Principal®

Corporate-owned life insurance

Full underwriting or Guaranteed Issue: **Which is right for your organization?**

You probably know that corporate-owned life insurance (COLI) can be used to informally finance your organization's nonqualified deferred compensation (NQDC) plan. And you may know there are different ways to design COLI financing. But, have you considered the pros and cons of these approaches?

That's why we're here. We'll walk you through the features and benefits of two different approaches—full underwriting and Guaranteed Issue—so you can choose the best one for your organization.

What's **full underwriting?**

Underwriting involves the full assessment of an individual's current and projected health. A risk classification is determined for an individual based on medical and non-medical information we gather, such as:

- Personal medical and non-medical history.
- Blood and urine samples.
- EKG.
- Physician statement(s).
- Motor vehicle report.

What's the **Guaranteed Issue** program?

This program doesn't require any personal information beyond work status and tobacco use to assess an individual's health. Here are some things to consider:

- Since we have limited information about the individual's health, the cost for the insurance is typically higher and maximum allowed coverage amounts are lower.
- Guaranteed Issue isn't available in all situations.
- Typically, there must be at least 10 employees in the program.

Key differences between full underwriting and Guaranteed Issue

	Full underwriting	Guaranteed Issue
Information required	Full health assessment	Work status and tobacco use
Cost	Generally allows for lowest cost-of-insurance rates per policy	Tends to have higher charges, on average, than policies selected from favorable full underwriting
Timing	30-60 days for data gathering and review	3-5 days for process completion
Re-enrollment (add-ons)	Full underwriting data on new executive will be required	Will be issued under existing Guaranteed Issue program (some paperwork required)
Works best when ...	• There are a smaller number of eligible participants • Company has fewer executives and large contributions requiring high coverage amounts • Convenience of insuring fewest number of executives is an objective • Minimizing cost is important	• There are a greater number of eligible participants with average age of less than 55 • Additional death benefit is provided to participants • Participants are geographically dispersed • Minimizing underwriting burden for participants is important

Aggregate financing

This financing approach allows policies to be issued for a select group of executives, rather than all eligible plan participants. Why go this route?

- **Easier record keeping** thanks to fewer policies.
- **Easier to rebalance assets to liabilities** with fewer policies.
- **Premium applied as needed to policies,** not based on individual deferrals.

Note: 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 work in Guaranteed Issue cases with a smaller group of individuals selected based on salary range or level within the company.

Let's connect

Contact your financial representative for more help financing your NQDC plan.

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