Nonqualified deferred compensation

Offer solutions to help protect plan participants

Corporate-Owned Life Insurance
Underwriting Guide

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Give employers an underwriting advantage

When your clients choose to finance their nonqualified deferred comp plan with corporate-owned life insurance, they have choice in how the life insurance coverage is underwritten—Guaranteed Issue/Simplified Issue (GI/SI) or full underwriting.

Each organization’s needs are different. The good news—regardless of which way your client wants to go, you have the support of an underwriting team with vast experience and expertise in the employer market. Here are some considerations for making a choice:

• **How much information do participants want to provide?**
  Full underwriting entails a full health assessment, while GI/SI requires far less information for each individual.

• **Is time an issue?**
  You can expect about 30-60 days to gather and review information for full underwriting, and a much shorter timeframe for the GI/SI process.

• **How many eligible participants are there?**
  Full underwriting generally works best when there are a smaller number of eligible participants. If you have a bigger group, GI/SI may work better.

• **Is cost a driver?**
  Because we know less about an individual’s health when underwritten under GI/SI, cost-of-insurance rates tend to be a little higher, on average, than policies selected from favorable full underwriting.

• **How easy is it to add future participants?**
  Full underwriting requires complete information on the new executive. With GI/SI, the new person will be issued under the existing program.
How to get your GI/SI case started

(Approval and written offer are required before applications can be submitted.)

1. **Assemble a census of eligible participants, including:**
   - Date of birth
   - Job title
   - Work status
   - Salary + bonus
   - 1035 Exchange amounts (if applicable)

2. **Provide deferral amounts.**
   - How much will be set aside for the benefit of eligible employees?
   - Determine the expected participant deferrals, plus any balance carried over from an existing plan.

3. **Share additional important information**
   - Provide any other plan design requirements.
   - Let us know of any client expectations that might impact life insurance needs.

4. **Send it to us**
   - Send all of the information above to NQCOLISupport@exchange.principal.com.
   - Jon Leinen: 800-654-4278, x76672
   - Cody Schiffer: 800-654-4278, x55802
GI/SI program guidelines

- Pre-approval from the home office is required.
- Census of the group is required.
- Known uninsurable or highly substandard risk should be identified.
- Standard is the best risk class available.
- Face amount will be determined by formula, set amount for job position or percentage of ownership.
- Maximum face amount is $6 million and no individual may have greater than 5 times the average face amount of the group.
- Total line with all carriers, issued on a GI or SI basis, cannot exceed 3 times our multiples.

**Guaranteed Issue**

Applicants will be asked about:
- Whether they’re actively working full-time
- Absenteeism in the last 90 days
- Tobacco usage

Required participation rate:
- 10-19 lives – 85%
- 20+ lives – 75%

<table>
<thead>
<tr>
<th>Participants</th>
<th>Employer-Owned</th>
<th>Employee-Owned</th>
</tr>
</thead>
<tbody>
<tr>
<td>10-19</td>
<td>$50,000 x no. of lives</td>
<td>$30,000 x no. of lives</td>
</tr>
<tr>
<td>20+</td>
<td>$60,000 x no. of lives</td>
<td>$40,000 x no. of lives</td>
</tr>
</tbody>
</table>

**Simplified Issue – Standard to Decline up to Table 3**

Simplified application with MIB, Rx check, MVR and APS for cause

<table>
<thead>
<tr>
<th>Participants</th>
<th>Employer/Employee-Owned: 100% Participation</th>
<th>Employer/Employee-Owned: 75% Participation</th>
</tr>
</thead>
<tbody>
<tr>
<td>5-9</td>
<td>$50,000 x no. of lives</td>
<td>$40,000 x no. of lives</td>
</tr>
<tr>
<td>10-19</td>
<td>$60,000 x no. of lives</td>
<td>$50,000 x no. of lives</td>
</tr>
<tr>
<td>20+</td>
<td>$75,000 x no. of lives</td>
<td>$60,000 x no. of lives</td>
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</tbody>
</table>
Aggregate financing may be an option

Financing arrangements can be split up, so certain executives within the plan could be financed differently than others. That’s called aggregate financing. This approach typically works better with fully underwritten cases because the higher face amount limits available allow for fewer policies and you’re able to select those individuals with the best underwriting ratings. It may also work with Guaranteed Issue cases where a smaller group of individuals is selected based on salary range or level with the company.

Why it may make sense for an organization
- Easier plan recordkeeping because fewer policies are issued.
- Easier to re-balance assets to liabilities with fewer policies involved.
- Easier to manage premium payments since payments are applied as needed to each policy, not based on individual participant deferrals.

Additional details
- Face amounts can be the same on each executive or formula-driven.
- Those in the select group should be selected based on salary range, tobacco status and job title.
- Age should be considered so that the weighted average of the select group is age 55 or younger.
- Proposed aggregate financing arrangements will go through underwriting review for approval.
Who’s a good candidate for full underwriting?

What are the guidelines for selecting an ideal candidate to underwrite? Here are a few tips to help your clients make good selections. Note: that these are general guidelines. Even if the below guidelines are met, all cases are subject to underwriting approval.

- Key executives who are corporate-officer level or above, e.g., CEO, CFO and VP, with annual compensation of at least $100,000 (salary + bonus)
- Ages 30-55 preferable
- Healthy, nontobacco users
- Cardiovascular risk factors such as cholesterol, blood pressure, pulse readings and height/weight in the ideal range
- Healthy lifestyles such as those who have preventative health maintenance exams and routine exercise programs
- No personal history of cancer, heart disease, diabetes, alcohol or drug abuse
- No foreign travel to high-risk areas
- Favorable driving record
- Favorable family history with no early disease or death of family members due to cardiovascular disease or colon, prostate, breast or ovarian cancer

Tip: Underwriting one or more additional employees than you believe may be necessary is a good idea. This will help account for unforeseen underwriting issues or more deferrals than initially anticipated.
<table>
<thead>
<tr>
<th>Amount</th>
<th>20-30</th>
<th>31-35</th>
<th>36-40</th>
<th>41-49</th>
<th>50-54</th>
<th>55-60</th>
<th>61-69</th>
<th>70-75</th>
</tr>
</thead>
</table>

**Legend**

- APS = attending physician’s statement
- Blood = blood draw
- ECG = electrocardiogram
- MVR = motor vehicle report
- Non-medical = no routine requirements needed
- Px Measure. = physical requirements (height, weight, blood pressure and pulse)
- Urine = urine specimen

**Length of studies**

- Physical measurements, blood profiles and urine specimen are valid for 12 months from completion for proposed insured’s ages 20-69, and for 6 months for ages 70 and above.
- Electrocardiograms and motor vehicle reports are valid for 12 months.
- Applications and TeleApps are valid for 90 days, subject to underwriting review.
- Underwriting may request updated requirements for cause.
Let’s connect
Contact your Regional Vice President – Nonqualified Plans.
Visit advisors.principal.com.