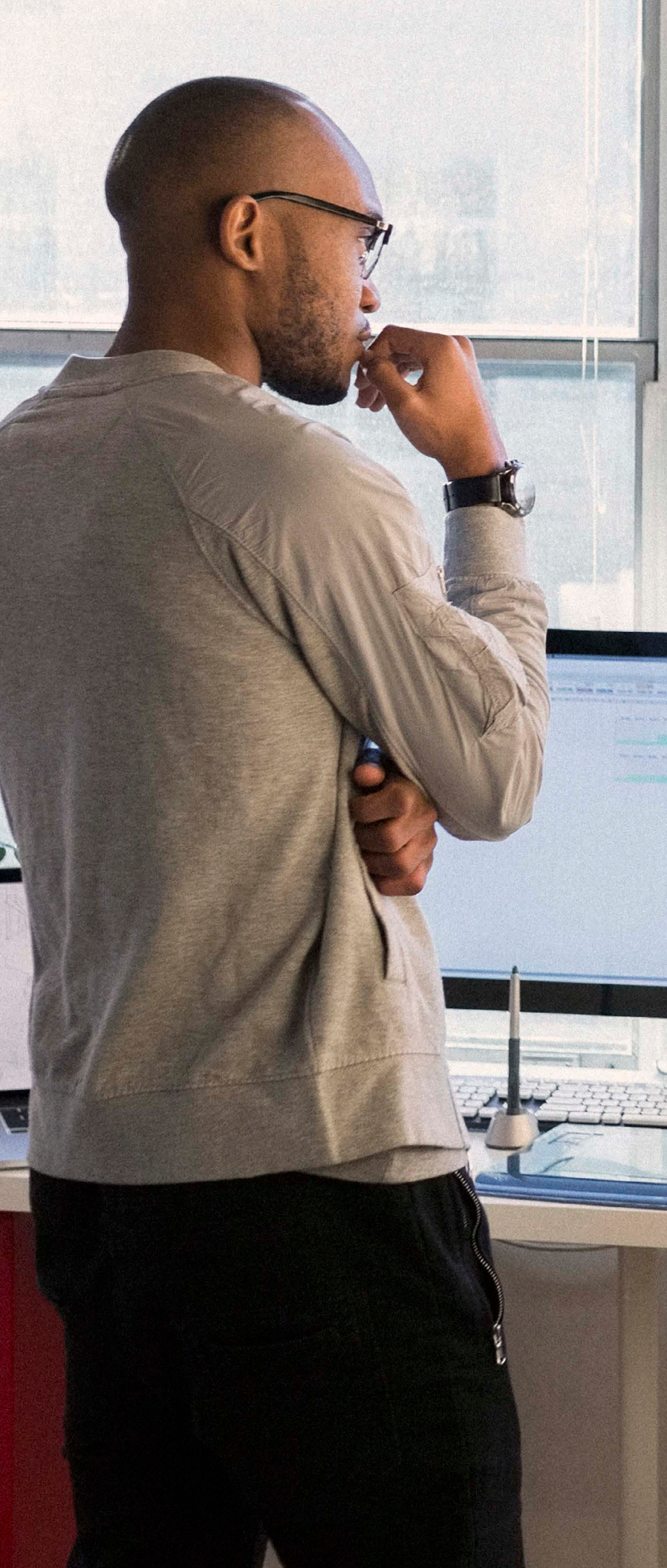


Group disability insurance

# Get the coverage you need and deserve.

Group disability insurance tailored  
to the 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 business 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 Life Insurance Company 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...
<b>No offsets for business profits during a total disability</b>	Aren't reduced due to business profits you may receive when you're unable to work.
<b>The owner's definition of compensation covers the profits of your business and your salary.</b>	Are calculated using both your salary AND your share of the business profits.
<b>The income loss percentage starts when your ability to earn an income due to a disability is impacted.</b>	May be paid sooner. Just because your revenues aren't affected immediately, it shouldn't mean your benefits are delayed.
<b>The work incentive benefit allows you to work part-time and receive up to 100% of your pre-disability earnings.</b>	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:

Kerry owns a small architectural firm. They earn \$10,000 a month—\$6,000 in salary and \$4,000 from business profits—and have no other sources of income. The company's group disability insurance has a 60% disability benefit with a 90-day elimination period.

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

### Using profits to determine benefits

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

- › Kerry's \$4,000 of business profits are included in their covered compensation under the Principal contract.
- › As long as Kerry is totally disabled, **Principal does not** offset their share of monthly business profit (K1 distribution) since they're unable to work, so Kerry receives a **\$6,000 monthly benefit** (\$10,000 [salary plus profits] X 60% benefit) when they becomes disabled.

### The timing of collecting benefits

Kerry often collects revenue from clients two to three months after services are provided. In this scenario, Kerry's disability starts month one, but their 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**—Kerry's loss of earnings is recognized immediately based on their inability to perform the material duties of their occupation, no matter when revenues are impacted. Kerry receives **100% of their benefit immediately after satisfying the 90-day elimination period.**

### 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 their 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
<b>Billables</b>	\$4,000	\$2,000	\$1,000	\$500
<b>Expenses</b>	\$4,000	\$4,000	\$4,000	\$4,000
<b>Income</b>	\$0	(\$2,000)	(\$3,000)	(\$3,500)

	Revenues			
	Month 1	Month 2	Month 3	Month 4
<b>Gross receipts</b>	\$10,000	\$10,000	\$10,000	\$4,000
<b>Expenses</b>	\$4,000	\$4,000	\$4,000	\$4,000
<b>Income</b>	\$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 their 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**

Kerry’s condition soon allows them to come into the office part-time to help keep the business running smoothly. They can do this and still earn 100% of 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.

$\frac{\$10,000 \text{ monthly pre-disability income}}{\times 60\% \text{ benefit}}$	or	$\frac{\$10,000 \text{ monthly pre-disability income} - \$5,000 \text{ part-time earnings while disabled}}{\$5,000 \text{ income loss during disability}}$
\$6,000 primary monthly benefit		

**Principal**—With our work incentive benefit, Kerry receives a \$5,000 monthly benefit. That and their \$5,000 part-time income, means **they’re able to retain 100% of their \$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 Kerry works part-time while disabled, they can continue to receive 100% of their wages to help pay the bills.

In this example, Kerry’s salary is \$50,000 and their business profits are \$100,000 the first year and \$50,000 in year three, resulting in a 33% loss in business profits during disability. Kerry’s salary doesn’t decline, and they’re able to work part-time.

› **Principal**—Since Kerry’s unable to earn more than the Principal standard percentage of 80%, **they qualify 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, Kerry’s loss is seen as 0% so they would get **no benefits.**

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

\* Based on current income tax laws, if insurance premiums are paid with after-tax dollars, then benefits are received income tax-free.



## 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.



Contact your financial professional or go to **principal.com**.



**principal.com**

Disability insurance issued by **Principal Life Insurance Company**<sup>®</sup>, a member of the Principal Financial Group<sup>®</sup>, Des Moines, IA 50392.

This flyer is not approved for use in Arizona

This is a summary of the benefits disability insurance provides, but there are limitations and exclusions. For cost and coverage details, contact your Principal<sup>®</sup> representative. The subject matter in this communication is educational only and provided with the understanding that Principal<sup>®</sup> is not rendering legal, accounting, investment or tax advice. You should consult with appropriate counsel, financial professionals, and other advisors on all matters pertaining to legal, tax, investment or accounting obligations and requirements.

OR Policy forms GC 3000-2 (1114) and GC 4000-2 (0415).

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