

Understanding current disability income market trends

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Disability statistics

- 71% of American employees live from paycheck to paycheck. *(American Payroll Association, "Getting Paid in America" Survey, 2008)*
- In the last 10 minutes, 498 Americans became disabled . *(National Safety Council®, Injury Facts® 2008 Ed.)*
- Over 50% of the workforce has no private pension coverage and a third have no retirement savings. *(Social Security Administration, Fact Sheet 2007)*
- Nearly six in 10 workers have not discussed how they would manage an income-limiting disability. *(Council for Disability Awareness, 2007 Disability Awareness Survey, 2007)*

Growth of small businesses on the rise

- New employer firms rose to an estimated 5.8 million in 2000, up from the 1999 level of 5.7 million*
- Small firms constituted about three-quarters of the employment growth and 90 percent of the new business location growth in the 1990s*

*U.S. Department of Labor and U.S. Census Bureau data, 2000

Social Security disability trends 1997 vs. 2006

149,000,000 covered workers	+ 12.5% vs. '97
6,800,000 total disabled workers	+ 51% vs. '97
832,200 disabled workers in 2006	+ 41% vs. '97
2,100,000 applications	+ 75% vs. '97

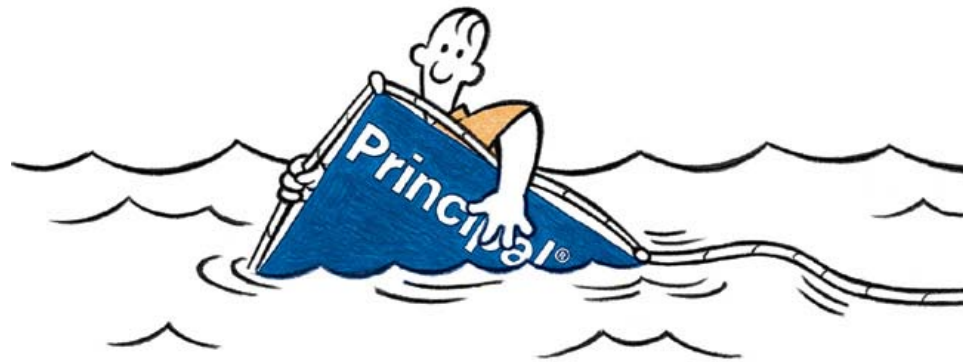
Source: Social Security Administration, 2005 Annual Statistical Supplement.

Social Security Disability Applications and Benefit Awards

Calendar Year	Number of Applications (in thousands)	Number of Awards (in thousands)	Awards as a Percent	Awards per 1000 insureds
1994	1,443.8	631.9	43.8	5.1
1996	1,279.2	624.3	48.8	4.9
1998	1,169.3	608.4	52.0	4.6
2000	1,330.6	621.3	46.7	4.5
2002	1,682.5	750.0	44.6	5.3
2004	2,137.5	795.8	37.2	5.5

Source: Social Security Administration, Applications for Disability Benefits & Benefit Awards, April 2005 as seen in the JHA Disability Fact Book, 2006

Current Trends



Current trends

- Employer based plans are the most profitable
- Rates have come down - a little
- True own occupation is making a comeback
 - Transitional Own Occupation
- Issue limits are on the rise
- Experience of physician market is looking better
- Technology
 - Phone medical interviews
 - Online enrollment
 - Worksite

Product response

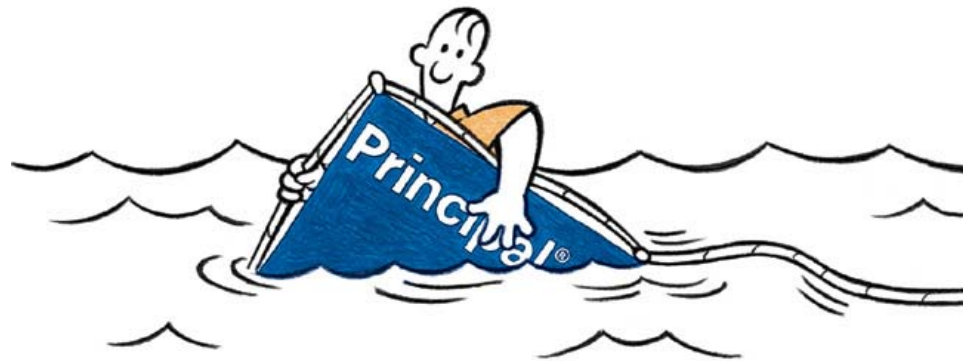
- Consumer driven – flexible products
- Cost sensitive – value balanced
- Risk selection much better
- Specific need based products
 - Mortgage payoff
 - Retirement protection
 - Catastrophic benefits

Underwriting response

- Simplified Issue at one life
 - No income verification
 - No APS
 - No Paramedical exam
- Guaranteed Issue down to 5 lives
- Paramedical exams are being waived at lower benefits and lower ages

A key niche market focus

Employer Based Plans



Who has disability income insurance?

Of those surveyed¹:

- 45% indicated that they worked for a small to mid-sized business (less than 1,000 employees) that offers group LTD insurance¹
- 14% indicated that they have an individual disability income insurance policy²

1 – 1QTR 2009, Principal Well-Being IndexSM (1695 employees/retirees surveyed).

Disability awareness gap exists with small employers

“What are the odds of a worker age 35 suffering a serious disability?”

Odds	Responses
1 in 3	10%
1 in 10	19%
1 in 20	18%
1 in 50	44%

ACLI Small Employers Survey

The odds are, one key person will become disabled...

Chances of a disability lasting 3 months or longer (before age 65)

Total Number of Employees

Age	2 Employees	5 Employees	10 Employees
27	66.3%	93.4%	99.6%
37	62.4%	91.3%	99.2%
47	54.4%	85.9%	98.0%
57	35.4%	66.4%	88.7%

Based on Commissioner's Individual Disability Table B - Equally Weighted 90 Day Elimination Period

Public awareness is lacking

- **90%** of workers underestimate their chances of becoming disabled
- **56%** don't realize disability is on the rise
- **85%** express little concern about suffering a disability
- **64%** of workers unaware of what happens to 401(k) contributions
- **57%** never discussed how they would manage a disability

Council for Disability Awareness (CDA) 2007 Disability Awareness Survey



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Awareness and dialogue lead to positive results

Employers not offering LTD

- 77% believe too expensive
- 58% believe business not a high risk for disability
- 55% don't believe need DI & employees don't want it

Employers offering LTD

- 74% believe LTD improves performance, attitudes & protection
- 67% believe LTD helps recruit & retain productive employees
- 55% had no employees that experienced a disability

Source: ACLI Small-Employer Market Survey

Market Penetration by Size

Long-term Disability (Voluntary Benefits)

	Number of Employees						
	1-49	50-99	100-199	500-999	1000-2499	2500+	All Employers
Offer, Employer Pays	43.6%	65.5%	57.4%	63.2%	47.2%	53.1%	54.8%
Offer, Employer and Employee Pays	5.1%	1.7%	6.5%	8.8%	22.6%	22.4%	9.9%
Offer, Employee Pays	7.7%	24.1%	21.3%	21.1%	22.6%	20.4%	19.1%
Not Offered	43.6%	8.6%	14.8%	7.0%	7.5%	4.1%	16.1%

Source: Eastbridge Consulting Group, Inc., 21st Century Employer, 2004 (Survey of 404 Employers) as seen in the JHA Disability Fact Book, 2006



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Perception: Group disability insurance coverage is enough; there is no need to offer individual disability insurance.

Reality: Group LTD is a great start, but these benefits are usually taxable. A typical policy covering 60% of an employee's income will only cover 42% after taxes. Plus, most group disability plans don't cover bonus and incentive pay, which can lead to an even larger income protection gap.

The Solution

Closing the gap on Group LTD plans

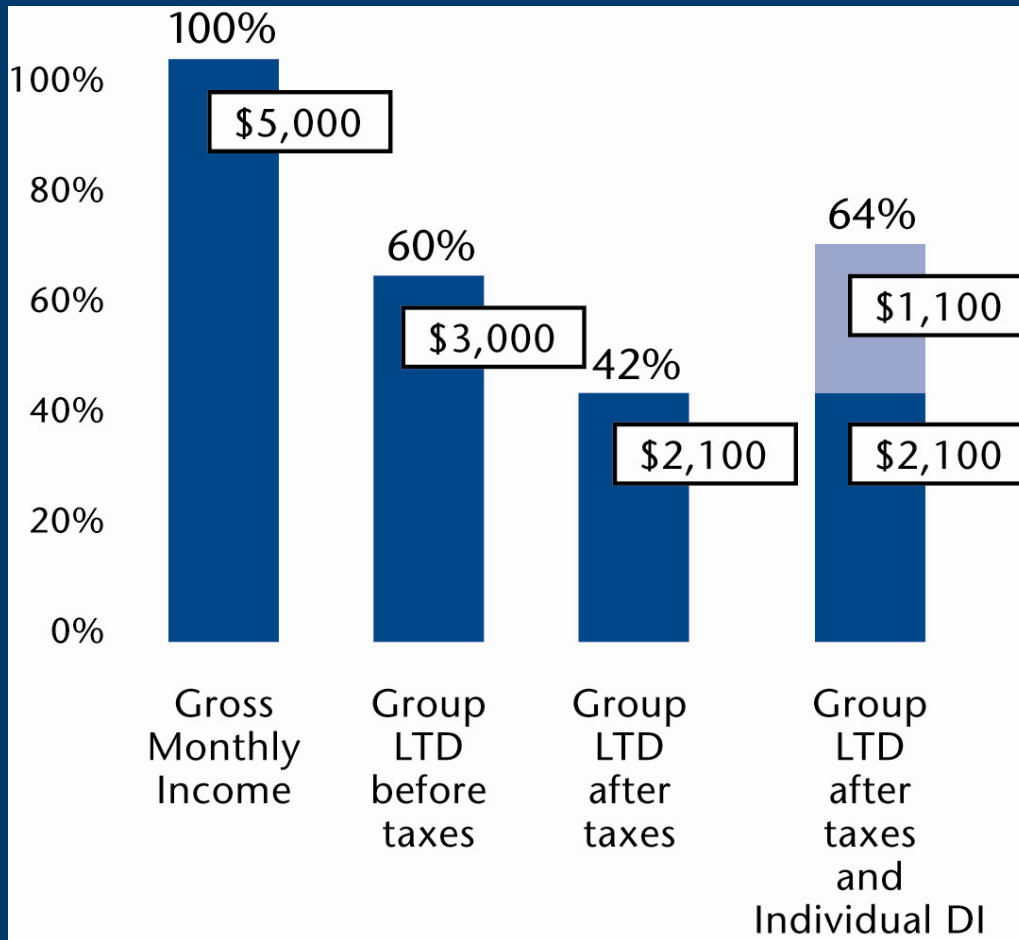


Chart based on \$5,000 gross monthly income (\$60,000 annual), with 60% Group long-term disability program, assuming a 30% tax bracket for Federal, State and FICA

The multi-life sale

- Targeting the small business
 - No coverage
 - LTD not adequate for key employees
- Discounts up to 30%
- Simplified Issue
- Guaranteed Issue

Hypothetical example – No Individual DI

Title	Base Salary	Bonus	Total Annual Salary	Total Monthly Salary	Group LTD*	Ind DI	% Salary Replaced
CEO	\$200,000	\$150,000	\$350,000	\$29,167	\$10,000	\$0	34%
Sr. VP	\$175,000	\$100,000	\$275,000	\$22,917	\$8,750	\$0	38%
VP	\$100,000	\$75,000	\$175,000	\$14,583	\$5,000	\$0	34%
Manager	\$75,000	\$50,000	\$125,000	\$10,417	\$3,750	\$0	36%
Manager	\$50,000	\$25,000	\$75,000	\$6,250	\$2,500	\$0	40%

*60% of base salary, 90 day Elimination Period, To Age 65 Benefit Period, taxable, integrated with Social Security



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Hypothetical example – With Individual DI

Title	Total Annual Salary	Total Monthly Salary	Group LTD*	Individual DI	Total Monthly Benefit	% Salary Replaced
CEO	\$350,000	\$29,167	\$10,000	\$11,875	\$21,875	75%
Sr. VP	\$275,000	\$22,917	\$8,750	\$8,425	\$17,175	75%
VP	\$175,000	\$14,583	\$5,000	\$6,000	\$11,000	75%
Manager	\$125,000	\$10,417	\$3,750	\$4,100	\$7,850	75%
Manager	\$75,000	\$6,250	\$2,500	\$2,200	\$4,700	75%

*60% of base salary, 90 day Elimination Period, To Age 65 Benefit Period, taxable, integrated with Social Security



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Sample rates

Age	Male Rate	Female Rate	Multi-Life Discounted Rate*
30	\$21.67	\$33.95	\$18.30
40	\$31.94	\$44.73	\$26.34
50	\$49.34	\$62.27	\$39.89

Assumptions: To Age 65 Benefit Period and Your Occupation Period, 180 day Elimination Period, \$1,000/monthly benefit, 5A Occupation Class, 10% Select Occupation Discount, Residual Disability Benefit rider, Colorado resident, non-smoker, Principal Life Insurance Company.

* Based on unisex rates. Multi-life Discount given if three or more lives with a common employer are covered.

Share the need for income protection



Industry resources ...

LIFE Foundation	Council for Disability Awareness	The International DI Society
<p>www.lifehappens.org</p> <ul style="list-style-type: none"> • Producer Tools • Consumer Tools <p><i>Founded Disability Insurance Awareness Month</i></p>	<p>www.disabilitycanhappen.org</p> <ul style="list-style-type: none"> • Employer Tools • Producer Tools • Consumer Tools <p><i>Developed the PDQ Tool</i></p>	<p>www.internationaldisociety.com</p> <ul style="list-style-type: none"> • Industry Discussions • Producer Development • Legal/Regulation Leaders <p><i>Sponsor DIA Designation</i></p>

Don't forget ... Disability Income Association (DIA) Designation!*

* Sponsored by International DI Society, NAHU and AHIP.

Principal Life marketing resources

Principal eFinancialProfessionalSM

- Customizable marketing tools
- Client emails
- From Here to SecuritySM
- Variety of testimonials from Principal Life claimants
- Wide-range of marketing material
- Supporter of Disability Insurance Awareness Month (May) – start planning today



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How to get started

**For more information contact your local
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To find a Plus Group office near you:
Go to www.plusgroupus.com and click on
the agency locator map or
call 1(800) 831-1018



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