

# Product Profile – Series 700

## KEY PERSON REPLACEMENT



### OVERVIEW

**Key Person Replacement (KPR) insurance provides benefits to a business in the event a key employee who is critical to the success of the business becomes totally disabled.**

The policy is ideal for small- to medium-size businesses, specifically those with employees who have specialties or experience that is not easily replaced. The employer pays the premium and is the owner of the policy insuring the key employee.

The business receives the benefits and can use them at its discretion. Common uses include covering recruitment costs, temporary staffing needs and revenue replacement. Benefits cannot be assigned to the disabled key employee.

Principal Life Insurance Company's KPR insurance policy is conditionally renewable to age 65 with guaranteed premiums.

#### PROFILE OF KPR PURCHASERS

- Owners of small- to medium-size businesses
- Ages 35 to 54
- Typically sold to 4A/4A-M and above occupations
- \$1,800 average annual premium
- Often sold for corporate executives, white collar employees, medical professionals, attorneys, business owners, engineers and other professionals

## Did you know?

- Principal Life is **ONE OF ONLY TWO CARRIERS** that offers a key person disability solution.
- **HALF OF BUSINESS OWNERS** do not have disability coverage for either themselves or their key employees.<sup>1</sup>

### PRODUCT AND UNDERWRITING GUIDELINES

- Issue ages: 18-55
  - Occupation classes: 5A/5A-M, 4A/4A-M, 3A/3A-M
  - Benefit Payout: Lump sum or combination of monthly and lump sum
  - Elimination Periods: Monthly – 90 or 180 days\*; Lump sum – 180, 365 or 730 days
- \* If both monthly and lump sum benefits are applied for, the elimination period on the monthly benefit must be less than the elimination period on the lump sum benefit.

#### Issue Limits

- **Lump sum benefit:** Three times earned income, up to \$500,000 (\$5,000 minimum)
- **Monthly benefit:** Three times the maximum Individual Disability Income benefit available based on earned income, up to \$20,000
- **Combination benefit (monthly benefit and lump sum):** Up to \$750,000

MONTHLY BENEFIT (Elimination Period)	LUMP SUM BENEFIT (Elimination Period)	TOTAL POTENTIAL BENEFIT
90-Day	180-Day	\$560,000
	365-Day	\$680,000
	730-Day	\$750,000
180-Day	365-Day	\$620,000
	730-Day	\$750,000

### AVAILABLE FEATURES

#### Sales programs and discounts

Discounts can be used together (when guidelines are met) to provide even greater savings.

- **Multi-Life:**<sup>2</sup> 20% (based on sex distinct rates; in the written state of Montana, unisex rates are required)
- **Select Occupation:**<sup>3</sup> 10%

#### Built-in components

- Interrupted Elimination Period
- Recurring Disability
- Waiver of Premium Benefit

## PREMIUMS

Premium rates depend on a variety of factors, including: age, gender, occupation class, smoking status and any available discounts.

### SAMPLE MONTHLY PREMIUMS FOR A \$200,000 TOTAL BENEFIT

Age	Male	Female
30	\$59.50	\$124.25
40	\$105.00	\$192.50
50	\$203.00	\$262.50

Assumptions: \$100,000 annual salary, lump sum payout, 180-day elimination period, nonsmoker and 4A occupation class.

### GUIDELINES FOR DETERMINING WHO IS A KEY EMPLOYEE

- Is critical to the livelihood of the business and is actively working full time\*
- Does not own more than 50% of the business\*\*
- Is highly paid (minimum income required is \$30,000/year)
- Cannot be a government or seasonal employee

\*Works at least 30 hours a week in a key person position and has held that position for at least 12 months. Employee can only be insured as a key person under one business entity.

\*\*If the insured is an owner, the business must be in operation for at least one year for fee-for-service businesses and three years for others.

## POINTS TO DISCUSS WITH CLIENTS

- A key employee's disability could lead to:
  - Loss of management skills and expertise
  - Disruption of business if you need to withhold/delay business or cautious creditors wait until the effect of an employee's disability is known
  - Increased expenses from hiring/training a replacement
- A KPR policy can demonstrate financial stability to creditors and clients.
- The insured is not limited in the amount of Principal Life Individual Disability Income (DI) insurance he or she qualifies for.
- Benefits are generally received income tax-free.

## SALES IDEAS

### Cross sell to life insurance clients

Business owner clients who have life insurance to protect against a key employee's death most likely need protection if that key person becomes totally disabled. Address this need by discussing disability key person replacement insurance.

### Offer comprehensive solutions at a discount

Promote the cost savings of the Multi-Life Discount<sup>2</sup> and the advantages of comprehensive disability coverage with business owners.

- Individual DI insurance and DI Retirement Security provide valued employee benefits.
- Disability Buy-Out (DBO) and Overhead Expense insurance help protect the business investment.

### Multi-Life example:

Two business owners purchase DBO policies on each other and pay for a KPR policy for an employee (non-owner).

**DBO + DBO + KPR = 20% discount**

Available in most states; not approved in California, Florida, Montana, New York and Vermont. For more information, visit [www.principal.com/distateapprovals](http://www.principal.com/distateapprovals). Not all benefits, features and riders are available in all states or to all occupation classes.

<sup>1</sup> The Principal Financial Group Business Priorities Market Research, January 2009.

<sup>2</sup> Available when three or more individuals with a common employer purchase Principal Life individual disability insurance. In Ohio, only Individual DI insurance and DI Retirement Security receive the discount or count toward the three-person minimum.

<sup>3</sup> Available for occupations such as: actuaries, architects, attorneys, CPAs, engineers, executives (earning more than \$60,000/year), judges and more.

## FOR MORE INFORMATION

Contact your local representative.



WE'LL GIVE YOU AN EDGE®

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