

# Multi-Life Supplemental Disability Insurance Plan



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## Supplemental Disability Insurance Plan

The Supplemental Disability Insurance Plan was developed to assist higher income earners who find themselves under insured due to limitations of the traditional disability insurance carriers. Petersen International Underwriters, a 30 year Coverholder at Lloyd's is a leading provider in the disability insurance field. Security is offered by Lloyd's of London who maintains the reputation for never defaulting on any valid claim during their 327 year history, stands testament to the financial strength behind this program.

Supplemental disability insurance is designed to adequately cover the loss of income resulting from a disability for the more highly compensated employees. Due to limits placed on the underlying group disability plan, employees with incomes of \$200,000 and greater may well be under insured. Financial hardships can happen to wage earners of any level. Studies and surveys show us that people will need between 65% - 75% of income replaced in order to maintain their current lifestyle, regardless of their level of income.

The chart below illustrates how the percentage of covered income decreases as one's income increases, due to the maximum benefit limits of the LTD carriers.

Annual Income	Average Maximum Benefit Available	Actual Percentage of Income
\$50,000	\$30,000	60%
\$100,000	\$60,000	60%
\$250,000	\$120,000	48%
\$500,000	\$120,000	24%

## The Problem

There is a significantly greater exposure for the higher earning employees who rely on the LTD benefits provided by the employer.

Take the case of ...

An executive with an annual base salary of \$250,000 and an incentive bonus of \$100,000 for a total of \$350,000. The group LTD plan provided by his employer will replace 60% of his base salary. Upon his diagnosis of a severe illness he is anticipating an income replacement of \$17,500 per month.

But upon a discussion with the H.R. person this executive was advised that his expectations were too high. Firstly it was explained that the group LTD plan had a cap of \$15,000 per month. Then he was advised that the group LTD plan only covered base salary. And lastly he was advised that this benefit is taxable as ordinary income.

In this case, the executive's \$29,167 per month income will be replaced with less than \$10,000 per month. A far cry from his expected 60% replacement. His financial future is now in shambles.

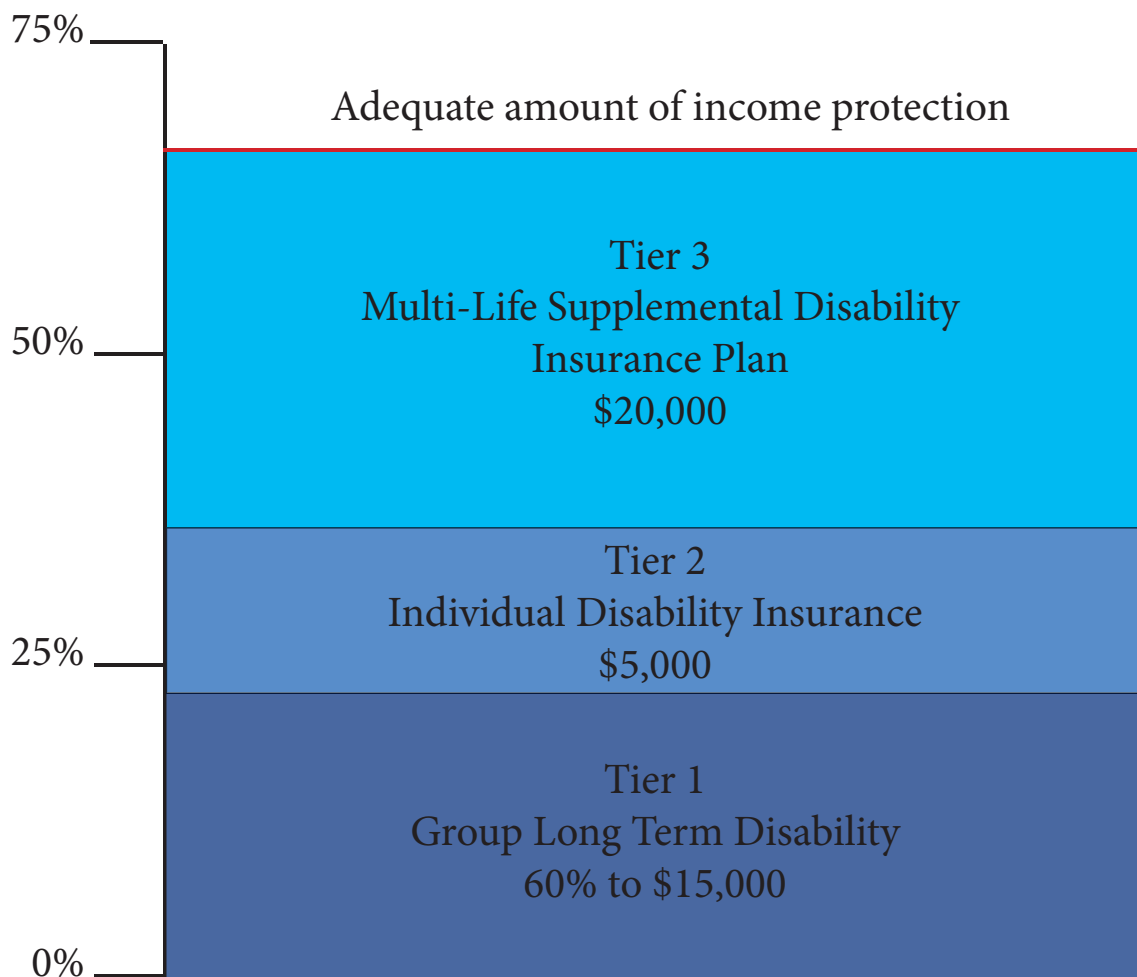
## The Solution

As you can see, there is a significant exposure for the higher earning executives who are relying on the group LTD plan. The Multi-Life Supplemental Disability Insurance Plan fills in the deficiencies of the group coverage to help mitigate the personal financial risk.

The Multi-Life Supplemental Disability Insurance Plan is designed to meet the needs of the more highly compensated executives and is available on a guaranteed issue basis. As an employer sponsored plan premium discounts of up to 30% are available.

Adequate income protection may take the shape of stacked or layering of policies to provide proper levels of income replacement. The following diagram illustrates a common structure in the development of a disability estate portfolio.

*Percentage of  
Monthly Income*



## Plan Options

### *Multi-Life Supplemental Disability Insurance Plan Features*

- **Multi-Life Policy:** Each employee receives their own policy outlining the benefits they selected.
- **Premium Discount:** A premium discount of up to 30% will be extended to all eligible employees.
- **Premium Guarantee:** Premiums are guaranteed during the term of each employee's policy.

### Multi-Life Supplemental Disability Insurance Plan Options

	Option A up to 84 Months	Option B up to 60 Months Plus Lump Sum
Underwriting	Guarantee Issue, With Minimum Participation	Guarantee Issue, With Minimum Participation
Eligibility	<ul style="list-style-type: none"> <li>• Age 64 And Under</li> <li>• Actively At Work</li> <li>• Less Than 65% Of Income Insured</li> </ul>	<ul style="list-style-type: none"> <li>• Age 64 And Under</li> <li>• Actively At Work</li> <li>• Less Than 65% Of Income Insured</li> </ul>
Elimination Period	90 Days	90 Days
Maximum Benefit Period	84 months or to age 65, whichever is less but never less than 24 months	60 months or to age 65, whichever is less but never less than 24 months
Maximum Monthly Issue Limit	Up To \$100,000 or more of Additional Protection	Up To \$100,000 or more of Additional Protection
Definition of Disability	Own Occupation	Own Occupation
Lump Sum if Permanently disabled at end of benefit period	Not-Applicable	Up To \$5,000,000*
Policy Term	3 Years	3 Years
Pre-existing Conditions	12/12 Pre-Existing Condition Clause	12/12 Pre-Existing Condition Clause
Optional Riders	<ul style="list-style-type: none"> <li>• Residual Disability</li> <li>• Cost of Living Adjustment</li> </ul>	<ul style="list-style-type: none"> <li>• Residual Disability</li> <li>• Cost of Living Adjustment</li> </ul>

\* **Maximum Lump Sum Benefit:** \$5,000,000 or the equivalent of the aggregate amount of the maximum benefit payable to your 65<sup>th</sup> birthday, whichever is less.

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## Sample Benefit and Premium Summary

The following is sample information and is not to be construed as rate quotes. The sample shown illustrates annual premiums for Executive Employees (Figure 4) at various ages.

**Benefit Options** - Each individual who is quoted will have the option to choose from Option A or B. They will also be given the opportunity to purchase the Full Benefit Amount, One Half the Benefit Amount, or One Third the Benefit Amount.

**Contract Period** - Each executive employee's Policy Term is three years. During the policy term, the rates cannot be changed and the policy wording cannot be changed. Following the policy term underwriters must agree to renewal terms before coverage can continue.

**Contract Renewal** - Coverage ends after the initial three-year policy period. After that time, employees may re-apply for coverage, subject to the terms and conditions outlined by the underwriters. The new rate will be based upon the employee's age at the time of application.

**Own Occupation** - Pays if you are unable to engage in your regular occupation.

**Pre-Existing Conditions Limitation** - 12 months Pre-existing conditions limitation will not reset each policy term. Each insured will have a "retro date" in their policy to reference the effective date of their pre-existing condition limitation period. This "retro date" will remain unchanged with each subsequent policy term. All coverage increases will be subject to a new pre-existing condition period applicable only to the increased amount of coverage.

**Premium** - Premiums are quoted per person based on both Option A (Monthly Benefits Only) and Option B (Monthly and Lump Sum Benefits).

Because of the guarantee issue feature with limited income verification, the high limit disability plan will verify income and pre-existing conditions at time of claim and confirm total disability benefits do not exceed 65% of pre-disability income. We recommend that executive employees review their underlying disability policy to confirm that their standard policy will not offset benefits purchased under an excess disability policy.

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## How the Program Works

**Step 1:** The employer will need to determine who the eligible employees will be. This is determined by looking at the underlying group and/or individual disability insurance in place and determining which employees do not have at least 65% of their incomes insured. These would be identified in a spreadsheet census and provided to Petersen International Underwriters for the development of an illustration and guaranteed issue terms.

**Step 2:** Identify the effective date for coverage along with the enrollment period.

**Step 3:** Working with the Broker of Record, Petersen International Underwriters will prepare individual enrollment forms for each of the eligible employees. These individual forms will identify the current coverage in place and then offer the supplement plan available to them. With simply checking a box the employee can enroll or decline to take the coverage.

**Step 4:** Once the enrollment period is concluded the participation of the eligible employees will be determined to make sure the fulfillment of the minimum requirements are met. Individual policies will then be issued and delivered to the participating employees.

### *Other Features:*

#### **Additions -**

New hires as well as newly eligible employees may enroll at any time during the year on a guaranteed issue basis provided they do so within 60 days of hire or eligibility. Employees who declined to participate in the coverage will need to wait until the next general enrollment.

#### **Deletions -**

Deletions (terminations) will be made immediately upon written notification or after 30 days (grace period) of non-receipt of premium. Premiums will be earned to the first of the month following written notification.

#### **Portability -**

Upon notification of termination, underwriters will make an offer to the insured if they wish to maintain their coverage on a non-employer sponsored basis. Premium discounts will be honored throughout the remainder of the policy term.

#### **Premium Payments -**

Premiums are due to PIU by the 1st of each month and payable by the 15th of the month. With a 30 day grace period the policy will not lapse until the 15th of the following month.