Principal®

The business profits differentiator

Of all the pressures that business owners face, the question of what would happen to the business if they were disabled and could not work is one of the most troubling. Business owners face not only the personal financial pressures that would arise from an inability to continue working, but the survival of the business itself. For most business owners, their income from the business includes both salary and profits from the business.

Many insurance companies define business owners' earnings as including only salary, and some offset their group benefit with profits from the business. Principal® takes business profits into account as earnings, because we understand how business owners are compensated. Business profits can be in the form of K-1 income from S corporations or partnerships, profits from C corporations, or net income from sole proprietorships.

For our Group long-term and short-term disability and Individual Disability Income (DI) insurance products, we define "monthly earnings" to include salary *and* business profits. Our Individual DI products also take into account Section 179 depreciation costs and allow up to 20% over the owner's total earnings amount, to help capture the expenses typically paid for the owner by the business.

Group disability and individual DI products from Principal® define "monthly earnings" to include both salary and business profits

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In our Group disability products, we also offer a more favorable approach to the timing of the benefit than many companies. Some companies require a loss of income to qualify for a benefit, so they do not pay a benefit until business earnings are actually affected by the business owner's disability. Principal® considers the impact on the business to begin at the start of the disability, regardless of when (or if) the business profits drop.

The example below demonstrates the advantage of the definition of earnings Principal® uses in its Group disability products, as well as how it affects our individual DI coverage.

One item to note is that the benefit from Individual DI coverage does not change each year based on salary changes and business profits, as it does with the Group products. Instead, the available DI benefit is determined and fixed at the inception of the policy, based on the business owner's salary, share of profits, and Section 179 depreciation expenses. In addition, an increase of up to 20% is possible, based on expenses the business may be paying for the owner. The business owner chooses what portion of those amounts to insure. With the exception of increase riders[1], the benefit is locked in when the policy is purchased.

The operation and impact of these important features are shown in the following example.

Chris is a partner in a law practice, along with two other owners (one-third ownership each). The firm has implemented a group long-term disability contract to cover a base portion of covered employees' earnings (60%) and has implemented individual DI for its owners and key employees, to cover a portion of the income not covered by the group contract.

Chris became disabled in a skiing accident in February and, as a result, was left unable to perform the material duties of being an attorney. Prior to the disability, Chris earned a salary of $180,000 annually ($15,000 monthly) and had K-1 (passthrough) income of $60,000 each year ($5,000 per month).

Policy feature	Other carriers	Principal®	
		Group long term disability	**Individual DI**
Definition of monthly earnings:	Salary only: **$15,000 monthly**	Benefit adjusts annually to include salary plus K-1 income: **$20,000 per month**	Benefit is fixed when contract is implemented, based on salary, K-1 income, 179 depreciation, plus up to 20% over salary and K-1 income if all from self-employment.
Potential benefit amount:	Group contact covering 60% of earnings would provide **$9,000 monthly**	Group contract covering 60% of earnings would provide **$12,000 monthly**	DI benefit could be in place of or a supplement to the group benefit, up to underwritten amount. In example, DI coverage replaces income from the 40% not covered by the group contract.
Impact of owner's share of business profits of $5,000 per month:	Subtracted from monthly benefit: $9,000 - $5,000 = **$4,000 monthly benefit**	Added to calculation of monthly earnings, as described above. Does not offset any of the **$12,000 monthly benefit**	Financial underwriting takes business profits into account. Because benefit is fixed at inception, no offset applies.
When does benefit become payable:	Only after both the elimination period is met *and* a loss occurs (i.e., monthly earnings must drop, which could take months longer)	As soon as the elimination period is met.	As soon as the elimination period is met.
Impact of returning to work at half the previous salary	Business profits are not part of pre-disability income, so benefit is reduced.	Business profits are included in pre-disability income.	The residual and recovery benefit rider from Principal® allows the owner to continue receiving a portion of their disability benefit even if working full-time, since there is a loss of income.

For illustrative purposes only.

The advantage for business owners is clear: Principal® understands how they are paid, how important their business passthrough income is, and its potential impact on the owners' income security.

[1] Individual Disability Income policies from Principal offer two riders that can increase benefits. A Future Benefit Increase rider automatically increases the insured's benefits for inflation. A Benefit Update rider permits the insured to increase the benefit in the event of a significant increase in income. Both riders terminate at a maximum age, and the insured can decline the increase permitted under either one.

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