

Section 1

Disability Income (HH750)

This section provides detailed information on the features, riders and underwriting of our Disability Income (DI) policy. Our illustration system will calculate rates for you.

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HH750

Disability Income

Overview

The objective of individual disability income (DI) insurance is to replace a portion of earned income lost due to a disability. Our policies are designed to provide monthly benefits to help pay for personal living expenses incurred during disability, such as mortgage or rent payments, car payments, utilities, food, etc. Not all benefits, features and riders are available in all states or to all occupation classes.

Occupation classes/policy forms

Each client is classified according to their occupation. There are eight occupation classes for DI: 5A, 5A-M, 4A, 4A-M, 3A, 3A-M, 2A, and A. **Note:** The rates for the 4A and the 4A-M occupation class are the same. The rates for the 3A and the 3A-M occupation class are the same. The “M” subcategory (5A-M, 4A-M, 3A-M) is being used to cap the Maximum Issue and Participation Limit. Premiums, benefits, policy forms and the availability of riders vary by occupation class. The premium class may be standard or an extra percentage of standard.

Policy Form – Disability Income HH750

Premium rates

Premiums are dependent on many factors: age, occupation class, state of residence, smoking status, benefit period, elimination period, riders, and others. Because of these many factors, providing and maintaining a detailed rate book is no longer practical. Premium quotes are available through the DI illustration system.

Sex-Distinct and Unisex Rates – Sex distinct rates charge males and females different rates. Unisex rates are blended rates with males and females paying the same rate. For our disability income product, sex distinct rates are used on all personal,

individually sold cases including our Association Sales Program. Unisex rates are used for multi-life cases when three or more individuals with an employer relationship purchase policies. For our overhead expense and disability buy-out products, sex distinct rates are used.

Illustration system and rates

Disability Income	Sex Distinct*	Unisex

* Note: The State of Montana requires unisex rates.

Mode Factors – Calculating different mode payments is no longer a matter of simply multiplying by a mode factor. The pricing of the product is more complex now and alternative mode factors must be run through the illustration system. The illustration system will display all mode payments available to the client.

State of Residence vs. State Written – The client’s state of residence determines the premium rates. If the state of residence is different from the state the application is written in, both need to be indicated in the illustration system. The state of residence determines the premium rates and underwriting guidelines applied. The state written determines the application, policy form and available riders.

Illustrations – The new business and existing policy illustration systems provide premium quotes based on the information entered and programmed into the system. **Illustrations do not necessarily reflect all underwriting guidelines and the illustration system should not be considered expert DI underwriting system.** The Product Description and Underwriting Guide should always be referenced as it is the basis for underwriting guidelines, not illustrations. Illustrations should not be interpreted as the basis for the final underwriting decision. If you have questions regarding underwriting guidelines, e-mail or call your DI underwriter.

General Minimums

- \$200 of annual pre-discounted premium is the minimum premium required to qualify for disability income insurance.
- \$15,000 per year minimum income requirement (\$24,000 for CA residents).

Issue ages

The client’s issue age has a direct impact on the premium paid for coverage – the older the client, the higher the premium. We use age as of last birthday. Backdating to save age is allowed for a maximum of 30 days prior to the application date. The issue ages for a disability income policy (Form HH750) is 18-60 for Single-Life cases, and 18-64 for Multi-Life cases. (May be available from 65-70 if underwriting approval and the Conditionally Renewable Policy Rider is approved in your state.) For guidelines on multi-life issue ages 61-70, see section Proposed Insured Over Age 60.

Proposed insured over age 60

We will consider disability income insurance coverage for a proposed insured over age 60 subject to advance approval. Some of the criteria that will be used to determine eligibility for coverage include:

- Applying for Disability Income only
- The proposed insured must be part of a multi-life case (minimum of three insurable lives)
- The proposed insured must be substantially standard medically (standard premium to low rating, one or less medical exclusion riders)

Consult with your DI underwriter prior to running an illustration or submitting an application on a person over age 60.

Available benefit periods:

ISSUE AGE	BENEFIT PERIOD(S)
61-64	2 years, 5 years, To Age 65, To Age 67 and To Age 70
65-70	2 years

Benefit period charts:

A 2 year Benefit Period pays for 24 months regardless of the client's age at disability. If you select a Benefit Period of 5 years, To Age 65, To Age 67 or To Age 70 the length of time the maximum monthly benefit amount will be paid could be different based on the client's **age at the time of disability**.

The benefit charts below show how long the benefit will be paid:

To Age 65 benefit period

DISABILITY BEGINS:	MAXIMUM BENEFIT PERIOD IS:
Prior to Age 65 Policy Anniversary	To Age 65 Policy Anniversary with a minimum of 2 years
On or After Age 65 Policy Anniversary and prior to the fifth Policy Anniversary	2 years
On or After the fifth Policy Anniversary	No benefits are payable, unless policy is conditionally renewed

To Age 67 benefit period

DISABILITY BEGINS:	MAXIMUM BENEFIT PERIOD IS:
Prior to Age 67 Policy Anniversary but prior to the fifth Policy Anniversary	To Age 67 Policy Anniversary with a minimum of 2 years
On or After Age 67 Policy Anniversary and prior to the fifth Policy Anniversary	2 years
On or After the fifth Policy Anniversary	No benefits are payable, unless policy is conditionally renewed

To Age 70 benefit period

DISABILITY BEGINS:	MAXIMUM BENEFIT PERIOD IS:
Prior to Age 70 Policy Anniversary and prior to the fifth Policy Anniversary	To Age 70 Policy Anniversary with a minimum of 2 years
On or After the fifth Policy Anniversary	No benefits are payable, unless policy is conditionally renewed

5 year benefit period and issued at age 61

DISABILITY BEGINS:	MAXIMUM BENEFIT PERIOD IS:
Prior to Age 62 Policy Anniversary	5 years
On or After Age 62 Policy Anniversary but prior to Age 63 Policy Anniversary	48 months
On or After Age 63 Policy Anniversary but prior to Age 64 Policy Anniversary	42 months
On or After Age 64 Policy Anniversary but prior to Age 65 Policy Anniversary	36 months
On or After Age 65 Policy Anniversary but prior to Age 66 Policy Anniversary	30 months
On or After Age 66 Policy Anniversary	No benefits are payable, unless policy is conditionally renewed

5 year benefit period and issued at age 62

DISABILITY BEGINS:	MAXIMUM BENEFIT PERIOD IS:
Prior to Age 63 Policy Anniversary	5 years
On or After Age 63 Policy Anniversary but prior to Age 64 Policy Anniversary	48 months
On or After Age 64 Policy Anniversary but prior to Age 65 Policy Anniversary	42 months
On or After Age 65 Policy Anniversary but prior to Age 66 Policy Anniversary	36 months
On or After Age 66 Policy Anniversary but prior to Age 67 Policy Anniversary	30 months
On or After Age 67 Policy Anniversary	No benefits are payable, unless policy is conditionally renewed

5 year benefit period and issued at age 63

DISABILITY BEGINS:	MAXIMUM BENEFIT PERIOD IS:
Prior to Age 64 Policy Anniversary	5 years
On or After Age 64 Policy Anniversary but prior to Age 65 Policy Anniversary	48 months
On or After Age 65 Policy Anniversary but prior to Age 66 Policy Anniversary	42 months
On or After Age 66 Policy Anniversary but prior to Age 67 Policy Anniversary	36 months
On or After Age 67 Policy Anniversary but prior to Age 68 Policy Anniversary	30 months
On or After Age 68 Policy Anniversary	No benefits are payable, unless policy is conditionally renewed

5 year benefit period and issued at age 64

DISABILITY BEGINS:	MAXIMUM BENEFIT PERIOD IS:
Prior to Age 65 Policy Anniversary	5 years
On or After Age 65 Policy Anniversary but prior to Age 66 Policy Anniversary	48 months
On or After Age 66 Policy Anniversary but prior to Age 67 Policy Anniversary	42 months
On or After Age 67 Policy Anniversary but prior to Age 68 Policy Anniversary	36 months
On or After Age 68 Policy Anniversary but prior to Age 69 Policy Anniversary	30 months
On or After Age 69 Policy Anniversary	No benefits are payable, unless policy is conditionally renewed

Elimination periods

The elimination period (EP) is the number of days the insured must wait before benefits begin to accrue. No benefits are paid for this period. Once disabled, the insured will receive benefits one month after the elimination period is satisfied. The shorter the elimination period, the higher the premium. The following are our available elimination periods:

30, 60, 90, 180, and 365 days (365 is not available with 2 year benefit periods)

NOTE: 30 day elimination period is not available to California residents or on any policy written in California. 365 day elimination period on SIS is available with a 2 year benefit period in California.

Benefit periods

The benefit period (BP) is the length of time the insured will receive benefits after satisfying the elimination period. The following benefit periods are available to any occupation class:

- 2 years
- To Age 67
- 5 years
- To Age 70
- To Age 65

Note: For policies issued between ages 65-70, the maximum benefit period available is 2 years.

Your occupation periods

The Your Occupation Period is the period of time the insured is protected in their “Your Occupation” (the profession(s) or occupation(s) the insured was actively working in at the start of their disability).

The following Your Occupation Periods are available for:

- All occupation classes
 - 2 years (built into base policy)
 - 5 years
- 5A, 5A-M, 4A, 4A-M, 3A and 3A-M
 - To Age 65
 - To Age 67
 - To Age 70

The Your Occupation Period availability is as follows:

If base BP is...	Then available Your Occupation Benefit Periods are...
2 Year	2 Year
5 Year	2 Year or 5 Year
To Age 65	2 Year, 5 Year or To Age 65
To Age 67	2 Year, 5 Year or To Age 67
To Age 70	2 Year, 5 Year or To Age 70

Policy Description

Note: This policy description is a *general* summary. All features, provisions and riders may not be available in all states and may be subject to state variations. Refer to your state policy and rider forms for the full definition of all policy provisions, benefits, limitations and exclusions.

Renewability – The policy is non-cancelable and guaranteed renewable to age 65*. This means we can’t change or cancel the policy (except for nonpayment of premiums) or increase the premiums before age 65, regardless of changes in the insured’s income, occupation or health. After age 65, the policies are conditionally renewable for life annually if the insured is working full-time, subject to rates then in effect based on the insured’s attained age.

* On a policy with a To Age 67 or To Age 70 Maximum Benefit Period, the policy will terminate on the Age 65 Policy Anniversary, unless the insured is Disabled under the terms of the policy.

Definition of Total Disability – means solely due to Injury or Sickness:

1. During the Your Occupation Period:
 - a. You are unable to perform the substantial and material duties of Your Occupation; and
 - b. You are not Working.
2. After the Your Occupation Period you are unable to work in any occupation you are reasonably suited to by your education, training and experience.
3. Both during and after the Your Occupation Period, you must satisfy the requirements of the Claim Information Section of the policy.

If you are Retired, Total Disability means, solely due to Injury or Sickness, you are unable to perform any of the normal activities of a retired person in good health and of like age and you satisfy the requirements of the Claim Information section.

If you are Unemployed, Total Disability means, solely due to Injury or Sickness, you are prevented from obtaining a job that you are reasonably suited to by your education, training and experience and you satisfy the requirements of the Claim Information section.

State variation of provision – FL, LA, NJ, TN, VA, VT

Definition of Your Occupation – means the profession(s) or occupation(s), not a specific job(s) or a job with a certain employer(s), you were actively working in (and not Retired or Unemployed from) at the start of your disability.

State variation of provision – MD, NJ

Earnings – If you are an employee with no ownership interest in a business entity, Earnings include the amounts as reported for Federal Income Tax purposes of:

1. Your salary, wages, fees, draw, commissions, bonuses; PLUS
2. Any other income or compensation You earn; PLUS
3. Amounts You earned which would have resulted in current taxable employee compensation but instead were contributed by You to a benefit plan (e.g., Flexible Spending Accounts, etc.), or qualified tax-deferred retirement plan (e.g., 401(k), 403(b), 457, etc.); LESS
4. Unreimbursed employee business expenses.

If you are a business owner, such as: an owner of a sole proprietorship, a partner in a partnership, a shareholder of a corporation or subchapter S-corporation, or a member of a limited liability company or limited liability partnership; and You perform the duties or activities of Your Occupation or another occupation within the scope of a legal business entity, Earnings include the amounts as reported for Federal Income Tax purposes of:

1. Your share (based on ownership or contractual agreement) of the gross revenue or income earned by all such business entities including income earned by You and others under Your supervision or direction; LESS

2. Your share (based on ownership or contractual agreement) of the usual and customary unreimbursed business expenses of those entities which are incurred on a regular basis, are essential to the established business operation of the entity, are deductible for Federal Income Tax purposes, and do not exceed expenses before Disability began. Such expenses do not include salaries, benefits, and other forms of compensation which are payable to You, or to any person related by blood or marriage to You unless such person was a full-time employee of such business working at least 30 hours per week for at least 60 days prior to the start of Your period of Disability; PLUS
3. Any contributions to a pension or profit sharing plan made on Your behalf by all such business entities and not waived by contract during Disability.

Earnings do not include any form of unearned income such as dividends, rents, interest, capital gains, income received from any form of deferred compensation, retirement, pension plan, income from royalties, or disability benefits.

Disability Benefit – We will pay benefits for your Continuous Disability that begins on or after the policy date and while the policy is in-force. Benefits start to accrue at the end of the Elimination Period. Benefits will continue during your Continuous Disability, but not beyond the Maximum Benefit Period.

Social Insurance Substitute (SIS) Benefit – This benefit is provided only if amounts for it are shown on the current Data Page. To receive this benefit, you must meet all the requirements of this section and of the Additional Proof of Loss for Social Insurance Substitute Benefit section, and benefits must be payable under the Disability Benefit section. This section's Maximum Monthly Benefit is:

1. As shown on the Data Page when no Social Security, Workers Compensation or Railroad Retirement Benefits are paid.

2. One-third of this section's Maximum Monthly Benefit if the only Social Insurance paid for your disability is any one of either the Primary Insurance Amount under Social Security, Workers Compensation or Railroad Retirement.
3. No benefits are paid for any period:
 - a. During which two or more of the Social Insurances are paid.
 - b. After your Age 65 policy anniversary, unless Your Maximum Benefit Period is longer and you are receiving benefits under the Disability Benefit section.
 - c. After you are eligible to receive full retirement benefits from Social Security or Railroad Retirement.
 - d. For which you receive retirement benefits from Social Security or Railroad Retirement.

Benefits start to accrue at the later of this section's elimination period, or when the Social Insurance paid for your disability reduces to only one of either the Primary Insurance Amount from Social Security, Workers Compensation, or Railroad Retirement.

State variation of provision – NJ, VA

Adjustment Options – This provision gives the policyowner an adjustable policy. Changes may be made to the Elimination Period, benefit amount, Your Occupation Period, Benefit Period, occupation class and riders based on our then current underwriting guidelines. Policy and rider availability are also considered underwriting guidelines applied to the underwriting of adjustments. Some adjustments require evidence of insurability. Based on current underwriting guidelines, some adjustments may result in a second policy. See the "General Underwriting Guidelines – Adjustments" section for underwriting information.

Transplant Surgery Benefit – We will pay benefits under the Disability Benefit section and the Social Insurance Substitute Benefit section (subject to those sections' terms and conditions) if a disability results from surgery involving a transplant of a part of the insured's body to another person.

Interrupted Elimination Period – This provision allows the combination of separate periods of disability to satisfy the elimination period. These periods of disability must occur within a period of time that is up to twice as long as the elimination period but less than one year. The disabilities can be from the same or different causes.

Military Suspension – This provision suspends the policy if the insured enters the military service on a full-time basis. The policy may be restored if active duty ends within five years of the suspension. The owner must request this within 180 days of the end of service. No premium is due during the service and no policy benefits are provided during that time. The policy restored is the same as before the suspension. Only a Disability from a sickness which first manifests itself or an injury which occurs after the policy is restored is covered.

Recurring Disability Benefit – Means a continuation of a prior Disability when:

1. The disability results from the same or a related cause as a prior period of Disability for which we paid benefits or provided the Waiver of Premium Benefit; unless
2. After the prior disability ends you return to work at least 40 hours per week in any occupation for at least six consecutive months.

A Recurring Disability is a continuation of the prior Disability. No new Elimination Period is required. Benefits will be payable for the remainder of the Maximum Benefit Period, if any.

State variation of provision – UT, VA

Rehabilitation Benefit – This benefit provides additional benefits if the insured takes part in a rehabilitation program which is mutually agreed upon in writing while disabled. There is no specific dollar limit on the benefits which may be paid. The company has a staff of rehabilitation specialists to work with claimants to assist them in returning to appropriate work.

State variation of provision – CT, MD

Reinstatement – This provision allows the policy to be reinstated any time within one year after termination, and subject to our then current underwriting guidelines. A formal reinstatement application may be required. A reinstated policy covers disabilities from a sickness that first manifests itself more than ten days after reinstatement date, or an injury occurring after the reinstatement date. A reinstated policy is subject to any provisions or changes attached to the reinstated policy.

Death Benefit – This benefit pays a lump sum benefit of three times the Disability Benefit and SIS Benefit if the insured dies after satisfying the elimination period while benefits are being paid. It is payable in addition to any other policy benefit. This benefit is restricted in some states.

State variation of provision – FL, GA, MD, MN, SC

Not available – IL, NJ

Waiver of Premium Benefit – If Insured is Disabled, after the lesser of 90 days or the Elimination Period, we will:

1. Refund the monthly pro-rata portion of any premium paid for coverage after the date a Continuous Disability began; and
2. Waive the payment of premiums which come due during the Continuous Disability.

Premium payments will begin on the next premium due date after the insured is no longer receiving benefits under this policy or the disability ends.

Exclusions and Limitations – This policy does not pay benefits for Injury or Sickness which in whole or in part is caused by, contributed by, or which results from:

1. Intentional, self-inflicted injury; or
2. Your commission of or your attempt to commit a criminal act, or your involvement in an illegal occupation or activity; or
3. The suspension, revocation or surrender of your professional or occupational license or certification; or
4. Active military service during a military action or conflict.
5. Loss we have excluded by name or specific description in any attached rider or endorsement.

No benefits are payable for any period of Your Continuous Disability in which you are incarcerated in a penal or correctional institution for a period of 30 consecutive days or longer.

A sickness resulting from pregnancy will be covered if the Elimination Period is equal to or greater than 90 days.

Benefits will be limited to 12 months during Your Continuous Disability unless you reside in the United States or Canada for at least six consecutive months in each calendar year.

There may be other exclusions or limitations in the policy in addition to those stated above. Any additional exclusions or limitations (if any) will be described in riders or endorsements attached to the policy. Examples include, but are not limited to: Modified Coverage rider, Additional Exception riders, etc.

State variation of provision – CT, DC, IA, ID, IL, KS, MA, MD, MO, MT, NC, ND, NE, NJ, NM, OK, PA, SC, TX, UT, VA, VT, WA, WI

Pre-existing Condition Limitation – We will not pay any claim for a Disability or loss which:

1. Begins within two years after the effective date of coverage(s); and
2. Results from a pre-existing condition which was not disclosed or was misrepresented in the policy's application.

Pre-existing condition means a condition:

1. For which medical treatment, testing or medication was recommended by a Doctor or received from a Doctor within the two year period prior to the effective date of coverage(s); or
2. Which has caused symptoms within the two year period prior to the effective date of coverage(s) which would cause an ordinarily prudent person to seek diagnosis, care or treatment.

State variation of provision – DC, ID, IL, MT, NJ, NM, NY, NC, ND, PA, SC, SD, VA

HH750 Benefit Riders

Not all riders are available in all states and may be subject to state variations.

Automatic Increase Option (AIO) Rider – For no additional premium, this rider is issued automatically for all standard premium policies for all occupation classes. Issue ages are 18-55. It provides an automatic increase in the Disability Benefit amount without evidence of insurability on the six AIO policy anniversaries following the effective date providing the Insured is not disabled. The increase is based on the CPI-U with a minimum of 4 percent and a maximum of 10 percent. Premiums for AIO increases are based on the insured's attained age and the rates in effect at the time of the increase. The rider is renewable every six years with evidence of financial insurability. It is terminated after two increase offers are declined within a renewal period.

See the AIO Maximum Issue and Participation Limits Table. The AIO rider is not available on policies exceeding the benefit amounts indicated in the table.

The AIO rider is currently only available in New York.

It is available in conjunction with Benefit Update on the same policy. It is not available with the Future Benefit Increase (FBI) rider and once FBI is approved in the written state, AIO is no longer available.

State variation of provision – NY

Benefit Update (BU) Rider – The BU rider is a truly unique feature to Principal Life. For no additional premium this rider is available to all standard premium policies for all occupation classes, if at least 75 percent of eligible coverage is purchased at issue. Issue ages are 18-55. This feature allows the policyowner, based on financial information, but without medical evidence of insurability, to increase policy benefits every three years, subject to underwriting guidelines in effect at the time of the increase.

At three year intervals beginning with the policy date, we will request underwriting information from the insured to

determine if the policyowner is eligible for an increase in coverage. Depending on the underwriting information submitted, we may offer to increase the coverage up to the maximum issue and participation limits for which they qualify – **there is no cap!** The no cap feature is a competitive advantage over most companies' future insurability options which usually have benefit caps. Premiums for BU increases are based on the insured's attained age and the rates in effect at the time of the increase. At each BU option, the client must accept a minimum of 50 percent of the additional DI benefit offered or the rider will be removed from the policy.

Advance Option: The insured can even request an advanced update, in place of the next scheduled review, in the event the insured:

- Loses group long-term disability insurance because of a change in employment, or the insured's employer discontinues or reduces group long-term disability insurance and does not plan to offer such insurance in the next 36 months.
- Has at least a 50 percent increase in earnings since their last adjustment to increase their total disability benefits. The increase in income must be permanent and sustainable. A sudden, unsustainable increase in income that is the result of a one-time bonus, commission, or extraordinary financial event will not be considered as the basis to exercise an advance option.*

Within 90 days of one of the above occurring, the insured must elect to take the next scheduled BU option early. If the insured elects to take the option early, the next scheduled BU review will not take place. The advance option can occur one time during the three years prior to each scheduled review. The advance option is not available on or after age 52. **Note:** A CDB offer will not be made as part of a BU Advance Option.

* Not available in New York.

The Benefit Update rider is available in conjunction with the Future Benefit Increase rider or Automatic Increase Option rider in NY.

This rider also has an Option Anniversary available. See FBI Rider description for availability.

State variation of provision – MD

Capital Sum Benefit Rider – Provides a one-time lump-sum benefit if an Injury or Sickness results in a total loss of use for any and every purpose or activity without any possibility of recovery of:

1. The use of a hand or foot; or
2. The sight of an eye.

This benefit is equal to 12 times the ultimate Maximum Monthly Disability Benefit and the Social Insurance Substitute Benefit. There is a limit of one Capital Sum Benefit payment in your lifetime. It is paid in addition to any other benefits payable under the policy. In order for this benefit to be paid, you must survive the loss for 30 days and the policy must be in force. If the policy is not in force, the loss must occur within 90 days after the Injury or Sickness which caused it, and the Injury or Sickness must occur while the policy is in force.

State variation of provision – NJ, TN, VA

Catastrophic Disability Benefit (CDB)* Rider – This rider may be added to the policy for an additional premium and is available to all occupation classes.

The CDB rider provides benefits if the Insured is catastrophically disabled. By definition, this means the Insured cannot perform two or more of the following Activities of Daily Living (ADL); or is Cognitively Impaired; or is Presumptively Disabled.

The Activities of Daily Living (ADL) are:

- **Bathing** – which means the ability to wash in the tub, shower or by sponge bath, with or without adaptive devices.
- **Continence** – which means the ability to voluntarily control bowel and bladder function, or in the event of incontinence, the ability to maintain a reasonable level of personal hygiene (including caring for catheter or colostomy bag).

- **Dressing** – which means the ability to put on and take off clothing and any medically necessary braces or artificial limbs.
- **Eating/Feeding** – which means the ability to feed oneself by mouth, feeding tube or intravenously.
- **Toileting** – which means the ability to get to and from and on and off the toilet and to maintain a reasonable level of personal hygiene.
- **Transferring** – which means the ability to move in and out of a chair, bed or wheelchair with or without assistive devices such as canes, walkers, crutches, grab bars or mechanical or motorized devices.

* Catastrophic Impairment Benefit (CIB) Rider is written in the state of New Hampshire.

The Benefit Period for the CDB rider must be equal to or less than the Base Benefit Period. The available Benefit Periods are:

If base BP is...	Then available CDB Benefit Periods are...
2 Year	2 Year
5 Year	2 Year or 5 Year
To Age 65	2 Year, 5 Year or To Age 65
To Age 67	2 Year, 5 Year or To Age 67
To Age 70	2 Year, 5 Year or To Age 70

The Elimination Period for the CDB rider must be equal to or greater than the Base Elimination Period. The available Elimination Periods are 90 days, 180 days or 365 days.

The CDB monthly amount:

- Has a maximum of \$8,000/month and a minimum benefit of \$500/month.
- Cannot exceed five times (5x) the sum of the Base Benefit Amount plus Social Insurance Substitute (SIS) of all Principal Life coverage.

Note: CDB on **New Jersey** policies cannot exceed the sum of the Base Benefit Amount plus SIS.

- Added to the Base Benefit Amount plus SIS plus other coverage in-force, cannot exceed 100 percent of Earned Income.

Note: When working with taxable benefits, divide the Earned Income by 0.75 to account for taxation.

In-force policies containing the CDB rider:

- Require a minimum increase to the CDB monthly benefit amount of \$1,000 on adjustments.
- May be eligible for a maximum increase of \$2,000 to the CDB monthly benefit amount on any one Benefit Update option exercise.

CDB and Benefit Update (BU):

- If the policy contains the CDB rider and the insured is eligible for at least a \$1,000/month CDB increase, we will offer the CDB increase as part of the BU option (up to a maximum of \$2,000/month CDB increase on any one BU option exercise).
- The insured is **not** obligated to accept a minimum of 50 percent of the additional CDB benefit to maintain the BU rider on this policy.

State variation of provision – MD, NJ, NH, TX, VT

Not available – CT

Conditionally Renewable Policy Rider – Issued for ages 65-70, this rider changes the policy from Non-Cancelable and Guaranteed Renewable to Conditionally Renewable. During the conditionally renewable period, Principal Life cannot change or cancel the insured's policy except for nonpayment of premiums. The insured may conditionally renew the policy annually for the rest of their life, as long as they are working full time and meet the requirements.

To renew the policy for one year, all of the following conditions must be satisfied:

1. The insured is not receiving a benefit under this policy or any attached rider.
2. The insured must be actively working at least 30 hours each week for the 12 consecutive months preceding the renewal.
3. The insured is working at least 30 hours each week at the time of renewal.
4. The policy is in force with no premium in default.
5. We receive the Owner's renewal request in writing by the Policy Anniversary for any one-year renewal.
6. The renewal policy premium is paid. The renewal policy premium will be based on those rates in effect for the insured's age at the time of renewal.

This rider is only available with a 2 year Benefit and Your Occupation Periods. The available Elimination Periods are 30, 60, 90 and 180 days. The SIS benefit and all other riders will not be available, with the exception of the Limitations of Benefits for Mental/Nervous and Substance Abuse Disorders rider. (**Note:** All standard Underwriting Guidelines will follow for this rider.)

State variation of provision – MD, ME, MN, TX

Not available – NH, NY

Cost of Living Adjustment (COLA) Rider – The COLA rider may be added to the policy for an additional premium and is available to 5A, 5A-M, 4A, 4A-M, 3A, 3A-M and 2A occupation classes. This rider provides a cost of living adjustment in the Monthly Benefit (plus the Catastrophic Disability Benefit, if attached to the policy) during a Disability. Each year following the start of a Disability, an adjustment will be made to the Monthly Benefit (plus the Catastrophic Disability Benefit, if attached to the policy). The benefit is increased on a compound basis based on the change in the Consumer Price Index for all Urban Consumers (CPI - U) over the past year of disability. A 3 or 6 percent COLA maximum may be selected.

The Insured may, upon returning to work full time, keep any increased Disability Benefit without evidence of good health by paying the required increased premium.

The COLA rider is not available when a 2 year Benefit Period is selected.

State variation of provision – MD, NJ

Extended Total Disability Benefit (ETDB) Rider – This uniquely designed rider allows the base monthly benefit to continue to be paid beyond the Maximum Benefit Period, subject to policy provisions. The ETDB rider may be added to the policy for an additional premium and is available to 5A, 5A-M, 4A, 4A-M, 3A, 3A-M and 2A occupation classes. Issue ages are 18-50.

The insured chooses a Benefit Factor to achieve one of three different levels of coverage (i.e. Maximum Aggregate Benefit). The Maximum Aggregate Benefit amount is determined by multiplying the Maximum Monthly Benefit (base + SIS) times a Benefit Factor (Benefit Factor choices = 50, 75 or 100).

For example: \$4,000 base + \$1,000 SIS = \$5,000 maximum monthly benefit.

- \$5,000 times **50** (Benefit Factor) = **\$250,000** (Maximum Aggregate Benefit).
- \$5,000 times **75** (Benefit Factor) = **\$375,000** (Maximum Aggregate Benefit).
- \$5,000 times **100** (Benefit Factor) = **\$500,000** (Maximum Aggregate Benefit).

Note: The Benefit Factor is selected at issue, but can be changed by an underwritten adjustment subject to our underwriting guidelines. ABI, BU and underwritten adjustments resulting in a change in the Maximum Monthly Benefit will effectively change the Maximum Aggregate Benefit.

When the insured becomes disabled between the ages of 18 and 55, and remains Continuously Totally Disabled through the end of the Maximum Benefit Period, this rider pays the base benefit (no SIS benefit) at the same level being paid at the end of the Maximum Benefit Period (including COLA increases, if any) until the Maximum Aggregate Benefit amount has been exhausted. Monthly benefits continue to be paid beyond the

Maximum Benefit Period as long as the insured is unable to work in any occupation he/she is reasonably suited by his/her education, training and experience.

The ETDB rider is only available with a To Age 65, To Age 67 or To Age 70 Benefit Periods.

The insured will not be eligible for benefits under this rider if they are retired or unemployed at the start of their Continuous Disability or if they are receiving benefits under the terms of the Presumptive Disability Benefit Rider.

State variation of provision – FL, MD, NC, NJ, VA

Future Benefit Increase (FBI) Rider – For no additional premium, this rider is issued automatically for all standard premium policies. Issues ages are 18-55. This rider provides an automatic increase in Disability Benefit amount without evidence of insurability, on the six FBI Option Anniversaries following the option date providing the insured is not disabled.

The increase is based on the change in the Consumer Price Index for All Urban Consumers (CPI-U), with a minimum guaranteed increase of 4 percent compounded and a maximum of 10 percent compounded. Premiums for FBI increases are based on the insured's attained age and the rates in effect at the time of the increase. The rider is renewable every six years with evidence of financial insurability. It is terminated after two increase offers are declined within a renewal period.

In addition to the automatic increase, the insured may also be eligible for an additional maximum benefit increase, up to \$500 total, when combined with the CPI-U increase, subject to our current underwriting guidelines. Prior to the insured's Option Anniversary, Principal Life will provide the insured with an application that must be completed and returned within 30 days of Our request to be considered for the additional increase.

Option Anniversary – In multi-life cases, an employer now has the opportunity to elect a date for future benefit increases (BU and FBI) that is different than the original policy effective date.

Policy increases will coincide with potential salary increases.

See the FBI Maximum Issue and Participation Limits Table. The FBI rider is not available on policies exceeding the benefit amounts indicated in the table.

The FBI rider is available in conjunction with the Benefit Update rider on the same policy.

State variation of provision – MD, NC, NH

Not available – NY

Limitations of Benefits for Mental/Nervous and Substance Abuse Disorders Rider – This rider is mandatory for residents of, or applications written in:

SINGLE-LIFE	MULTI-LIFE
Arizona	California
California	Florida
Florida	Louisiana
Louisiana	Nevada
Michigan	<i>Optional in all other</i>
Nevada	<i>states for employer-</i>
New Mexico	<i>sponsored cases.</i>

This rider limits the Benefit Period for Mental/Nervous and Substance Abuse claims to a 24-month lifetime benefit (including the Catastrophic Disability Benefit rider). However, benefits could be extended beyond the 24 months up to the Maximum Benefit Period if the Insured is continuously hospitalized as an inpatient.

The existence of this rider on a policy will reduce premiums based on the Benefit Period: To Age 65 or greater = 10 percent discount, 5 and 2 years = 5 percent discount. The Mental/Nervous rider cannot be issued on policies in the written state of Texas.

This rider is required on all DI policies written under the Association Sales Program (except in TX).

State variation of provision – IL, MO, OK, UT

Not available – TX

Presumptive Disability Benefit Rider – Is an Injury or Sickness resulting in total loss of use without any possibility of recovery of:

1. Power of speech; or
2. Hearing in both ears; or
3. Sight of both eyes; or
4. The use of both hands, both feet, or one hand and one foot.

We will consider you Disabled and pay benefits for Total Disability under the Disability Benefit section and Social Insurance Substitute Benefit section (subject to those sections' terms and conditions), regardless of your ability to work or earn an income if you incur a Presumptive Disability. You will be considered Disabled as long as your Presumptive Disability continues.

You are not required to be under the regular care of a doctor. No new Elimination Period is required and the benefit will start to accrue on the date of loss. Monthly Benefits are paid as long as the loss continues, but no longer than the Maximum Benefit Period.

If the Maximum Benefit Period is To Age 65, To Age 67 or To Age 70 and the loss occurs prior to that, the Maximum Benefit Period will be extended to "Lifetime" for benefits payable under the Disability Benefit section.

If the policy is written within a Guaranteed Standard Issue/Standard Issue case, benefits may be paid to the Maximum Benefit Period available on the policy.

State variation of provision for HH755 – IA, NJ

State variation of provision for HH770 – IA, MD

Recovery Benefit Rider – This rider may be added to the policy for an additional premium. We will provide a benefit if:

1. You are no longer Disabled; and
2. You are not receiving benefits under the Disability Benefit section; and

3. You have a Loss of Earnings equal to or greater than 20 percent of your Prior Earnings; and
4. You return to full-time work immediately after a Continuous Disability for which benefits were payable under the Disability Benefit Section; and
5. Your Loss of Earnings is solely due to the prior Injury or Sickness that caused Disability; and
6. You satisfy the requirements of the Claim Information section.

The amount of benefit payable will be based on the Insured's Loss of Earnings divided by Prior Earnings. Benefits are payable for a period not to exceed the Recovery Benefit Period, but not beyond the policy's Maximum Benefit Period.

The Insured is no longer eligible for Recovery Benefits if they are able to earn more than 80 percent of Prior Earnings.

Recovery Benefit Period Options: 1 year and 3 years.

- 1 year Benefit Period available to 5A, 5A-M, 4A, 4A-M, 3A, 3A-M and 2A occupation classes. The 1-year Recovery Benefit rider is not available when the Short-Term Residual Disability Benefit rider is selected.
- 3 year Benefit Period available to 5A, 5A-M, 4A, 4A-M, 3A and 3A-M occupation classes. The 3 year Recovery Benefit rider is not available with the Short-Term Residual Disability Benefit rider or a 2 year Benefit Period.

If the Recovery Benefit rider is purchased, the Residual Disability Benefit rider is required.

If the Cost of Living Adjustment rider is a part of the policy, the proportionate benefit is calculated on the benefit amount being paid when the insured recovered from the disability. There are no additional COLA increases under this rider.

However, premiums will continue to be waived under the Waiver of Premium benefit in the policy while benefits are paid under this rider.

State variation of provision – MD

Regular Occupation Rider – This rider may be added to the policy for an additional premium and is available to certain 5A occupation classes. Issue ages are 18-50. It is designed for those professionals and select executives who wish to insure their ability to work in their highly-specialized regular occupations. If this rider is attached to the policy, Total Disability means during the Your Occupation Period, solely due to Injury or Sickness:

1. You are unable to perform the substantial and material duties of Your Occupation and are not Working in Your Occupation; and
2. You are Working in another occupation; and
3. You satisfy the requirement of the Claim Information section.

Benefits payable for Total Disability is the Maximum Monthly Benefit from the Disability Benefit section and the Social Insurance Substitute Benefit section, if included, to the end of the Maximum Benefit Period. However, no Social Insurance Substitute Benefit will be payable for any period you are eligible to receive full retirement benefits from Social Security or Railroad Retirement. This rider is not available to residents of California or on policies written in California.

The Regular Occupation rider is not available to attorneys or any 5A-M occupation class.

If the Regular Occupation rider is issued on a policy, the Transitional Occupation rider is not available.

A To Age 65, To Age 67 or To Age 70 Benefit Period and Your Occupation Period is required.

State variation of provision – MD, NJ, OR, VA

Relation of Earnings to Insurance Rider – If this rider is attached to the policy, the Total Maximum Monthly Benefit may be reduced at any time during a claim for benefits when Overinsurance exists. If the Total Maximum Monthly Benefit is reduced by this rider, we will refund a portion of the premiums paid during the two year period immediately preceding the date the Disability began.

Overinsurance Defined: means when the sum of the total Maximum Monthly Benefit and Other Income Benefits exceed your Pre-disability Income. When this situation occurs, the rider is designed to reduce disability benefits payable such that disability benefits from all sources do not exceed 100 percent of predisability earnings. By having the ability to bring the disability benefits in line with the insured's earnings, we are providing a greater incentive to return to work and addressing those claim situations where income is knowingly overinsured.

When Overinsurance exists, the reduced Maximum Monthly Benefit will be:

Total		Pre-Disability	x	Replacement
Maximum	x	Income		Factor
Monthly		Total Max.	+	Other Income
Benefit		Monthly Benefit		Benefits

The rider guarantees that the Maximum Monthly Benefit will not be reduced below \$300.

State variation of provision – CT, DE, KY, ND, NJ, NV

Not available – MD, TX

Residual Disability Benefit Rider – This rider may be added to the policy for an additional premium and is available to 5A, 5A-M, 4A, 4A-M, 3A, 3A-M and 2A occupation classes.

Residual Disability means:

1. You are not Totally Disabled; and
2. Solely due to Injury or Sickness you have Loss of Earnings equal to or greater than 20 percent of your Prior Earnings and:
 - a. You are able to perform some, but not all, of the substantial and material duties of Your Occupation or you are unable to work full time in Your Occupation; or
 - b. You are working in another occupation; and
3. You satisfy the requirements of the Claim Information section.

For Residual Disability, we will pay a percentage of the Maximum Monthly Benefit under the Disability Benefit section and Social Insurance Substitute Benefit section (subject to those sections' terms and conditions). The amount we will pay is equal to the Loss of Earnings divided by the Prior Earnings.

Income earned can be determined by either the cash or accrual accounting method, however the same method must be used throughout the disability.

100 percent of the Maximum Monthly Benefit is paid if the percentage of Earnings lost exceeds 75 percent. A minimum of 50 percent of the Maximum Monthly Benefit will be paid for the first six months of a Residual Disability.

If the insured is Retired or Unemployed, 50 percent of the Maximum Monthly Benefit will be paid for Residual Disability.

The Residual Disability Benefit rider is not available when the Short-Term Residual Disability Benefit rider is selected.

Loss of Earnings Defined: See the definition of Earnings for information on how the policy determines Earnings for Non-owner employees or business owners before a Disability and during a Residual Disability.

Prior Earnings/Indexing Defined: The highest monthly average Earnings for any 12 consecutive months in the last 24, immediately preceding a Disability. Prior Earnings are indexed based on the change in the CPI-U on a compound basis. The Index Factor will not be less than one.

Current Earnings Defined: Your Earnings for each month while you are disabled.

State variation of provision – FL, MD, NJ, VA

Short-Term Residual Disability Benefit (STRDB) Rider – This rider may be added to the policy for an additional premium and is available to all occupation classes.

This rider is the same as the Residual Disability Benefit rider, except:

- Benefits are payable to the end of the Short-Term Residual Disability Benefit Period – six months or 12 months.
- No provision that allows a minimum of 50 percent of the monthly income benefit for the first six months of disability.
- No Indexing of Prior Earnings.
- The STRDB rider is not available when the Residual Disability Benefit rider or the Recovery Benefit rider – 1 & 3 BP – is selected.

State variation of provision – FL, MD, NJ, VA

Transitional Occupation Rider - Available for an additional premium, this rider allows the insured to continue receiving disability benefits in the event of becoming totally disabled in their Your Occupation, but are working in another occupation. This is available to 5A, 5A-M, 4A, 4A-M, 3A and 3A-M occupation classes.

Benefits will be based on replacement of up to 100 percent of prior earnings, but will not exceed the Maximum Monthly Benefit plus any Social Insurance Substitute (SIS) Benefit. Benefits are payable until the end of the Transitional Occupation Period.

The monthly benefit will be equal to the lesser of:

1. Prior Earnings MINUS Current Earnings MINUS other Disability Coverage; or
2. The Maximum Monthly Benefit PLUS any Social Insurance Substitute Benefit.

If the amount in option 1 is equal to or less than zero, no monthly benefit will be paid.

A minimum of 50 percent of the Maximum Monthly and SIS Benefit will be paid for the first six months of a Transitional Occupation disability. If the elimination period for the SIS benefit is longer than the Disability Benefit, the SIS Benefit will be paid at the 50 percent level until the end of the six-month period for the disability benefit.

The Transitional Occupation Period must be equal to or less than the Base Benefit Period and the Your Occupation Benefit Period. The available Transitional Occupation Periods are:

If Base & Your Occupation BP is...	Transitional Occupation Periods are...
2 Year	2 Year
5 Year	2 Year or 5 Year
To Age 65	2 Year, 5 Year or To Age 65
To Age 67	2 Year, 5 Year or To Age 67
To Age 70	2 Year, 5 Year or To Age 70

If a policy has both the Residual Disability Benefit rider and the Transitional Occupation rider, benefits will not be paid out under both riders at the same time. If the insured meets the definitions and terms of both riders, the insured will receive the greater benefit amount available.

If the Transitional Occupation rider is issued on a policy, the Regular Occupation rider is not available.

State variation of provision – MD

Not available – NY

Disability Income Underwriting Guidelines

Earned income

The amount of benefit issued is based on the client's actual annual earned income as reported on the U.S Federal tax return. Earned income is dependent upon the client's ability to work and is received for services performed by the client in his or her occupation. **To be eligible for disability income insurance, earned income must be at least \$15,000/year as reported on U.S. Federal tax return.** *(Minimum income for residents of California is \$24,000/year).* **Because earned income is critical in determining the amount of disability benefit the client is eligible for, documentation of earned income is required with every application for disability income insurance, including new business applications, underwritten adjustments, Benefit Update options, Future Benefit Increase or Automatic Increase Option renewals and reinstatements.**

The following are guidelines for determining what is earned income and the documentation required.

Sole Proprietorship – A business owned by one individual. The business is not a separate tax entity, and the sole proprietor has unlimited personal liability. Earned income is the net profit of the business or profession, after expenses, but before taxes. While it is common for a sole proprietor to include some personal expenses with business expenses on the Schedule C, those personal expenses cannot be added back to net income to produce a higher earned income. Also, even though depreciation is a non-cash expense, it cannot be added back to net income to produce a higher earned income.

The following Federal tax forms need to be submitted:

- 1040 – pages 1 & 2
- Schedule C (or F if client is a farmer)
- Schedule E if filed with the return

Partnership – An association of two or more persons in business for profit as co-owners. The partnership is not a separate tax entity, and each partner has unlimited personal liability. A partner's proportionate share of the net profit/ net loss of the business or profession is considered earned income. The guidelines for personal expenses and depreciation apply to the earned income of a partner the same as a sole proprietor (see Sole Proprietorship). The following Federal tax forms need to be submitted:

- 1040 – pages 1 & 2
- Schedule E

Limited Liability Company (LLC) – Similar to a partnership, LLCs are generally not separate tax entities. However, owners of an LLC may have limited personal liability. Earned income is the owner's proportionate share of the net profit/net loss of the business or profession plus any salary, wages, regular overtime, bonus and commissions (less expenses). The following Federal tax forms need to be submitted:

- 1040 – pages 1 & 2
- Schedule E
- W-2 form if spouse is employed outside the home

Corporate Owner/Employee – For clients with an ownership interest in a corporation (S or C-Corporation) and working as a full-time employee of that corporation, earned income is salary, wages, regular overtime, bonus and commissions (less expenses) and their proportionate share of business earnings.

Example: A 50 percent owner/employee of XYZ Corporation receives salary of \$50,000. The corporation earns \$30,000. The client is eligible for disability income benefits based on \$50,000 salary plus ½ of \$30,000, for a total of \$65,000.

Business Owner Allowance – The business owner allowance is available if the client is at least a 20 percent active working owner. This allowance may be used to increase earned income by 20 percent. The DI benefit can be increased up to an extra \$1,000/month. **This allowance does not apply to physicians and dentists or if applying for the DI Retirement Security Sales Program.**

Example: A client earns \$120,000/year, which qualifies for \$5,500/month of DI. The allowance increases the income to \$143,000 and the DI benefit to \$5,650/month.

An owner/employee of a corporation can also consider as earned income **up to 25 percent of salary, but not more than \$42,000, for contributions made to a pension or profit sharing plan.** However, if the pension and/or profit sharing contribution continues when the owner/employee is disabled, the contribution is **not** included in earned income. Verification of the contribution is required.

The following Federal tax forms need to be submitted:

C-Corporation – A separate and distinct legal entity with perpetual existence. It is a separate entity for legal and tax purposes, and shareholders of a corporation have limited liability.

- 1040 – pages 1 & 2
- W-2 form if spouse is employed outside the home
- Schedule E if filed with the return
- 1120 – C-Corporation return, pages 1 & 2

Note: For corporations showing a net loss, we may reduce earned income by the loss.

Note: C-Corporation owners with less than 20 percent ownership or applying for \$4,000 or less monthly benefit are not required to provide a copy of the 1120 C-Corporation return.

S-Corporation – A separate and distinct legal entity with perpetual existence. All profits and losses of the business are divided and distributed to the individual shareholders and are reportable on the shareholders’ individual tax returns.

- 1040 – pages 1 & 2
- W-2 form if spouse is employed outside the home
- Schedule E
- 1120S – S-Corporation return, page 1, if including contributions to pension or profit sharing plans as earned income

Note: For corporations showing a net loss, we may reduce earned income by the loss.

Non-Owner Employee – Earned income includes salary, wages, regular overtime, bonus and commissions (less expenses). Employer contributions to 401(k) or 403(b) qualified retirement plans can be included as earned income up to \$5,000/year. The following Federal tax forms need to be submitted:

- 1040 – pages 1 & 2
- W-2 form for income verification (versus full tax return) if the employee’s income is less than \$150,000/year. Note: The full tax return is still required in California.
- Schedule E if filed with the return

Summary of income documentation

ENTITY TYPE	INCOME SOURCE	TAX FORMS
(Non Owner) Employee <small>(Employer pay limits allowed if applicable)</small>	Salary/Bonus	Form 1040, Line 7 (Wages) and Form W-2
	Pension/Profit Sharing	Pre-tax 401(k), 457, 403(b), or similar plans contributions Box 13 on W-2
Sole Proprietor <small>(Employer pay limits not available)</small>	Business Income	Form 1040, Schedule C, Line 31 (Net Profit or Loss)
	Pension/Profit Sharing	Not applicable as Keogh/ SEP not deducted on Schedule C
Partner in a Partnership, Member of a Limited Liability Company <small>(Employer pay limits not available)</small>	Salary (if wages paid)	Form 1040, Line 7 (Wages) and Form W-2
	Ordinary Income (loss) from partnership/LLC	Form 1040, Schedule E, Part II Nonpassive Income and Loss
	Pension/Profit Sharing	Not applicable as retirement contribution not deductible for partner or LLC member on tax return
Owner of an S-Corporation <small>(Employer pay limits allowed only if 2% or less ownership share)</small>	Salary/Bonus (if wages paid)	Form 1040, Line 7 (Wages) and Form W-2
	Ordinary Income (loss) from S-Corporation	Form 1040, Schedule E, Part II Nonpassive Income and Loss
	Pension/Profit Sharing	Form 1120S, Line 17, (Pension, profit sharing) (CAUTION: This reflects contributions for all employees, must determine owner’s share). Also, any before-tax 401(k) contribution could be verified on W-2, box 13 (“D”).
Owner of a C-Corporation <small>(Employer pay limits allowed if applicable)</small>	Salary	Form 1040, Line 7 (Wages) and Form W-2
	Bonus	Form 1040, Line 7 (Wages) and form W-2; occasionally on 1040, Line 21 Miscellaneous income
	Income (loss) from Corporation	Form 1120, Line 28 (Taxable income before net operating loss deduction) (CAUTION: Must determine owner’s share for multiple owner situations.)

(continued on next page)

Summary of income documentation

ENTITY TYPE	INCOME SOURCE	TAX FORMS
		Example: percent ownership multiplied by Line 28.
	Pension/Profit Sharing	Form 1120, Line 24, (Pension, profit sharing) (CAUTION: This reflects contributions for all employees, must determine owner's share.) Also, any before-tax 401(k) contribution must be verified on W-2, box 13 ("D"). Not required for less than 20% ownership or applying for benefits of \$4,000 or less

Form Description

Form 1040 – Individual Income Tax Return

- Schedule C – Profit or Loss from Business
- Schedule E – Supplemental Income and Loss

Form 1120 – U.S. Corporation Income Tax Return

Form 1120S – U.S. Income Tax Return for an S-Corporation

Form W-2 – Wage and Tax Statement

Projected Income – Because of its uncertainty, projected income should not be used. Benefit amounts should be applied for based on past annual earnings, not future projections.

Federal tax returns are used as the basis for verifying all income. Since tax returns are filed on an annual basis, income should always be considered annually, rather than monthly. Do not project monthly income into an annual income.

Earnings Patterns – If the income pattern shows a decrease in income from one year to the next, base the benefit amount applied for on the lower, more recent income.

If there has been a significant increase in income from one year to the next, or over a several-year time period, apply for the coverage based on an average earned income rather than the highest, most recent earned income. An average of three years income should be used to determine the amount of DI benefits.

If the income pattern swings dramatically up and down, an average of three years income should be used to determine the amount of DI benefits. In these cases, however, it's very important to understand the reasons behind the income changes. It's a good idea to submit a cover letter explaining the circumstances surrounding unstable income patterns.

Occupation Change – Generally, a client's prior job earnings can be used on a current basis if new job earnings cannot yet be documented. Actual earnings can be used after new job earnings have been established for two years. Projections of earnings in the new job which exceed earnings from the prior job are not considered. Prior earnings are not used on a current basis if the occupation change was made to one with lower earnings, dissimilar duties, or to a different industry (i.e., changing from an attorney to a real estate agent).

If your client was an employee and has recently started a new business or purchased an existing business, see New Business/Purchase of Existing Business.

New Business/Purchase of Existing Business – The income potential of a new business or an existing business under new management and ownership is difficult to predict. Factors affecting the financial success of the business include:

- Experience and expertise of the owners
- Compatibility of the owners if there are more than one
- Ability to manage expenses
- Financial resources available to support the business if revenues are not adequate to do so
- General economic conditions
- Competitiveness of the particular line of business
- Ability to find qualified employees

The success rate for start up small businesses is generally very low. Because of the possibility the new or recently purchased business may have a difficult time financially in the early months of operation, coverage within the first year of ownership will be considered on an individual case basis. After the business has been in operation for a year under the ownership of the client, we will consider coverage based on income verification for the year of operation. Coverage will not be considered based on projected earnings of the business.

Unearned income

Unearned income is received from sources not directly related to actively working in an occupation. Because it is received even if the client is not able to perform any occupational duties, it is viewed as a form of self insurance. Significant unearned income results in overinsurance and is factored into the overall amount of coverage offered. Examples of unearned income are: capital gains, interest, net rentals, pension benefits, passive dividends, income from family trusts, alimony and royalties.

Unearned income will reduce the benefit amount available to the client only to the extent that it exceeds (a) 10 percent of earned income or (b) \$30,000 annually, *whichever is less*. Fifty percent (50 percent) of the monthly unearned income in excess of (a) or (b) above will be deducted from the maximum total benefit available to the client.

Earned Income Up to \$300,000 – If unearned income is less than 10 percent of earned income, do not reduce the benefit amount available to the client. If unearned income *exceeds* 10 percent of earned income, calculate the monthly average of the amount over the 10 percent allowance. Reduce the maximum total benefit available to the client by 50 percent of this amount.

Earned Income Over \$300,000 – If unearned income is less than \$30,000, do not reduce the benefit amount available to the client. If unearned income exceeds \$30,000, calculate the monthly average of the amount over \$30,000. Reduce the benefit amount available to the client by 50 percent of this amount.

Net worth

Net worth may be significant to the underwriting of disability income insurance. Disability income coverage is not available to clients with a net worth exceeding \$6,000,000 (excluding their primary residence). Substantial net worth can result in overinsurance either from the unearned income generated by the underlying assets, or from the “income” that may be generated from the sale of the assets during disability. Substantial net worth provides the client with a means to self-insure when disabled.

Maximum Issue and Participation Limits by occupation class*

The maximum monthly benefit amount (Disability Benefit and SIS) issued or participated with other companies (excluding buy-out and overhead expense) is:

OCCUPATION CLASS	MAXIMUM ISSUE AND PARTICIPATION LIMIT
5A, 4A, 3A	\$15,000/month
5A-M, 4A-M, 3A-M	\$10,000/month**
2A	\$8,000/month
A	\$6,000/month

Note: These limits do not include Catastrophic Disability Benefit rider amounts.

* See page 1-53 for Select Professional Limits and page 1-56 for Government Employee Limits.

** Participation Limit is \$15,000/month if other IDI coverage in force. Maximum Issue Limit will remain \$10,000/month for all Principal Life IDI coverage.

**Future increase option (FBI) rider or
the Automatic Increase Option (AIO) rider
Maximum Issue and
Participation Limits by occupation class**

The FBI or AIO riders are available on disability income policies according to the following issue and participation limit guidelines:

OCCUPATION CLASS	FBI/AIO MAXIMUM ISSUE AND PARTICIPATION LIMIT
5A, 4A, 3A	\$13,000/month
5A-M, 4A-M, 3A-M	\$8,000/month
2A	\$6,000/month
A	\$4,000/month

Maximum Issue and Participation Limits are also the basis for renewal of the FBI/AIO riders. If in force and applied for coverage with all companies exceeds the FBI/AIO Maximum Issue and Participation Limit, the FBI/AIO rider will not be renewed.

Issue and participation limits table guidelines

5A, 5A-M, 4A, 4A-M, 3A, or 3A-M clients may apply for the total benefit amount as all base, or a combination of base and SIS (SIS cannot exceed the SIS maximum). 2A or A clients must apply for a combination of base and SIS benefits to receive the maximum benefit available. They are not eligible to apply for the total benefit amount as all base.

To be eligible for SIS, the client must be contributing to Social Security. 2A or A clients who have opted out of Social Security are eligible for the base amount plus one-half the SIS amount, all issued as base.

Sole proprietors, partners and owner/employees of S-Corporations or Limited Liability Companies are eligible for Individual Pay limits only. For details, refer to the Federal Income Tax Guide.

When programming around non-integrated coverage (i.e., coverage that is not offset by benefits payable by other plans), reduce the Disability Benefit by the amount of non-integrated benefits in force.

Example:

Income – \$3,000/month

Non-integrated coverage in force – \$1,000

Maximum monthly benefit – \$1,250 base, \$900 SIS

Maximum base benefit \$1,250

Less coverage in force -1,000

Eligible base benefit \$250*

* The \$250 base benefit is in addition to the full SIS benefit available (i.e., \$900).

DI Issue and Participation Limits

Annual Earned Income	Individual Pay		
	Maximum Disability Benefit	Maximum SIS	Total Benefit
\$15,000	\$300/mo.	\$700/mo.	\$1,000/mo.
16,000	325	725	1,050
18,000	400	750	1,150
20,000	500	775	1,275
24,000	625	875	1,500
30,000	950	900	1,850
36,000	1,250	900	2,150
40,000	1,400	950	2,350
48,000	1,725	1,075	2,800
50,000	1,800	1,100	2,900
52,000	1,875	1,125	3,000
60,000	2,225	1,175	3,400
70,000	2,550	1,250	3,800
80,000	2,850	1,350	4,200
90,000	3,200	1,400	4,600
100,000	3,600	1,400	5,000
110,000	3,850	1,400	5,250
120,000	4,200	1,400	5,600
130,000	4,550	1,400	5,950
140,000	5,000	1,400	6,400
150,000	5,375	1,400	6,775
160,000	5,600	1,400	7,000
170,000	5,900	1,400	7,300
180,000	6,100	1,400	7,500
190,000	6,400	1,400	7,800
200,000	6,700	1,400	8,100
210,000	7,100	1,400	8,500
220,000	7,400	1,400	8,800
230,000	7,800	1,400	9,200
240,000	8,200	1,400	9,600
250,000	8,600	1,400	10,000
260,000	8,850	1,400	10,250
270,000	9,100	1,400	10,500
280,000	9,350	1,400	10,750
290,000	9,600	1,400	11,000
300,000	9,850	1,400	11,250
310,000	10,100	1,400	11,500
320,000	10,350	1,400	11,750
330,000	10,600	1,400	12,000
340,000	10,850	1,400	12,250
350,000	11,100	1,400	12,500
360,000	11,350	1,400	12,750
370,000	11,600	1,400	13,000
380,000	11,900	1,400	13,300
390,000	12,250	1,400	13,650
400,000	12,600	1,400	14,000
420,000	13,300	1,400	14,700
440,000	13,600	1,400	15,000
460,000	13,600	1,400	15,000
480,000	13,600	1,400	15,000
500,000	13,600	1,400	15,000

DI Issue and Participation Limits

Annual Earned Income	Employer Pay		
	Maximum Disability Benefit	Maximum SIS	Total Benefit
\$15,000	\$450/mo.	\$700/mo.	\$1,150/mo.
16,000	475	725	1,200
18,000	600	750	1,350
20,000	675	800	1,475
24,000	875	875	1,750
30,000	1,150	1,000	2,150
36,000	1,575	1,000	2,575
40,000	1,800	1,050	2,850
48,000	2,275	1,075	3,350
50,000	2,400	1,100	3,500
52,000	2,475	1,125	3,600
60,000	2,900	1,250	4,150
70,000	3,200	1,400	4,600
80,000	3,625	1,575	5,200
90,000	4,150	1,650	5,800
100,000	4,600	1,650	6,250
110,000	5,000	1,650	6,650
120,000	5,500	1,650	7,150
130,000	6,000	1,650	7,650
140,000	6,500	1,650	8,150
150,000	7,100	1,650	8,750
160,000	7,600	1,650	9,250
170,000	7,900	1,650	9,550
180,000	8,250	1,650	9,900
190,000	8,550	1,650	10,200
200,000	9,050	1,650	10,700
210,000	9,450	1,650	11,100
220,000	9,850	1,650	11,500
230,000	10,250	1,650	11,900
240,000	10,650	1,650	12,300
250,000	11,050	1,650	12,700
260,000	11,350	1,650	13,000
270,000	11,700	1,650	13,350
280,000	12,050	1,650	13,700
290,000	12,350	1,650	14,000
300,000	12,700	1,650	14,350
310,000	13,050	1,650	14,700
320,000	13,350	1,650	15,000
330,000	13,350	1,650	15,000
340,000	13,350	1,650	15,000
350,000	13,350	1,650	15,000
360,000	13,350	1,650	15,000
370,000	13,350	1,650	15,000
380,000	13,350	1,650	15,000
390,000	13,350	1,650	15,000
400,000	13,350	1,650	15,000
420,000	13,350	1,650	15,000
440,000	13,350	1,650	15,000
460,000	13,350	1,650	15,000
480,000	13,350	1,650	15,000
500,000	13,350	1,650	15,000

Group Supplement Limits Table Guidelines

Many employees have group long-term disability (LTD) or salary continuation plans available through their employer. If the employee is disabled, these benefits are almost always taxable to the employee and integrated with social insurance programs. Because of this, we offer Group Supplement Limits that allow a higher individual DI policy to be issued as a supplement to the taxable LTD benefit. Group Supplement Limits may only be used when the client has LTD in force or will be eligible for LTD within three years of the application.

Group Supplement Limits are available to occupation classes 5A, 5A-M, 4A, 4A-M, 3A, 3A-M and 2A. Group Supplement Limits may not be used with A occupation class, association or government employee coverage.

The DI illustration system will automatically calculate the maximum benefit available when the existing group LTD plan, state of residence and occupation class are entered. The calculation is:

If applying for **Individual Pay** DI:

1. Use the Individual Pay-Group Supplement Limits table to determine the maximum benefit available based on the client's earned income.
2. Multiply the LTD benefit by .75 and subtract from the answer above. The result can't be greater than the issue and participation limit listed in the Group Supplement Individual Pay table.

Example: Income – \$10,000/mo.; LTD – \$6,000/mo.

1. Individual Pay with LTD column for \$10,000/mo. income = \$6,400
2. Individual Pay with LTD \$6,400
 Less \$6,000 LTD x .75 -4,500
 Eligible Income Tax-free Benefit \$1,900

This benefit may not be greater than the issue and participation

limit listed in the Individual Pay table (i.e., \$5,600).

If applying for **Employer Pay** DI:

1. Use the Employer Pay-Group Supplement Limits table to determine the maximum benefit available based on the client's earned income.
2. Subtract the entire LTD benefit from the answer above. The result can't be greater than the issue and participation limit listed in the Employer Pay table.

Example: Income – \$10,000/mo.; LTD – \$6,000/mo.

1. Employer Pay with LTD column for \$10,000/mo. income = \$8,000
2. Employer Pay with LTD \$8,000
 Less \$6,000 LTD -6,000
 Eligible Taxable Benefit \$2,000

This benefit may not be greater than the issue and participation limit listed in the Employer Pay table (i.e., \$7,150).

SIS is not available if the LTD benefit is greater than the SIS issue limit.

Maximum Participation Limits by occupation class

OCCUPATION CLASS	MAXIMUM PARTICIPATION LIMITS WITH GROUP INSURANCE
5A, 4A, 3A	\$25,000/month
5A-M, 4A-M, 3A-M	\$20,000/month
2A	\$10,000/month
A	\$8,000/month*

When using the Group Supplement Limits table, your client's total DI benefit from all sources, whether group or individual, cannot exceed \$25,000 (\$20,000 for 5A-M, 4A-M and 3A-M occupation classes).

Note: These limits do not include Catastrophic Disability Benefit rider amounts.

* See the Group Supplement Coverage for A Occupation Class, Association and Government Employees (on pg. 1-51) for complete details.

Participation Limits Group Supplement

INDIVIDUAL PAY		EMPLOYER PAY	
Annual Earned Income	Benefit Amount	Annual Earned Income	Benefit Amount
\$15,000	\$1,000/mo.	\$15,000	\$1,100/mo.
16,000	1,050	16,000	1,175
18,000	1,150	18,000	1,300
20,000	1,275	20,000	1,450
24,000	1,500	24,000	1,725
30,000	1,850	30,000	2,150
36,000	2,150	36,000	2,550
40,000	2,350	40,000	2,800
48,000	2,800	48,000	3,375
50,000	2,900	50,000	3,500
52,000	3,000	52,000	3,650
60,000	3,400	60,000	4,200
70,000	3,800	70,000	4,800
80,000	4,200	80,000	5,500
90,000	4,700	90,000	6,050
100,000	5,175	100,000	6,725
110,000	5,800	110,000	7,350
120,000	6,400	120,000	8,000
130,000	6,950	130,000	8,675
140,000	7,500	140,000	9,350
150,000	8,000	150,000	10,000
160,000	8,500	160,000	10,700
170,000	9,000	170,000	11,350
180,000	9,600	180,000	12,000
190,000	10,100	190,000	12,700
200,000	10,750	200,000	13,350
210,000	11,250	210,000	14,000
220,000	11,750	220,000	14,600
230,000	12,250	230,000	15,300
240,000	12,800	240,000	16,000
250,000	13,300	250,000	16,600
260,000	13,900	260,000	17,250
270,000	14,500	270,000	18,000
280,000	15,000	280,000	18,550
290,000	15,500	290,000	19,250
300,000	16,100	300,000	20,000
310,000	16,650	310,000	20,700
320,000	17,200	320,000	21,250
330,000	17,750	330,000	22,000
340,000	18,250	340,000	22,600
350,000	18,750	350,000	23,250
360,000	19,300	360,000	24,000
370,000	19,800	370,000	24,500
380,000	20,350	380,000	25,000
390,000	21,000	390,000	25,000
400,000	21,500	400,000	25,000
420,000	22,500	420,000	25,000

Group Supplement coverage for A Occupation Class, Association and Government Employees

If applying for **Individual Pay** DI:

1. Use the "Total" column of the Individual Pay Issue and Participation Limits table to determine the maximum benefit available based on the client's earned income.
2. Multiply the LTD benefit by .75 and subtract from the answer above.

Example: Income – \$10,000/mo.; LTD – \$6,000/mo.

1. Total column for \$10,000/mo. income = \$5,600
2. Total \$5,600
 Less \$6,000 LTD x .75 -4,500
 Eligible Income Tax-free Benefit \$1,100

If applying for **Employer Pay** DI:

1. Use the "Total" column of the Employer Pay Issue and Participation Limits table to determine the maximum benefit available based on the client's earned income.
2. Subtract the entire LTD benefit from the answer above.

Example: Income – \$10,000/mo.; LTD – \$6,000/mo.

1. Total column for \$10,000/mo. income = \$7,150
2. Total \$7,150
 Less \$6,000 LTD -6,000
 Eligible Taxable Benefit \$1,150

Adaptable Income Benefits (AIBs)

The primary purpose of an AIB is to program benefits around other in-force coverage. Up to two AIBs are available on the Disability Benefit and one on the SIS benefit. The AIB allows the initial Disability Benefit amount to be higher or lower than the ultimate Disability Benefit amount. The SIS AIB initial amount *must be lower* than the ultimate amount.

For occupation classes 5A, 5A-M, 4A, 4A-M, 3A or 3A-M the Disability Benefit AIB may equal the total column of the issue and participation limits table less any SIS benefit applied for that covers the same period. Neither the SIS AIB or the ultimate SIS benefit may exceed the maximum SIS listed in the issue and participation limits table.

Example:

- Income – \$5,000/mo
- LTD – 60 percent with a 180-day elimination period, 5 year benefit period
- Client requests maximum benefit with a 90-day elimination period with benefits to age 65

AIB = \$3,400	AIB = \$1,150	DI = \$3,400
	LTD = \$3,000	
90	180	5 yrs 65

For occupation classes 2A or A the Disability Benefit AIB may equal the base amount plus one half of the SIS benefit less any SIS benefit applied for that covers the same period. Neither the SIS AIB or the ultimate SIS benefit may exceed the maximum SIS listed in the issue and participation limits table.

Example:

- Income – \$2,000/mo
- LTD – 50 percent with a 180-day elimination period, 2 year benefit period
- Client requests maximum benefit with a 90-day elimination period with a 5 year benefit period

AIB = \$1,500	AIB = \$750	DI = \$1,500
	LTD = \$1,000	
90	180	2 yrs 5 yrs

Select Professional Issue and Participation Limits

Select Professional limits are for professionals in their first two years of practice or professional students who are continuously progressing through the educational system. It is expected they will quickly attain the top earnings needed to qualify for higher benefit amounts.

Professionals who have had earlier careers or broken periods of schooling, residency or internship are not eligible. Podiatrists are not eligible.

These limits apply to Individual Pay or Employer Pay benefit amounts, and are offset by any individual, group* or association coverage in force or applied for. Coverage may be applied for as all base or base and SIS.

See the Overhead Expense (OE) Section for OE Select Professional guidelines.

NOTE: If the Catastrophic Disability Benefit (CDB) is desired, the proposed insured may apply for CDB and DI coverage using a 1:1 ratio, up to the maximum limit available for that professional.

* Group coverage will not be taken into consideration for doctor, dentist or veterinarian residents, interns or medical students.

Doctor

- M.D., D.O. – first two years in practice.....\$4,500
- First through last year resident/intern3,500
- Medical student – third and fourth year2,000

NOTE: The occupation class for medical students, residents and interns is based on the declared medical specialty of the client. If a medical specialty has not been declared, coverage will be considered at a 4A-M occupation class.

Certified Registered Nurse Anesthetist, Nurse Practitioner, Physicians Assistant

- First two years in practice\$2,500

Dentist

- D.D.S. – first two years in practice 3,500
- Dental student – third or fourth year 2,000

Attorney

- First two years in practice..... 2,500
- Law student – third or fourth year 1,000

CPA, Ph.D. Psychologist, Degreed Architect or Degreed Engineer

- First two years as business owner..... 3,000

Pharmacist, Veterinarian, Optometrist

- First two years in practice..... 3,000

Since income verification is not necessary to be considered for coverage under the Select Professional Limits, tax returns are not required.

A blood profile and urinalysis are now required for all medical students and residents if the BU rider is desired. (This does not apply to dentists.)

A blood profile and urinalysis are not required for physicians in their first two years of practice unless the amount of coverage

requested requires it. For cases not requiring routine medical requirements, if proposed insured resides in CA, FL, NY, NJ or written in ME, then Urine-HIV test is required.

The formula for obtaining the BU rider for **all** Select Professionals will be:

- 75 percent of the select professional limit; or
- 75 percent of the maximum benefit amount based on earned income and other in-force coverage.

Select Professionals do not need to submit income verification to qualify for the BU rider.

State Disability Insurance (SDI)

Five states have state disability income programs. The following table shows the benefits payable in these states:

Since SDI is not taxable, Group Supplement Limits are not used. Instead, the calculated state disability amount is subtracted from the SIS benefit. Any remaining state disability benefit is then subtracted from the base benefit.

Example for Class 2A:

Income – \$5,000/month

State – CA – 55% x \$5,000 = \$2,750 (max = \$3,825)

State	% of Monthly Income	Maximum Benefit	Benefit Period
California	55%	\$3,825	12 months
Hawaii	58%	2,050	6 months
New Jersey	66%	2,175	6 months
New York	50%	725	6 months
Rhode Island	60%	2,625	6 months

Maximum monthly benefit – \$2,175 base, \$1,175 SIS

SIS amount	\$1,175
Less SDI	<u>-2,750</u>
Excess	\$-1,575
Base amount	\$2,175
Less excess	<u>-1,575</u>
Base benefit	\$600 (from day 90 to 365)

Note: In California, Hawaii, New Jersey, New York and Rhode Island SDI can be ignored at all income levels for 5A, 5A-M, 4A, 4A-M, 3A and 3A-M occupation classes when a policy is issued with a 90-day or longer elimination period.

Note: The Catastrophic Disability Benefit (CDB) amount is not impacted by SDI.

Government Employees – Federal

Occupation classes: 5A, 5A-M, 4A or 4A-M only.

Issue ages: 18-50.

Maximum Issue Limit: \$2,000/month.

Elimination periods: 90, 180 or 365 day.

Years of federal service (including years served in the military): 0 – 10.

Minimum annual income: \$30,000.

Riders Available:

Benefit Update, Capital Sum Benefit, Catastrophic Disability Benefit, Cost of Living Adjustment, Presumptive Disability Benefit, Residual Disability Benefit, and Short-Term Residual Disability Benefit.

Riders and Benefits **Not** Available:

Automatic Increase Option Rider, Conditionally Renewable Policy Rider, Extended Total Disability Benefit Rider, Future Benefit Increase Rider, Recovery Benefit Rider, Regular Occupation Rider, Social Insurance Substitute Benefit, and Transitional Occupation Rider.

Assumed civil service disability coverage: 40 percent of salary.

Government Employees – State and Local

This includes all state, county, borough, parish, city and town employees, as well as all school teachers in public school systems and state or community colleges.

Occupation classes: 5A, 5A-M, 4A, 4A-M, 3A or 3A-M

Issue ages: 18-50.

Maximum Issue Limit: \$2,000/month for 5A, 5A-M, 4A and 4A-M; \$1,500/month for 3A and 3A-M.

Elimination periods: 90, 180 or 365 day.

Riders Available:

Benefit Update, Capital Sum Benefit, Catastrophic Disability Benefit, Cost of Living Adjustment, Presumptive Disability Benefit, Residual Disability Benefit, and Short-Term Residual Disability Benefit.

If the client has opted out of Social Security, the Social Insurance Substitute feature is not available.

Riders **Not** Available:

Automatic Increase Option, Conditionally Renewable Policy Rider, Extended Total Disability Benefit, Future Benefit Increase Rider, Recovery Benefit, Regular Occupation, and Transitional Occupation Rider.

Copies of the client's employee benefit booklet must be submitted with each application. Coverage is determined by taking into account retirement pension disability benefits and any other disability coverage.

