type, treatment, current use of alcohol - Standard to decline</li> <li>If present - Decline</li> </ul>
<b>Herniated Disc</b>	Abnormal protrusion of disc, which may impinge on nerve roots or the spinal cord.	Pain, numbness, tingling and motor weakness. Occupational considerations include amount of manual labor and prolonged sitting.	TeleApp with complete details and an APS may also be required.	<ul style="list-style-type: none"> <li>Unoperated - Exclusion to decline</li> <li>Single episode, no continued therapy, fully recovered, without surgery - Exclusion for two years than standard</li> <li>Recurrent episodes - Exclusion</li> <li>Operated, complete recovery - Exclusion for six years then standard.</li> </ul>
<b>Hodgkin's Disease</b>	A cancer of the lymphatic system.	Compromised ability to fight infections. Painful swelling of lymph nodes and fatigue.	A TeleApp with complete details and an APS if appears insurable.	<ul style="list-style-type: none"> <li>For highly rated, limited benefits with an exclusion rider 9 years after treatment depending on Stage - Possible consideration</li> <li>Higher Stages - Decline</li> </ul>

Condition	Definition	Risk to DI	Underwriting requirements	Probable Action
<b>Hypertension</b>	Increased pressure of circulating blood within the arterial walls.	Association with headaches, visual defects, kidney failure, coronary artery disease, heart attack, aneurysm and stroke, if uncontrolled.	A TeleApp with complete details and an APS or physical measurements may also be required.	<ul style="list-style-type: none"> <li>Controlled by diet or medication - Standard</li> <li>If elevated - Rating with possible limitation in benefits to decline</li> </ul>
<b>Hyperthyroidism</b>	A disease caused by excessive production of the thyroid hormone.	Associated symptoms include nervousness, problems sleeping, excessive sweating, weight loss, tachycardia and muscle weakness.	A TeleApp with complete details and an APS may also be required.	<ul style="list-style-type: none"> <li>If treated and under good control - Consider with an exclusion for the first two years from diagnosis then likely standard.</li> <li>Under poor control - Decline</li> </ul>
<b>Hypothyroidism</b>	A disease caused by insufficient production of the thyroid hormone.	Associated symptoms include fatigue, cold intolerance, weight gain, muscle cramps and joint pain.	A TeleApp with complete details and an APS may also be required.	<ul style="list-style-type: none"> <li>If treated and under satisfactory control - Standard</li> <li>If untreated, minimal symptoms - Consider with rating</li> <li>Others - Likely decline</li> </ul>
<b>Kidney Stones</b>	Small mass or lesion found in the kidney or urinary tract.	Can block the flow of urine causing infections, kidney damage and even kidney failure.	A TeleApp with complete details and an APS may also be required.	<ul style="list-style-type: none"> <li>Usually standard</li> <li>If abnormal kidney function, urinalysis, elevated blood pressure or history of renal or ureteral problems – Possible decline</li> </ul>

Condition	Definition	Risk to DJ	Underwriting requirements	Probable Action
<b>Knee Disorders</b>	Injury to the ligaments, tendons or cartilage.	Pain severe enough to affect daily activity and ability to work. Occupational considerations include manual labor or prolonged standing.	A TeleApp with complete details and an APS may also be required.	<ul style="list-style-type: none"> <li>• Single acute injury and/or surgery - Exclusion for 1 year; then standard</li> <li>• Recurrent episodes - Exclusion for 2 years depending on frequency, severity and job duties</li> <li>• Multiple surgeries - Permanent exclusion</li> </ul>
<b>Labyrinthitis</b>	Inflammation of the inner ear.	Increased risk of accident due to dizziness or vertigo, and the possibility of hearing loss.	TeleApp with complete details and an APS may also be required.	<ul style="list-style-type: none"> <li>• Present or symptoms within six months - Decline</li> <li>• Single episode or recurrent episodes with resolving trend - Standard after six months.</li> <li>• Recurrent stable and not disabling symptoms, - Decline for 3 years from diagnosis.</li> <li>• Thereafter - Possible rating and/or exclusion</li> </ul>
<b>Meniere's</b>	An inner ear disorder which causes episodes of vertigo, ringing in the ears (tinnitus), a feeling of fullness or pressure in the ear, and fluctuating hearing loss.	Increased risk of accident due to dizziness or vertigo, and the possibility of hearing loss.	A TeleApp with complete details and an APS.	<ul style="list-style-type: none"> <li>• Present or symptoms within the past three years - Decline</li> <li>• If resolved after three years - Consider with rating</li> </ul>
<b>Multiple Sclerosis</b>	A chronic disease that affects the central nervous system.	Fatigue, neuropathy, blurred vision, weakness in limbs and loss of balance.	None, see Probable Action section.	<ul style="list-style-type: none"> <li>• Decline</li> </ul>

Condition	Definition	Risk to DI	Underwriting requirements	Probable Action
<b>Narcolepsy</b>	A neurological disorder characterized by excessive daytime sleepiness.	Daytime drowsiness, fatigue and/or reduced concentration, accidents.	TeleApp with complete details and an APS.	<ul style="list-style-type: none"> <li>• Mild attacks, good response to medication with no occupational hazards or driving criticism - Decline for the three years</li> <li>• After 3 years - Rating and reduced benefits.</li> </ul>
<b>Nephrectomy</b>	The surgical removal of a kidney.	Complications of surgery, kidney failure in remaining kidney, and risk associated with any underlying condition.	TeleApp with complete details and an APS may also be required.	<ul style="list-style-type: none"> <li>• If donor - Consideration is given after 6 months.</li> <li>• If single kidney removed due to a congenital or benign non-progressive disease, and remaining kidney is normal, with stable renal function - Exclusion and reduced benefits for the first two years</li> <li>• Thereafter - Standard</li> </ul>
<b>Nephritis</b>	Inflammation of the kidney.	Possible association with autoimmune disorders. Complications of impaired kidney function.	A TeleApp with complete details and an APS may also be required.	<ul style="list-style-type: none"> <li>• Depending on type, number of occurrences, current results of kidney function tests, association with underlying disease processes, treatment and control - Standard to decline</li> </ul>

Condition	Definition	Risk to DI	Underwriting requirements	Probable Action
<b>Osteomyelitis</b>	Inflammatory process of the bone, usually due to infection.	Intense pain and in extreme cases death of an area of bone.	A TeleApp with complete details and an APS may also be required.	<ul style="list-style-type: none"> <li>• Single bone and one episode - Possible standard one year after recovery</li> <li>• After recovery depending on number of bones and number of recurrences - Exclusion for 1-5 years</li> <li>• If present, if multiple bones and last episode is within 2 years, or if residual impairment - Decline</li> </ul>
<b>Phlebitis</b>	Inflammation of a vein's vessel wall often accompanied with the formation of blood clots.	Severe pain and swelling of the arms and legs. Pulmonary embolism, heart attack, stroke and decreased kidney function in some cases.	A TeleApp with complete details and an APS may also be required.	<ul style="list-style-type: none"> <li>• If single episode, no residual swelling, and over 1 year from event - Usually standard</li> <li>• If moderate or severe residual swelling or if more than one episode with any residual swelling - Decline</li> <li>• Others - May be considered with exclusion</li> </ul>
<b>Pleurisy</b>	Inflammation of the pleura that covers the lung surface and inner chest wall.	Shortness of breath and chest pain.	TeleApp with complete details and an APS may also be required.	<ul style="list-style-type: none"> <li>• Single attack over six months ago - Standard</li> <li>• More than one attack - Standard to decline</li> </ul>

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<b>Pregnancy</b>	The state of being pregnant from conception to birth. The time period is divided into three trimesters.	Age, health and habits have a significant role in potential complications such as gestational diabetes, hypertension, eclampsia & toxemia.	A TeleApp with complete details and an APS may also be required.	<ul style="list-style-type: none"> <li>• Currently pregnant, up to the 6th month - Exclusion</li> <li>• Third trimester - Postpone</li> <li>• Past complications or fertility treatment - Exclusion</li> </ul>
<b>Prostatitis</b>	An inflammation of the prostate.	Pain severe enough to affect daily activities and the ability to work.	TeleApp with complete details and an APS may also be required.	<ul style="list-style-type: none"> <li>• Single attack, completely recovered – Standard</li> <li>• Chronic attacks - Exclusion</li> </ul>
<b>Psoriasis</b>	A lifelong skin disease.	Social factors depending on location, severity and occupation. Development of psoriatic arthritis.	Teleapp with complete details and an APS may also be required.	<ul style="list-style-type: none"> <li>• Mild to moderate - Usually standard</li> <li>• Severe or treated with methotrexate - Exclusion to decline</li> <li>• Associated with arthritis - Probable decline</li> </ul>

Condition	Definition	Risk to DI	Underwriting requirements	Probable Action
<b>Restless Leg Syndrome (RLS)</b>	A neurological condition that is characterized by an irresistible urge to move one's legs at rest.	Disruption of sleep leading to daytime drowsiness, fatigue or reduced concentration.	TeleApp with complete details and an APS.	<ul style="list-style-type: none"> <li>• Depending on frequency, severity and response to treatment - Rating and reduced benefits to decline</li> <li>• Fully recovered without symptoms or treatment for 2 years - Possibly standard</li> </ul>
<b>Retinal Detachment</b>	Partial or complete separation of inner layers of the retina.	Partial or complete loss of vision.	TeleApp with complete details and an APS may also be required.	<ul style="list-style-type: none"> <li>• Operated and recovered - Standard</li> <li>• Unoperated or with vision deterioration after surgery - Exclusion</li> </ul>
<b>Rheumatic Heart Disease/ Rheumatic Fever</b>	A condition in which the heart valves are damaged by rheumatic fever.	Permanent damage to heart valves resulting in stenosis and valve replacement in severe cases.	A TeleApp with complete details and an APS may also be required.	<ul style="list-style-type: none"> <li>• Fully recovered with no valvular damage or arrhythmia - Possible standard after 1 year</li> <li>• Multiple episodes, with no valvular damage or arrhythmia - Rating one to three years from last attack.</li> <li>• If active - Decline</li> <li>• If valvular damage - Likely decline</li> </ul>

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<b>Sciatica</b>	Sciatic nerve pain often radiating into the lower back, buttock, leg or foot.	Pain severe enough to affect daily activities and the ability to work.	TeleApp with complete details and an APS may also be required.	<ul style="list-style-type: none"> <li>• Single acute episode - Exclusion for 1 year, then standard</li> <li>• Recurrent episodes - Exclusion for at least 3 years and depending on frequency, severity and job duties, possible permanent exclusion</li> </ul>
<b>Skin Cancer</b>	Abnormal cells of the skin that grow and divide without respect to normal limits.	Unsignificantly lesions and complications of treatment.	TeleApp with complete details and an APS.	<ul style="list-style-type: none"> <li>• Depending on type, stage/grade, personal and family history - Standard to decline</li> <li>• Substandard risks - Usually offered with an exclusion and possible rating</li> </ul>
<b>Sleep Apnea</b>	A sleep disorder where people stop breathing repeatedly while asleep.	Associated with obesity, cardiovascular disease, stroke, and alcohol excess. Sufferers remain fatigued throughout the day.	TeleApp with complete details and an APS.	<ul style="list-style-type: none"> <li>• Two years from date of diagnosis or if severe – Decline</li> <li>• After two years from diagnosis - Mild to moderate rating and limited benefits</li> </ul>

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<b>Syncope</b>	Fainting, a sudden loss of consciousness.	Increased risks of falls or accidents.	A TeleApp with complete details and an APS.	<ul style="list-style-type: none"> <li>• Single episode fully evaluated - Likely standard after one year</li> <li>• Recurrent episodes - Decline for three years from last episode</li> <li>• Thereafter - Consider with rating and reduced benefits</li> </ul>
<b>Tumor</b>	An abnormal mass of tissue which may be benign or malignant.	Cancer risk associated with malignancy.	TeleApp with complete details and an APS including pathology report.	<ul style="list-style-type: none"> <li>• Benign brain tumor - Decline</li> <li>• Others, unoperated or within one year of operation - Usually decline</li> <li>• Others, operated - Standard to rider, possible rating one year after surgery if fully recovered</li> <li>• Malignant, see "Cancer"</li> </ul>
<b>Ulcer</b>	Open sore on the lining of the digestive track. Most common locations are esophagus, stomach (gastric), duodenum and intestines, with the most common being duodenal ulcers.	Pain, perforation, anemia/fatigue due to bleeding, possible cause being gastric cancer.	TeleApp with complete details and an APS may also be required.	<ul style="list-style-type: none"> <li>• Depending on type, location, number of occurrences, frequency, severity and results of biopsy if one were completed - Standard to decline</li> <li>• Moderate or new onset risks - Consideration with an exclusion rider</li> </ul>

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<b>Urethral Stricture</b>	A narrowing of the urethra caused by injury or disease.	May cause urinary obstruction and require dilatation or surgery. May be caused by a sexually transmitted disease.	A TeleApp with complete details and an APS may also be required.	<ul style="list-style-type: none"> <li>• Present - Exclusion</li> <li>• Fully resolved - Usually standard.</li> </ul>
<b>Urethritis</b>	Inflammation of the urethra due to infection or nonspecific causes.	May be due to a sexually transmitted disease (STD).	A TeleApp with complete details and an APS may also be required.	<ul style="list-style-type: none"> <li>• Usually standard</li> <li>• If due to a STD - Possible decline</li> </ul>
<b>Varicose Veins</b>	Enlarged and twisted veins.	Painful ulcers, swelling of the legs, difficulty standing or walking for long periods of time.	A TeleApp with complete details and an APS may also be required.	<ul style="list-style-type: none"> <li>• If mild, without ulcers or edema - Standard</li> <li>• If moderate to severe without complications or if with swelling - Rating or exclusion and limited benefits</li> <li>• If location is other than legs or if legs and with ulceration - Decline</li> <li>• If surgically removed - Standard to exclusion</li> </ul>

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Vertigo	A sensation of spinning or swaying, dizziness.	Increased risk of falls or accidents.	A TeleApp with complete details and an APS.	<ul style="list-style-type: none"> <li>• Single episode fully evaluated and recovered - Likely standard</li> <li>• Recurrent episodes - Decline for three years from last episode</li> <li>• Thereafter - Consider with a rating.</li> </ul>









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