

Group disability insurance

Get the coverage you need and deserve

Group disability insurance for the unique
needs of business owners like you.

There's more to your income than just a salary

You've worked hard to build and run your business. We understand that. If you become too sick or hurt to work, it could have a big impact on your company and your family. When you buy group disability insurance to help protect your employees, keep in mind your own needs as a business owner. Covering you is important, too.



What our disability contract offers

Unlike some insurance carriers, Principal® takes a big picture view of how much of a benefit you qualify for if you become disabled. Our standard contract comes with provisions that address the unique income-replacement needs of business owners:

Provision	That means the disability benefits you receive...
No offsets for business profits during a total disability	Aren't reduced due to business profits you may receive when you're unable to work.
The owner's definition of compensation covers the profits of your business and your salary.	Are calculated using both your salary AND your share of the business profits.
The income loss percentage starts when your ability to earn an income due to a disability is impacted.	May be paid sooner. Just because your revenues aren't affected immediately, it shouldn't mean your benefits are delayed.
The work incentive benefit allows you to work part-time and receive up to 100% of your pre-disability earnings.	May be available if you're able to work part-time. Since you're key to the success of your business, being able to work part-time can make a big difference in keeping it running.

Examples of how our coverage works

We understand this can sound a little complicated. That's why we've put together this hypothetical example to further explain things.

Assumptions for this scenario: John owns a small architectural firm. He earns \$10,000 a month — \$6,000 in salary and \$4,000 from business profits — and has no other sources of income. The company's group disability insurance has a 60% disability benefit with a 90-day elimination period.

When John becomes disabled and can no longer work, here's how benefits from Principal's disability contract differ from industry standards:

Using profits to determine benefits

How is the \$4,000 John earns from business profits considered in his compensation?

- › John's \$4,000 of business profits are included in his covered compensation under the Principal contract.
- › As long as John is totally disabled, **Principal does not** offset his share of the monthly business profit (K1 distribution) since he is unable to work, so John receives a **\$6,000 monthly benefit** (\$10,000 [salary plus profits] X 60% benefit) when he becomes disabled.
- › **Other carriers may offset** John's share of monthly business profits. That could mean his **monthly benefit is just \$100** — the minimum monthly benefit. That's because the \$4,000 he earns in business profits is deducted from his 60% monthly benefit of \$3,600 (\$6,000 salary x 60%). \$3,600 benefit - \$4,000 in profits = (\$400) so John would only receive the guaranteed policy minimum of \$100.

The timing of collecting benefits

John often collects revenue from clients two to three months after he provides his services. In this scenario, his disability starts month one, but his cash flow isn't impacted until month four. Pre-disability earnings are \$10,000 per month (\$6,000 in salary, \$4,000 in business profits).

- › **Principal** — John's loss of earnings is recognized immediately based on his inability to perform the material duties of his occupation, no matter when revenues are impacted. John **receives 100% of his benefit immediately after satisfying the 90-day elimination period.**
- › **Some other carriers** — Since some may require a loss of income to qualify and calculate the income loss based on income received at that time, which doesn't take a dip until a few months down the line, John **doesn't qualify for benefits until month four.**

Income loss percentage example

As a business owner, you may not be able to collect income until 2-3 months after a service is performed. In this example, a business owner becomes disabled and is unable to perform the material duties of his/her own occupation during month one; however, cash flows are not impacted by month four. Pre-disability earnings are \$6,000 per month.

	Billables			
	Month 1	Month 2	Month 3	Month 4
Billables	\$4,000	\$2,000	\$1,000	\$500
Expenses	\$4,000	\$4,000	\$4,000	\$4,000
Income	\$0	(\$2,000)	(\$3,000)	(\$3,500)

	Revenues			
	Month 1	Month 2	Month 3	Month 4
Gross receipts	\$10,000	\$10,000	\$10,000	\$4,000
Expenses	\$4,000	\$4,000	\$4,000	\$4,000
Income	\$6,000	\$6,000	\$6,000	\$0

Principal standard contract

Under our contract, a loss of earnings is recognized immediately based on the owner's inability to perform the material duties of his/her own occupation, regardless of when revenues are impacted.*

Income loss based on billables			
Month 1	Month 2	Month 3	Month 4
100%	100%	100%	100%

Industry standard contract

Because many insurance carriers' disability contracts calculate an income loss based on revenues, the owner would not qualify for a benefit until month four.*

Income loss based on revenues			
Month 1	Month 2	Month 3	Month 4
0%	0%	0%	0%

*Example assumes a 90-day elimination period.

Working part-time

John's condition soon allows him to come into the office part-time to help keep the business running smoothly. He can do this and still earn 100% of his pre-disability earnings with the work incentive benefit through Principal. With this benefit, a business owner is paid the primary monthly benefit or the amount of income lost during a disability, whichever is less.

$\begin{array}{r} \$10,000 \text{ monthly pre-disability income} \\ \times 60\% \text{ benefit} \\ \hline \$6,000 \text{ primary monthly benefit} \end{array}$	OR	$\begin{array}{r} \$10,000 \text{ monthly pre-disability income} \\ - \$5,000 \text{ part-time earnings while disabled} \\ \hline \$5,000 \text{ income loss during disability} \end{array}$
--	----	--

Principal — With our work incentive benefit, John receives a \$5,000 monthly benefit. That and his \$5,000 part-time income, means **he's able to retain 100% of his \$10,000 income.**

How the definition of compensation makes a difference

Principal has a definition of compensation that covers both business profits and salary. If John works part-time while disabled, he can continue to pay himself 100% of his wages to help pay the bills.

In this example, John's salary is \$50,000 and his business profits are \$100,000 the first year and \$50,000 in year three, resulting in a 33% loss in business profits during his disability. His salary doesn't decline, and he's able to work part-time.

- › **Principal** — Since John's unable to earn more than the Principal standard percentage of 80%, **he qualifies for a disability benefit:**

Income prior to disability	Income after disability, working part-time
$\begin{array}{r} \$100,000 \text{ business profits, year 1} \\ + \$50,000 \text{ salary} \\ \hline \$150,000 \text{ pre-disability income} \end{array}$	$\begin{array}{r} \$50,000 \text{ business profits, year 3} \\ + \$50,000 \text{ salary} \\ \hline \$100,000 \text{ income during partial disability} \end{array}$
$\$50,000 \text{ (income lost)} / \$150,000 = 33\% \text{ loss of income}$	

- › **Other carriers** don't include owners' share of business profits as part of pre-disability income. So in this example, John's loss is seen as 0% so he would get **no benefits.**

And don't forget, as an owner you receive benefits on a tax-free basis.

Dedicated resources

Here's another way you benefit from our strong commitment to and knowledge of business owners' needs. Your claim is reviewed by an in-house Certified Public Accountant (CPA) who takes a careful look to make sure it's dealt with consistently and smoothly.

It's the right move

Choose group disability insurance that not only helps protect your employees' income against a disability, but offers what business owners like you need.

 **Let's connect** | Contact your financial professional or go to **principal.com**.



principal.com

Insurance issued by Principal Life Insurance Company, Des Moines, Iowa 50392-0001.

This is an overview of Principal group disability coverage for business owners. The group policy determines all rights, benefits, limitations and exclusions of the coverage described here. Contact your local sales representative for more information, including costs and a full proposal outlining the coverage. OR Policy forms GC 3100 OR (0116) and GC 4100 OR (0116)

Principal, Principal and symbol design and Principal Financial Group are trademarks and service marks of Principal Financial Services, Inc., a member of the Principal Financial Group.

GP59800-02 | 08/2017 | ©2017 Principal Financial Services, Inc