



Lincoln Mutual
Life & Casualty Insurance Company

GROUP

L T D

*Field
Marketing
Guide*

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I. Introduction to LTD

What is LTD?

Group Long Term Disability (LTD) insurance provides a reasonable replacement of monthly earnings to insureds who become disabled for extended periods of time due to accident or sickness. LTD is written on a 24-hour basis and provides benefits for occupational and non-occupational disabilities. Coverage is typically to age 65 and is available to full-time employees.

The Need for LTD

Disability Facts

- ◆ In 1989, one in seven Americans had conditions that interfered with life activities.

Source: *“Disability Statistics Abstract” (No. 2, December 1991) produced by The Institute for Health and Aging, School of Nursing, University of California.*

- ◆ In 1990, nine percent, or 14.2 million working age people, were limited in the amount of work they could do - that is, they had some disability interfering with work.

Source: *“Disability Statistics Abstract” (No. 4, May 1992), *ibid.**

- ◆ Over half of this group - 7.9 million people - were not working at all or were receiving Social Security benefits.

Source: *Ibid.*

- ◆ Employers reported nearly 60.4 million lost workdays from occupational injuries and illnesses in 1990.

Source: *“Survey of Occupational Injuries and Illnesses in 1990,” U.S. Bureau of Labor Statistics, November, 1991.*

- ◆ Annual costs for short and long term disability in 1989 exceeded \$87 billion, while medical expenses for disability related conditions added another \$80 billion to the cost.

Source: *Monroe Berkowitz and Carolyn Greene, “Disability Expenditures,” American Rehabilitation, Vol. 15, #1, Spring 1989.*

- ◆ Three out of ten working individuals between the ages of 35 and 65 are disabled for 90 days or longer.

Source: *1987 Commissioners Group Disability Table, Society of Actuaries.*

- ◆ Nearly one in seven individuals will become disabled for five years or more prior to age 65. That number increases to nearly one in five in the group between 35 and 65.

Source: *Ibid.*

The risk of income loss due to disability is real and can financially devastate a disabled employee who is unable to work.

What are the Employer's Options if Disability Occurs?

Continue the employee's salary

If a key employee becomes disabled, the employer often feels morally obligated to continue the employee's salary. After all, if that employee recovers, the employer wants him/her back. If he or she does not recover, the employer is faced with the dilemma of having to pay both the replacement employee's salary and the disabled employee's salary. Can employers afford to pay two salaries?

Stop paying the employee's salary

This is a difficult decision to make, especially for a long term employee. A decision like this could have a negative impact on employee morale and the company's reputation.

Rely on Social Security Disability (SSD) Benefits

This is a common response from many employers and employees, but there are two flaws in relying on Social Security. First, the Social Security Administration's definition of total disability is very strict. It defines disability as "the inability to engage in substantial and gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or which has lasted or can be expected to last for a continuous period of not less than 12 months." Statistics reveal that the Social Security Administration denies more initial claims than it approves.

Secondly, even if an insured qualifies for SSD benefits, the maximum benefit may fall short of replacing the insured's actual earnings.

The bottom line is that neither employers nor employees can rely on Social Security.

Why Employees Need Income Protection

- ◆ Provides the employee with a reliable source of income in the event of a disability. For many, savings will not last and Social Security is not enough.
- ◆ Affords the employee the opportunity to return to work on a part-time or limited basis as dictated by the disability without losing LTD benefits.
- ◆ Provides comprehensive rehabilitation opportunities in the event of disability.
- ◆ Offers affordable coverage to employees. The cost is much lower than that of a comparable individual disability policy.

Why Employers Need LTD

- ◆ LTD is an attractive and highly competitive employee benefit for use in recruiting and retaining the best, most talented people.
- ◆ Many employers feel socially responsible for providing disabled employees with some source of income.
- ◆ LTD is a practical and cost-effective way to continue income for a valued employee who becomes disabled and can no longer work.

- ◆ An employer could face the dilemma of having to pay double salaries:
 - Continuation of disabled's salary
 - Additional salary for replacement employee
- ◆ LTD premium may be tax-deductible. (Employer contributions are generally considered a business expense.)

Why You Should Sell LTD

- ◆ LTD will expand your product portfolio.
- ◆ LTD is a door opener to other lines of coverage.
- ◆ LTD gives you something to talk about with those brokers and agents with whom you are not currently working.
- ◆ LTD provides you with an additional source of income.
- ◆ LTD is a stable, low maintenance product with high persistency.
- ◆ If you don't sell LTD, someone else will - which may jeopardize your other inforce lines.

Why Brokers And Agents Should Sell LTD

- ◆ By not offering LTD to his/her clients, a broker/agent is leaving money on the table.
- ◆ LTD provides a broker/agent with an additional opportunity to call on his/her clients.
- ◆ If a broker/agent does not offer LTD to his/her clients, he or she runs the risk of letting another broker/agent get a foot in the door.
- ◆ Group LTD cases have high persistency. Most cases are not shopped annually and require minimal service.
- ◆ LTD is a valuable coverage. It is appropriate for a broker/agent to offer his/her clients the opportunity to purchase this important protection.

II. Designing an LTD Plan

Designing an LTD plan is not as difficult as you might think. However, there are important considerations for both the first-time buyer and the replacement buyer.

First-Time Buyer

What needs is the plan design trying to meet?

- ❖ To what degree is cost an issue? (i.e., balancing cost and plan design)
- ❖ Are there specific people or classes the employer is most interested in covering? If so, what are their characteristics and how do you design the plan to meet their needs?
- ❖ Do all eligible employees need or desire the same level of benefits? Should you consider a split class plan design?

Replacement of an Existing LTD Plan

What needs is the plan design trying to meet?

- ❖ Why is the case being shopped? Cost? Benefits? Service?
- ❖ Do you need to match the inforce plan? If you do, could you propose other plan designs as creative alternatives?
- ❖ How do the features of your contract meet the needs of the policyholder better than their current carrier?

Once the client's needs have been determined, you can begin designing the plan.

An LTD plan can be broken down into three categories:

- A. CORE - There are eight provisions that determine design and cost of a plan.
 1. Benefit Percentage
 2. Elimination Period
 3. Maximum Monthly Benefit
 4. Definition of Disability
 5. Definition of Partial Disability
 6. Integration Method
 7. Benefit Period
 8. Pre-Existing Conditions Exclusions

- B. STANDARD - Provisions that are included in all LTD policies.
 - 1. Accumulation of Elimination Period
 - 2. Continuity of Coverage
 - 3. Basic Monthly Earnings
 - 4. Waiting Period
 - 5. Cost of Living Freeze
 - 6. Full Maternity
 - 7. Recurrent Disability
 - 8. Three Month Survivor Benefit
 - 9. Mental Illness Limitation
 - 10. Waiver of Premium
 - 11. Rate Guarantee

- C. OPTIONAL - Provisions that enhance the “richness” of the plan, as well as the cost.
 - 1. Cost of Living Adjustment
 - 2. One Year Survivor Benefit
 - 3. Two Year Survivor Benefit
 - 4. Retirement Income Protection
 - 5. Indexing
 - 6. Conversion Privilege

A. Core Plan Options

Standard options are highlighted in ***bold and italics***.

1. Benefit Percentage

The LTD product is designed to replace a reasonable portion of income lost due to a disabling injury or illness. Income covered is referred to as Basic Monthly Earnings (BME). Part of the replacement amount is based on the elected benefit percentage. Cost increases as the benefit percentage increases:

Available options include:

- ◆ 50% of monthly salary (BME)
(Tip: low cost plan)
- ◆ ***60% of monthly salary (BME)***
(Tip: standard option)
- ◆ 66 2/3% of monthly salary (BME)
(Tip: rich benefit plan for professionals or management carve-outs)
- ◆ 70% of monthly salary (BME)
(Tip: richest and most expensive benefit plan)

Example:

Monthly Salary = \$5,000

Benefit Percentage = 60%

Calculation:

$\$5,000 \times 60\% = \$3,000$ gross monthly LTD benefit

2. Elimination Period

An elimination period is a period of continuous disability before benefits are payable. It is sometimes referred to as the qualifying period. The elimination period will influence the cost of the plan (i.e., shorter elimination periods are more costly).

To avoid duplication of benefits, the elimination period should take into account any short term disability coverage or salary continuation provided. Ideally, you “dovetail” the two plans.

For example, if short term disability benefits are provided for up to 13 weeks, then a 90-day elimination period for LTD would be appropriate.

Available options:

- ◆ 30 days
- ◆ 60 days
- ◆ ***90 days***
- ◆ 120 days
- ◆ 150 days
- ◆ ***180 days***
- ◆ 360 days

Tip: Most plans have a ***90 or 180 day elimination period*** to dovetail LTD with STD.

3. Maximum Monthly Benefit

We offer a standard monthly maximum of **\$6,000**. Higher maximums (up to \$30,000) are available for most industries, depending on underwriting restrictions. The maximum is determined by using the average of the top five salaries.

Upper Limit Maximum Calculations:

President	\$200,000	
V.P.	180,000	
V.P.	150,000	
V.P.	145,000	
Asst. V.P.	<u>125,000</u>	
	\$800,000	
	Avg. Annual Salary	Avg. Monthly Salary
	↓	↓

$$\$800,000 \div 5 = \$160,000 \div 12 = \$13,333$$

$$\$13,333 \times 60\%^* = \$8,000$$

\$8,000 is the Maximum Monthly Benefit

***Plan % of Basic Monthly Earnings**

To determine the highest maximum earnings level covered by any given maximum amount, you must divide the maximum by the benefit percentage. For example, a plan providing a benefit of 60% of basic monthly earnings to a maximum of \$8,000 would cover monthly salaries to \$13,333. ($\$8,000 \div .60 = \$13,333$)

The chosen maximum is used to develop the covered payroll of the group. This covered payroll, when multiplied by the rate, determines the monthly cost of the plan.

4. Definitions of Disability

The following definitions are available.

A. Total Disability:

- ◆ ***The insured is unable to perform all of the duties of his/her own occupation on a full-time basis.***
- ◆ ***If totally disabled, the insured's gross benefit would be the plan benefit percentage multiplied by the insured's monthly pre-disability earnings.***

Example:

- ◆ ***60% Benefit***
- ◆ ***\$6,000 Maximum Monthly Benefit***
- ◆ ***Insured's Pre-disability Earnings \$2,000/month***

Calculation:

$$60\% \times \$2,000 = \$1,200 \text{ a month Total Disability Benefit.}$$

B. 24-Month Own Occupation Definition of Disability

- ◆ **After 24 months of benefits, the insured must be disabled from any occupation for which he or she is reasonably fitted by training, education, experience, age and physical and mental capacity.**
- ◆ **Benefits are payable as long as the insured is disabled and is earning less than 80 percent of his/her pre-disability earnings.**

C. 36-Month Own Occupation Definition of Disability

- ◆ After 36 months of benefits, the insured must be disabled from any occupation for which he or she is reasonably fitted by training, education, experience, age and physical and mental capacity.
- ◆ Benefits are payable as long as the insured is disabled and is **earning less than 80 percent** of his/her pre-disability earnings.

D. 60-Month Own Occupation Definition of Disability

- ◆ After 60 months of benefits, the insured must be disabled from any occupation for which he or she is reasonably fitted by training, education, experience, age and physical and mental capacity.
- ◆ Benefits are payable as long as the insured is disabled and is **earning less than 80 percent** of his/her pre-disability earnings.

E. Extensive Own Occupation Definition of Disability

- ◆ Benefits will be paid until the insured reaches the end of the benefit duration, as long as the insured is disabled and is **earning less than 80 percent** of his/her pre-disability earnings.

Note: With all of the above, pilot/co-pilot language is standard.

5. Definitions of Partial Disability

Two options for partial disability are standardly available:

A. Progressive Partial Disability

A progressive partial disability benefit will be paid for a disability which is caused by a sickness or injury once the insured has met the elimination period. The elimination period can be satisfied with total disability, partial disability, or a combination of both. The insured does not have to be totally disabled prior to receiving a progressive partial disability benefit.

After the insured has satisfied the elimination period, he or she will be able to qualify for a benefit if he or she is:

1. Able to perform one or more, but not all, of the material and substantial duties of his/her own or any other occupation on a full-time or part-time basis; or
2. Able to perform all of the material and substantial duties of his/her own or any occupation on a part-time basis.

To qualify for the benefit, the insured must be **earning less than 80 percent** of his/her partial pre-disability income at the time partial disability employment begins.

The progressive partial disability benefit will be the **lesser of:**

1. The benefit percentage multiplied by the insured's pre-disability income; or
2. 100 percent of the insured's pre-disability income, less any income received from other income benefits, which include earnings from any form of employment; or
3. The maximum monthly benefit. The progressive partial disability benefits are payable to the end of the benefit duration or until the disabled insured's earnings from employment **exceed 85 percent** of his/her pre-disability income earnings.

Example:

\$4,000 Earnings prior to disability 60% Benefit
\$5,000 Maximum Benefit
\$2,000 Partial Disability Earnings

Calculation:

60% of \$4,000		\$2,400
100% Pre-disability		\$4,000
Less current earnings	=	<u>\$2,000</u>
		\$2,000
Maximum Monthly Benefit		\$5,000

LTD Benefit is \$2,000 since it is the lesser of the three calculations.

B. Partial Disability

The insured will be able to qualify for a partial disability benefit if he or she is:

1. Able to perform one or more, but not all, of the material and substantial duties of his/her own or any other occupation on a full-time or part-time basis; or
2. Able to perform all of the material and substantial duties of his/her own or any occupation on a part-time basis.

To qualify for the benefit, the insured must be **earning less than 80 percent** of his/her pre-disability income at the time partial disability employment begins. Provided proof that he or she is partially disabled from a sickness or injury following a period of total disability for which benefits were payable, a partial benefit will be paid.

The partial disability benefit will be the **lesser of:**

1. The benefit percentage multiplied by the insured's pre-disability income; or
2. 100 percent of the insured's pre-disability income, less any income received from other income benefit, which includes earnings from any form of employment; or
3. The maximum monthly benefit.

The partial disability benefits are payable to the end of the benefit duration or until the disabled insured's earnings from employment **exceed 85 percent** of his/her pre- disability earnings.

Example:

Same calculation as progressive partial disability.

C. EDGE I with Partial Plus

If as a result of a disability an insured has experienced a loss of earnings, he or she may be eligible to receive a monthly benefit. To be eligible, the insured must satisfy the elimination period with a period of partial disability, total disability, or any combination thereof, and must be employed in his/her own occupation or another occupation and **earning less than 80 percent** of his/her pre-disability earnings. The following formula will be used to calculate the EDGE I with partial plus benefit:

1. During the first 12 months, the monthly benefit will be calculated according to the total disability calculation, but it will not be reduced by any earnings until the gross monthly benefit plus the insured's earnings exceed 100 percent of his/her pre-disability earnings. The monthly benefit will then be reduced by that excess amount.
2. After 12 months, the following formula will be used to calculate the monthly benefit:

$$(A \div B) \times C$$

- A = The insured's indexed pre- disability earnings minus the insured's monthly earnings received while he or she is disabled
B = The insured's indexed pre- disability earnings
C = The total disability benefit.

"Indexed Pre-disability Earnings" means the insured's basic monthly earnings in effect just prior to the date the disability began, increased annually by the lesser of ten percent or the current percentage increase in the Consumer Price Index, and adjusted on the first anniversary of benefit payments and each anniversary thereafter.

If the insured is earning **less than 20 percent** of his/her pre-disability earnings a total disability benefit will be paid.

The monthly benefit will be payable to the end of the benefit duration or until the disabled insured's current earnings **exceed 85 percent** of his/her pre-disability earnings.

The monthly benefit will never be less than the minimum monthly benefit.

Year 1 Example:

\$4,000 Earnings prior to disability 60% Benefit
\$5,000 Maximum Benefit
\$2,400 Total Disability Benefit
\$2,000 Current Earnings

Calculation:

$$A = \$2,000 (\$4,000 - \$2,000)$$

$$B = \$4,000$$

$$C = \$2,400$$

$$A (2,000) (B (4,000) \times C (2,400) = \$1,200$$

\$1,200 (benefit) + \$2,000 (current earnings) = \$3,200 or 80% of pre-disability earnings.

Year 2 Example:

\$4,280 Indexed Earnings prior to disability 60% Benefit

\$5,000 Maximum Benefit

\$2,400 Total Disability Benefit

\$2,500 Current Earnings

Calculation:

$$A = \$1,780 (\$4,280 - \$2,500)$$

$$B = \$4,280$$

$$C = \$2,400$$

$$A (1,780) (B (4,280) \times C (2,400) = \$1,008$$

\$1,008 (benefit) + \$2,500 (current earnings) = \$3,508 or 88% pre-disability earnings.

6. Integration Methods

Benefits will be offset by amounts that the insured is eligible for or receives from other income sources.

Available options include:

A. **Primary and Family Social Security Offset**

The LTD benefit is reduced, dollar for dollar, by Primary and Family benefits, and all other income benefits (see page 11) related to the disability. Primary and Family is the least expensive integration method and is the most commonly requested and sold LTD integration approach.

Example:

Claimant Social Security	\$600
Award for Spouse and Child	+\$300
Total Social Security Award	\$900
60% of BME to \$3,000 Maximum Monthly Benefit	
Monthly Salary \$2,000	

Calculation:

	\$2,000
	x .60
Monthly Benefit	\$1,200
Less Social Security Award for	
Claimant (Primary & Family Benefits)	-\$900
LTD Benefit	\$300

Note: Benefit + Social Security Award = 60% of earnings.

Primary and Family is sometimes referred to as FULL integration or just FAMILY integration.

B. Primary Only Social Security Offset

The LTD benefit is reduced, dollar for dollar, by the Primary Social Security award and any other income benefits. (See page 11), except for Family Social Security benefits. Any dependent (Family Social Security) benefits which may be paid are disregarded by the insurer and not used to reduce policy benefits.

Example:

Claimant Social Security	\$600
Award for Spouse and Child	+ <u>\$300</u>
Total Social Security Award	\$900

60% of BME to \$3,000 Maximum Monthly Benefit
Monthly Salary \$2,000

Calculation:

	\$2,000
	x <u>.60</u>
Monthly Benefit	\$1,200
Less Social Security award for Claimant	- <u>\$600</u>
LTD Benefit	\$600

C. "All Sources" Integration

This option allows a corridor of "other" benefits to be paid before any integration occurs. The corridor is usually ten percent of the insured's monthly earnings. This approach is intended to be an upgrade to the Primary and Family benefit. It allows the higher paid employees to receive a richer benefit.

The benefit paid is equal to the **lesser of:**

1. The benefit percentage (typically 50 or 60 percent) of the insured's basic monthly earnings with no integration with other income benefits; or
2. A higher benefit percentage (typically 70 percent) of the insured's basic monthly earnings integrated with other income benefits; or
3. The Maximum Monthly Benefit (non-integrated).

Example:

Monthly Salary	\$5,000
Maximum Monthly Benefit	\$3,000
Monthly LTD Benefit (60%)	\$3,000
Primary & Family Social Security (SS) Award	\$862
70% "All Sources" Integration	

Calculation:

To calculate the “All Sources” benefit, take the lesser of:

- | | | |
|----|---|------------------------------------|
| 1. | LTD benefit, 60% of BME | \$3,000 |
| 2. | 70% of BME minus
Primary & Family SS | \$3,500
- <u>862</u>
\$2,638 |
| 3. | The Maximum Monthly Benefit | \$3,000 |

The LTD benefit is \$2,638 since it is the lesser of the three figures calculated.

Note: This integration method is the most expensive of the four options and should only be used when cost of the plan is not a factor.

D. “Backdoor” Integration

This method adds an unusual twist by combining features from the Primary integration approach and the “All Sources” approach.

The monthly benefit is an amount equal to the **lesser of:**

1. The benefit percentage (typically 50 or 60 percent) of the insured’s basic monthly earnings, less all other income benefits listed in the policy, except Family benefits; or
2. A higher benefit percentage (typically 70 percent) of the insured’s basic monthly earnings, less all other income benefits, including Family benefits; or
3. The Maximum Monthly Benefit.

Example:

Monthly Salary	\$5,000
Maximum Monthly Benefit	\$3,000
Monthly LTD Benefit (60%)	\$3,000
Family SS Award	\$362
Primary SS Award	\$500
70% Backdoor Integration	

Calculation:

To calculate the “Backdoor” benefit, take the **lesser of:**

- | | | |
|----|--|--------------------------------------|
| 1. | LTD benefit, 60% of BME less
other income, except Family SS | \$3,000
- <u>\$500</u>
\$2,500 |
| 2. | 70% of BME less other income,
including Family SS | \$3,500
- <u>\$862</u>
\$2,638 |
| 3. | The Maximum Monthly Benefit | \$3,000 |

The LTD benefit is \$2,500 since it is the lesser of the three calculations.

Other Income Benefits

Other income benefits represent additional income that the claimant may receive due to his/her disability or retirement, in addition to his/her LTD benefit.

The following other income benefits will reduce the LTD payment amount:

1. The amount of temporary and/or permanent benefits/awards under:
 - a. Workers' or Workmen's Compensation Law;
 - b. occupational disease law; or
 - c. any other act or law of like intent.
2. The amount of any disability income benefits for which the insured is eligible under any compulsory benefit act or law.
3. The amount of any disability income benefits for which the insured is eligible under:
 - a. any other group insurance plan of the employer;
 - b. any government retirement system as a result of his/her job with the employer.
4. The amount of benefits from the employer's retirement plan the insured:
 - a. receives as disability benefits;
 - b. voluntarily elects to receive as retirement benefits; and/or
 - c. receives as retirement benefits when the insured reaches the greater of:
 - i. age 62; or
 - ii. normal retirement age as defined in the employer's retirement plan.

As used here, "receives" does not include any amount rolled over or transferred to any eligible retirement plan, as that term is defined in Section 402 of the Internal Revenue Code of 1986 and any future amendments to Section 402 which affect the definition of an eligible retirement plan.

5. The amount of disability or retirement benefits under the United States Social Security Act, the Canada Pension Plan, the Quebec Pension Plan, or any similar plan or act, as follows:
 - a. disability benefits for which the insured is eligible;
 - b. retirement benefits the insured voluntarily elects to receive;
 - c. if the family Social Security integration option has been sold on the plan, the following benefits which apply to the insured's spouse, child, or children:
 - i. disability benefits for which they are eligible because of the insured's disability;
 - ii. retirement benefits they receive because of the insured's receipt of his/her retirement benefits.
6. The amount of earnings the insured receives from any sick leave or formal salary continuation plan paid by the employer.

7. The amount of earnings the insured earns or receives from any form of employment.

These other income benefits, except retirement benefits, must be payable as a result of the same disability for which the policy pays a benefit.

Items 5.b. and 5.c.ii. will not apply to disabilities which begin after age 70 for an insured already receiving Social Security retirement benefits while continuing to work beyond age 70.

Other Income Benefits which are not integrated:

- ◆ No-fault automobile insurance benefits;
- ◆ Any individual disability income policy;
- ◆ Distributions from profit-sharing plans, thrift plans, Individual Retirement Accounts (IRAs), Tax Sheltered Annuities (TSAs), Stock Ownership Plans, 401(k) plans, or non-qualified plans of deferred compensation;
- ◆ The portion of retirement benefits attributed to employee contributions;
- ◆ Any professional, franchise, or association disability income plan unless purchased through the employer;
- ◆ Informal salary continuation plans by the employer (unless part of a group insurance plan or unless specifically requested);
- ◆ Retirement plans carried over from another employer;
- ◆ Military disability benefits.

7. Benefit Period

When designing an LTD plan, you must determine the maximum length of the benefit period. There are several options to choose from depending on your client's needs (e.g., is cost a factor or not?).

All options were developed to comply with the Age Discrimination Employment Act (ADEA).

Available options include:

A. Reducing Benefit Duration Plan (RBD):

The maximum benefit available under this plan pays all eligible insureds disabled prior to age 60 until they reach age 65 (not less than five years of benefits will be paid).

For insureds disabled at or after age 60, this provision follows an actuarially determined schedule of decreasing benefit durations until age 69.

If disability occurs on or after age 69, benefits are payable for one year.

<u>Age at Disability</u>	<u>Maximum Benefit Period</u>
<i>Less than 60</i>	<i>To age 65</i>
<i>60</i>	<i>60 months</i>
<i>61</i>	<i>48 months</i>
<i>62</i>	<i>42 months</i>
<i>63</i>	<i>36 months</i>
<i>64</i>	<i>30 months</i>
<i>65</i>	<i>24 months</i>
<i>66</i>	<i>21 months</i>
<i>67</i>	<i>18 months</i>
<i>68</i>	<i>15 months</i>
<i>69 and older</i>	<i>12 months</i>

Tip: This benefit is our standard and is the most commonly sold Benefit Period.

B. (65/5/70):

<u>Age at Disability</u>	<u>Maximum Benefit Period</u>
Less than age 60	To age 65
60-64	5 Years
65-69	To age 70 (but not less than 1 year)
70 and over	1 year

C. To Age 70:

<u>Age at Disability</u>	<u>Maximum Benefit Period</u>
Less than age 69	To age 70
69 and over	1 year

D. Two Years or to Age 70:

<u>Age at Disability</u>	<u>Maximum Benefit Period</u>
Less than age 68	2 years
68-69	To age 70 (but not less than 1 year)
70 and over	1 year

E. Five Years or to Age 70:

<u>Age at Disability</u>	<u>Maximum Benefit Period</u>
Less than age 65	5 years
65-69	To age 70 (but not less than 1 year)
70 and over	1 year

F. Ten Years or to Age 70:

<u>Age at Disability</u>	<u>Maximum Benefit Period</u>
Less than age 60	10 years
60-69	To age 70 (but not less than 1 year)
70 and over	1 year

8. Pre-existing Conditions Exclusions

A pre-existing condition is a sickness or injury for which the insured received medical treatment, consultation, care or services, including diagnostic measures, or had taken prescribed drugs or medicines prior to his/her effective date of coverage. If a disability is caused or contributed to by a pre-existing condition, it will not be covered unless certain criteria are met.

Note: The following pre-existing exclusions are subject to state regulations.

Available options include:

A. 3/6/12 Exclusion

Benefits will not be paid for a disability which occurs in the first 12 months of coverage if it is contributed to or caused by a pre-existing condition for which the insured was treated in the three months prior to his/her effective date of coverage, unless no treatment was received for six consecutive months after the insured's effective date.

Standard for groups of 25+ lives

Tip: Most commonly sold pre-existing condition exclusion.

B. 12/6/24 Exclusion

Benefits for disabilities caused by sickness or injury which occur in the first 24 months of coverage will not be paid if it was contributed to or caused by a pre-existing condition for which the insured was treated in the first 12 months prior to his/her effective date of coverage unless, no treatment was received for six consecutive months after the insured's effective date.

Required for groups with 10-24 lives.

Tip: This is a low cost alternative to the 3/6/12 exclusion.

Note: This is an exclusion; not a limitation.

C. 5-Day Actively-At-Work Exclusion

For any insured who receives treatment for a sickness or injury 30 days prior to his/her effective date of coverage, he or she must work five consecutive days to be eligible for benefits for a disability that is contributed to or caused by that sickness or injury.

Available to groups with 100+ lives and groups with 50-99 lives, if there is less than ten percent High Risk occupational content.

B. Standard Provisions

1. Accumulation of Elimination Period

The insured can return to work during the elimination period for a specified period of time without having to begin a new elimination period. The days can be consecutive or intermittent.

<u>Elimination Period</u>	<u>Number of Days Allowed</u>
90 days or less	up to 7 days
greater than 90 days	up to 14 days

2. Continuity of Coverage (No Loss/No Gain)

The insured will not lose coverage due solely to a change in carriers. Protects insureds who are not actively at work and/or have a pre-existing condition during a change in insurance carriers.

How continuity of coverage works with a pre-existing condition (pre-ex):

- A. Apply our pre-ex. If satisfied, pay our benefit. If not satisfied:
- B. Apply the prior carrier's pre-ex. If satisfied, pay benefits in accordance with our plan, not to exceed the prior carrier's maximum monthly benefit.
- C. If neither are satisfied, no benefit is paid. (The insured would not have received benefits even if carriers had not changed.)

3. Basic Monthly Earnings (BME)

The BME definition establishes what earnings will be used to determine both premium and benefits.

Standardly, the BME is the insured's monthly rate of earnings from the employer in effect just prior to the date disability begins.

However, commissions and bonuses can be included as part of the insured's earnings. If included, it is important to note whether the BME is based on a W-2 form, rolling 12 month cycle, federal income tax return, etc.

Note: A variety of options are available to suit the needs of the policyholder

4. Waiting Period

The period of time an employee must satisfy before being eligible for insurance.

5. Cost of Living Freeze

Once a monthly LTD benefit is established, it will not be further reduced due to any cost of living increases from other benefit sources. This provision does not apply to increases received from any form of employment.

6. Full Maternity

Disability caused by pregnancy or complications of pregnancy is covered as any other sickness.

7. Minimum Monthly Benefit

The insured is guaranteed a minimum monthly benefit of ten percent of the gross monthly benefit or \$100, whichever is greater. (**Exceptions:** Missouri is 15 percent of the gross monthly benefit or \$100, whichever is greater, municipalities have a standard \$50.)

8. Recurrent Disability

Allows continuation of benefits if insured returns to work for less than six months and is again disabled by the same or related causes. A new elimination period does not need to be satisfied.

9. Three Month Survivor Benefit

A lump sum benefit equal to three times the insured's gross monthly benefit is payable to an eligible survivor or estate provided the insured was disabled for six months and was receiving a monthly benefit at the time of death.

10. Mental Illness Limitation

A disability resulting from a mental illness is limited to 24 months, unless the insured is hospital confined. Subject to a price adjustment, this limit can be removed on cases with 50 or more lives.

Note: A disability resulting from mental illness, alcoholism or drug addiction is limited to 24 months, unless the insured is hospital confined. (Note: The addition of alcohol and drug addiction wording is required for municipalities.)

11. Waiving Premium

Premium is waived while benefits are payable.

12. Rate Guarantee

Proposals:

<500 Lives

Two year - standard

>500 Lives

One year - standard

Renewals:

<200 Lives

Two year - standard

>200 Lives

One year - standard

Any other options are subject to underwriter approval.

C. Optional Provisions

1. Cost of Living Adjustment (COLA)

Adjustment made to the net monthly benefit on the anniversary of total disability benefit payments. Policyholder selects adjustment percentage between one and six percent. Policyholder selects adjustment period (five years, ten years, or to the end of the maximum benefit period).

Note: COLA is applied to the benefit amount and does not apply to indexing.

2. One Year Survivor Benefit

If an insured dies after being disabled for 180 days and while receiving benefits, the eligible survivor or estate will be paid 12 months of benefits. Payments will equal two thirds of the last monthly benefit.

3. Two Year Survivor Benefit

If an insured dies after being disabled for 12 months and while receiving benefits, the eligible survivor or estate will be paid 24 months of benefits. Payments will equal two thirds of the last monthly benefit.

4. Retirement Income Protection

Designed to cover a pension contribution on behalf of an insured while he or she is totally disabled.

Benefit contributes between one and 15 percent of the insured's basic monthly earnings to a 401(k) or a pension plan while the insured is receiving disability benefits. The benefit is paid to the employer for deposit on behalf of the insured.

5. Indexing

When calculating the EDGE (benefit, the insured's pre-disability earnings are increased by the **lesser of:**

- A. average annual increase in the Consumer Price Index (CPI); or
- B. ten percent.

Indexing occurs on the first anniversary of benefit payments and continues annually for the benefit period.

Indexing is intended to prevent the loss of benefits due to inflationary increases to partial disability earnings.

Note: Indexing applies to the EDGE I calculation. It is applied to **earnings** not benefit amounts.

6. Conversion

A privilege which allows an insured to convert to a different insurance plan without providing evidence of insurability when an individual's coverage under the group plan terminates.

III. LTD Underwriting

LTD rates are comprised of five factors:

1. Type of industry
2. Occupational content (high risk percentage)
3. Employee demographics (age, gender, earnings)
4. LTD plan experience (groups over 200 lives only)
5. Plan design - as discussed in the previous section.

Each of these factors must be considered in order to obtain an LTD rate for a prospective group.

1. Industry Classifications

Industries have been classified by Standard Industrial Classification (SIC) codes. For the purposes of rating, industries are classified as follows:

A. Eligible

In general, companies which are financially secure, non-cyclical and are in a positive growth pattern represent good LTD risks. We will allow up to 80 percent “high risk” occupational content from “eligible” industries. Please note, however, that although an industry may be “eligible” it may contain occupations that are ineligible. (e.g., insurance carriers are “eligible”, however an insurance agent receiving renewal commissions is an “ineligible” occupation.) Please refer to the occupational listing (beginning on page 20) for additional ineligible occupations.

B. Limited Eligibility

For these industries, we offer coverage only to “low risk” occupations or those occupations appearing as “special consideration.” Refer to occupational listing for definitions and examples of “special consideration” occupations. The content of “special consideration” occupations, if determined to be “high risk,” cannot exceed 80 percent of the “eligible” employees.

C. Ineligible

These industries are generally “ineligible” for LTD coverage.

D. Send to Underwriting

Underwriter review is required on these industries. Coverage may or may not be offered at the underwriter’s discretion.

On the following pages you will find an industry classification list indicating specific industry eligibility for LTD coverage.

Note: These industry classes represent the standard guidelines. Exceptions to the guidelines will be considered on a case-by-case basis. Classifications are subject to change.

Industry Classifications

<u>SIC Range</u>	<u>Industry Description</u>	<u>Eligibility</u>
01XX-09XX EXCEPT 0742	AGRICULTURE/FORESTRY/FISHING	LIMITED
0742	VETERINARY SERVICES-NON LIVESTOCK	ELIGIBLE
10XX-14XX	MINING	LIMITED
15XX EXCEPT 152X	GENERAL CONTRACTORS-NON RESIDENTIAL	ELIGIBLE
152X	GENERAL CONTRACTORS-RESIDENTIAL	INELIGIBLE
16XX	HEAVY CONSTRUCTION-NON BUILDING	LIMITED
17XX	SPECIAL TRADE CONTRACTORS	ELIGIBLE
20XX EXCEPT 201X	FOOD PRODUCTS EXCEPT MEAT AND POULTRY	ELIGIBLE
201X	FOOD PRODUCTS - MEAT, POULTRY AND EGGS	INELIGIBLE
21XX	TOBACCO MANUFACTURERS	ELIGIBLE
22XX	TEXTILE MILL PRODUCTS	ELIGIBLE
231X-238X	APPAREL MANUFACTURERS	INELIGIBLE
239X	FINISHED FABRIC PRODUCTS-NON APPAREL	ELIGIBLE
241X-242X	LOGGING/SAW MILLS	LIMITED
243X-249X	LUMBER AND WOOD PRODUCTS	ELIGIBLE
25XX	FURNITURE AND FIXTURES	ELIGIBLE
26XX	PAPER AND ALLIED PRODUCTS	ELIGIBLE
27XX	PRINTING AND PUBLISHING	ELIGIBLE
281X	INDUSTRIAL INORGANIC CHEMICALS	LIMITED
282X-286X,2893-2899	CHEMICALS AND ALLIED PRODUCTS	ELIGIBLE
2873-2892	FERTILIZERS/PESTICIDES/EXPLOSIVES	INELIGIBLE
29XX	PETROLEUM AND COAL PRODUCTS	ELIGIBLE
30XX	RUBBER/PLASTIC PRODUCTS	ELIGIBLE
31XX	LEATHER PRODUCTS	ELIGIBLE
32XX EXCEPT 3292	STONE/CLAY/GLASS	ELIGIBLE
3292	ASBESTOS	INELIGIBLE
33XX EXCEPT 332X	PRIMARY METAL INDUSTRY-EXCEPT FOUNDRIES	LIMITED
332X	IRON AND STEEL FOUNDRIES	INELIGIBLE
34XX EXCEPT 3482-3483	FABRICATED METAL PRODUCTS	ELIGIBLE
3482-3483	AMMUNITION	INELIGIBLE
35XX	INDUSTRIAL MACHINERY AND EQUIPMENT	ELIGIBLE
36XX	ELECTRONIC AND ELECTRICAL EQUIPMENT	ELIGIBLE
37XX	TRANSPORTATION EQUIPMENT	ELIGIBLE
38XX	INSTRUMENTS AND RELATED PRODUCTS	ELIGIBLE
39XX	MISCELLANEOUS MANUFACTURING	ELIGIBLE
40XX	RAILROAD TRANSPORTATION	SEND TO UND.
41XX	LOCAL AND INTERURBAN PASSENGER TRANSPORT	SEND TO UND.
42XX	TRUCKING AND WAREHOUSING	INELIGIBLE

Industry Classifications

<u>SIC Range</u>	<u>Industry Description</u>	<u>Eligibility</u>
4311	U.S. POSTAL SERVICE	INELIGIBLE
44XX	WATER TRANSPORTATION	INELIGIBLE
45XX	AIR TRANSPORTATION	INELIGIBLE
46XX	PIPELINES, EXCEPT NATURAL GAS	ELIGIBLE
47XX EXCEPT 4783,4785	TRANSPORTATION ARRANGEMENT	ELIGIBLE
4783,4785	SHIPPING SERVICES	LIMITED
48XX	COMMUNICATION	ELIGIBLE
49XX EXCEPT 495X	UTILITIES EXCEPT SANITARY SERVICES	ELIGIBLE
495X	SANITARY SERVICES	LIMITED
50XX EXCEPT 5012	WHOLESALE TRADE-DURABLES EXCEPT AUTOS	ELIGIBLE
5012	WHOLESALE TRADE-MOTOR VEHICLES	LIMITED
51XX	WHOLESALE TRADE-NONDURABLE GOODS	ELIGIBLE
52XX	BUILDING MATERIAL/HARDWARE/GARDEN SUPPLY	ELIGIBLE
53XX	GENERAL MERCHANDISE STORES	ELIGIBLE
54XX	FOOD STORES	ELIGIBLE
55XX EXCEPT 554X	AUTOMOTIVE DEALERS	SEND TO UND.
554X	GASOLINE SERVICE STATIONS	INELIGIBLE
56XX	APPAREL AND ACCESSORY STORES	ELIGIBLE
57XX	FURNITURE AND HOME FURNISHINGS STORES	ELIGIBLE
58XX	EATING AND DRINKING PLACES	LIMITED
59XX EXCEPT 592X	MISCELLANEOUS RETAIL	ELIGIBLE
592X	LIQUOR STORES	INELIGIBLE
60XX	BANKS AND DEPOSITORY INSTITUTIONS	ELIGIBLE
61XX	CREDIT AGENCIES AND MORTGAGE BANKERS	ELIGIBLE
62XX EXCEPT 621X,622X	SECURITY/COMMODITY EXCHANGES AND SERVICES	ELIGIBLE
621X,622X	SECURITY/COMMODITY BROKERS	INELIGIBLE
63XX	INSURANCE CARRIERS	ELIGIBLE
64XX	INSURANCE AGENTS, BROKERS AND SERVICES	ELIGIBLE
65XX	REAL ESTATE	ELIGIBLE
67XX	HOLDING/INVESTMENT COMPANIES	SEND TO UND.
70XX EXCEPT 701X	LODGING EXCEPT HOTELS/MOTELS	LIMITED
701X	HOTELS/MOTELS	SEND TO UND.
721X,7299	LAUNDRY AND MISC. PERSONAL SERVICES	LIMITED
722X,726X,7291	PHOTO STUDIOS/FUNERAL SERVICE/TAX RETURN	ELIGIBLE
723X-725X	BEAUTY AND BARBER SHOPS/SHOESHINE AND REPAIR	INELIGIBLE
731X	ADVERTISING	ELIGIBLE
732X,733X,735X,7361,737X, 7384-89	MISC. BUSINESS SERVICES	ELIGIBLE

Industry Classifications

<u>SIC Range</u>	<u>Industry Description</u>	<u>Eligibility</u>
734X	CLEANING AND SERVICES TO BUILDINGS	LIMITED
7363	HELP SUPPLY SERVICES	SEND TO UND.
7381	DETECTIVE AND ARMORED CAR SERVICES	INELIGIBLE
7382	SECURITY SYSTEMS SERVICES	LIMITED
7383	NEWS SYNDICATES	INELIGIBLE
75XX	AUTO REPAIR, SERVICES AND PARKING	INELIGIBLE
76XX	MISCELLANEOUS REPAIR SERVICES	ELIGIBLE
781X	MOTION PICTURE PRODUCTION AND SERVICES	INELIGIBLE
782X,784X	MOTION PICTURE DISTRIBUTION AND TAPE RENTAL	ELIGIBLE
783X	MOTION PICTURE THEATERS	LIMITED
79XX	AMUSEMENT AND RECREATION SERVICES	INELIGIBLE
801X-804X	DOCTORS AND DENTISTS	ELIGIBLE
805X-809X	HOSPITALS, NURSING HOMES, MISC. HEALTH	ELIGIBLE
81XX	LEGAL SERVICES	ELIGIBLE
821X	ELEMENTARY AND SECONDARY SCHOOLS	ELIGIBLE
822X	COLLEGES AND UNIVERSITIES	ELIGIBLE
823X-829X	LIBRARIES, VOC. SCHOOLS AND EDUCATION SERVICES	ELIGIBLE
83XX	SOCIAL SERVICES	SEND TO UND.
84XX	MUSEUMS/GARDENS	SEND TO UND.
86XX EXCEPT 863X,866X	MEMBERSHIP ORGANIZATIONS	ELIGIBLE
863X	LABOR ORGANIZATIONS	INELIGIBLE
866X	RELIGIOUS ORGANIZATIONS	SEND TO UND.
87XX	ENGINEERING AND MANAGEMENT SERVICES	ELIGIBLE
88XX	PRIVATE HOUSEHOLDS	INELIGIBLE
89XX	MISCELLANEOUS SERVICES	ELIGIBLE
91XX	MUNICIPALITIES	SEND TO UND.
92XX - 97XX	NON-MUNICIPAL GOVERNMENT ENTITIES	INELIGIBLE
9999	NON-CLASSIFIABLE ESTABLISHMENTS	SEND TO UND.

2. Occupational Guidelines

Claim frequencies vary from one occupation to another. Important considerations in LTD underwriting are:

- ◆ Incentive insureds have to return to work
- ◆ Occupational hazards (i.e., physical and mental requirements)
- ◆ Education or training requirements of an occupation

On the following pages you will find an occupational classification list indicating specific occupational eligibility for LTD coverage.

For purposes of rating, occupations are classified as follows:

A. Low Risk

Generally, “low risk” employees are engaged in executive, managerial, professional, technical or clerical positions. Duties are primarily performed in an office environment with limited or no manual duties. These occupations are particularly good risks and may comprise as much as 100 percent of the total number of eligible lives.

B. High Risk

Generally, these occupations involve hazardous, stressful, heavy manual duties, or require minimal training. These occupations must not exceed 80 percent of the total number of eligible lives.

C. Ineligible

These occupations are not good risks and therefore are generally “ineligible” for LTD coverage.

D. Special Consideration

These occupations may be “low risk” or “high risk” depending upon the exact nature of duties and the education/training required to fulfill the job responsibilities. “High risk” content cannot exceed 80 percent of the total number of eligible lives. Please obtain a description of duties before processing the proposal in order to determine the appropriate classification.

E. Union Employees

Groups with more than 50 percent “high risk” union workers will not be eligible for coverage. Exceptions can be made for utilities, municipalities and hospitals. Special wording is required for these exceptions. In situations where special wording is not permitted, “high risk” union groups will not be eligible for coverage.

Occupational Classifications

<u>Occupation</u>	<u>Classification</u>	<u>Occupation</u>	<u>Classification</u>
Account Manager	Low Risk	Cable Worker	High Risk
Accountant	Low Risk	Cafeteria Worker	High Risk
Actor	Ineligible	Cameraman	Low Risk
Actuary	Low Risk	Carpenter	High Risk
Administrator	Low Risk	Carpet Layer	High Risk
Agent-Advertising	Low Risk	Checker	High Risk
Agent-Real Estate:		Chef	High Risk
- Residential	Ineligible	Chemical Worker (Manufacturing)	High Risk
- Commercial	Low Risk	Chemist	Special Consideration
Air Traffic Controller	Ineligible	Chief Surveyor	Special Consideration
Airplane Pilot	High Risk	Childcare/Daycare Worker	High Risk
Analyst	Low Risk	Chiropractor	Low Risk
Announcer on Air TV & Radio (DJ)	High Risk	Cinematographer	Low Risk
Appraiser	Low Risk	Civil Engineer:	
Architect	Low Risk	- w/ Field Duties	High Risk
Artist:		- w/o Field Duties	Low Risk
- Commercial	Low Risk	Cleaner/Launderer	High Risk
- Freelance	Ineligible	Clergy member	Low Risk
Assembly Worker	High Risk	(refer to end of listing for concerns)	
Assistant Manager	High Risk	Clerk (Clerical, Office)	Low Risk
Attorney	Low Risk	Clothing Engineer	Low Risk
Auctioneer	High Risk	Coach	High Risk
Auditor	Low Risk	Collector (Accounts)	Low Risk
Auto Mechanic	High Risk	Compositor	Low Risk
Automobile/Truck Sales	High Risk	Computer Operator	Low Risk
Automotive Service	High Risk	Construction Superintendent	Special Consideration
Baker	High Risk	Construction Worker	High Risk
Bank Employee (excluding guard and custodian)	Low Risk	Cook	High Risk
Barber	High Risk	Counter Clerk (Sales Clerk)	High Risk
Beautician	High Risk	Creamery/Dairy Employees	High Risk
Boilermaker	High Risk	Custodian	High Risk
Bond Trader	Low Risk	Deliveryman	High Risk
Bookkeeper	Low Risk	Dental Assistant	Low Risk
Broker	Low Risk	Dental Hygienist	Low Risk
Busboy	Ineligible	Dentist	Low Risk
Butcher	High Risk		
Buyer	Low Risk		
Cabinet Maker	High Risk		

Occupational Classifications (cont.)

<u>Occupation</u>	<u>Classification</u>	<u>Occupation</u>	<u>Classification</u>
Department Manager	Special Consideration	General Contractor	Low Risk
Detective	High Risk	Geologist	Low Risk
Die Maker	High Risk	Golf Pro	High Risk
Dietary Aide	High Risk	Grocery Clerk	High Risk
Dietician w/degree	Low Risk	Groundskeeper	High Risk
Dispatcher	High Risk	Guard	High Risk
Diver	Ineligible	Hospital Aide/Assistant	High Risk
Dock Worker	Ineligible	Hostess	Ineligible
Draftsman	Low Risk	Housekeeper	High Risk
Driller:		Independent City Planner	Low Risk
- Except Oil	High Risk	Inspector	Special Consideration
- Oil	Ineligible	Installer	High Risk
Driver: (refer to end of listing for concerns/long haul)		Insurance Agent:	
- Long Haul	High Risk	- w/ Renewal Comm.	Ineligible
- Short Haul	High Risk	- w/o Renewal Comm.	Low Risk
Economist	Low Risk	Interior Decorator	Low Risk
Editor	Low Risk	Intern	Low Risk
Electrical Power Worker	High Risk	Inventory Clerk (manual duties)	High Risk
Electrician	High Risk	Janitor	High Risk
Elevator Installer/Repairer	High Risk	Jeweler (no sales)	Low Risk
Elevator Operator	High Risk	Kitchen Employees	High Risk
Emergency Medical Technician (EMT)	High Risk	Laboratory Technician/Assistant/Aide	Special Consideration
Engineer:		Landscaper	High Risk
- w/ Field Duties	High Risk	Leadman	High Risk
- w/o Field Duties	Low Risk	Leased Employee	Ineligible
Engraver	Low Risk	Librarian	Low Risk
Entertainer	Ineligible	Licensed Practical Nurse (LPN)	High Risk
Equipment Operator	High Risk	Logger	Ineligible
Estimator	Low Risk	Longshoreman	Ineligible
Exterminator	Ineligible	Lumberman	Ineligible
Farm Worker	Ineligible	Machinist	High Risk
Firefighter	High Risk	Mail Clerk	Low Risk
Fisherman	Ineligible	Maintenance	High Risk
Flight Attendant	Ineligible	Manager (Office)	Low Risk
Foreman	Special Consideration	Manager (Restaurant, Plan, Department)	Special Consideration
Forest/Game Warden	High Risk		
Funeral Director	Low Risk		
Gardener	High Risk		

Occupational Classifications *(cont.)*

<u>Occupation</u>	<u>Classification</u>	<u>Occupation</u>	<u>Classification</u>
Mason	High Risk	Personnel and Labor Relations	Low Risk
Material Handler	High Risk	Pharmacist	Low Risk
Mathematician	Low Risk	Photographer	Low Risk
Mechanic	High Risk	Physical Therapist	Low Risk
Medical Secretary	Low Risk	Physician	Low Risk
Medical Technician	Low Risk	Pilot	High Risk
Merchandiser (pkg. & material handling)	High Risk	Pipefitter	High Risk
Messenger	High Risk	Plumber	High Risk
Meter Reader	High Risk	Policeman	High Risk
Mill Worker	High Risk	Porter	High Risk
Mine Worker	Ineligible	Pressman	High Risk
Minister (refer to end of listing for concerns)	Low Risk	Priest (refer to end of listing for concerns)	Low Risk
Mortician	Low Risk	Printer	High Risk
Musician (Orchestra)	High Risk	Prison Employee	Ineligible
Nun (refer to end of listing for concerns)	Low Risk	Production	High Risk
Nurse	High Risk	Professor	Low Risk
Nurse Practitioner	Low Risk	Programmer	Low Risk
Printer	High Risk	Project Engineer: - w/ Field Duties	High Risk
Nurse's Aide	High Risk	- w/o Field Duties	Low Risk
Nutritionist w/ degree	Low Risk	Proprietor/Owner	Low Risk
Occupational Therapist	Low Risk	Psychiatrist	Low Risk
Oceanographer	Low Risk	Psychologist	Low Risk
Office Equipment Repairman	Low Risk	Public Relations	Low Risk
Office Worker	Low Risk	Purchasing Agent	Low Risk
Oil/Gas Delivery	High Risk	Quality Control Worker	Special Consideration
Optometrist	Low Risk	Quarry Worker	Ineligible
Order Clerk (no warehouse duties)	Low Risk	Radio Engineer	Low Risk
Orderly	High Risk	Radio, TV Service or Repair	High Risk
Osteopath	Low Risk	Railroad Worker	High Risk
Packer	High Risk	Real Estate Agent/Broker: - Commercial	Low Risk
Painter	High Risk	- Residential	Ineligible
Paramedic	High Risk	Registered Nurse: - Supervisory	Low Risk
Parts/Service Clerk	High Risk	- Non-Supervisory	High Risk
Party Chief	Special Consideration		

Occupational Classifications *(cont.)*

<u>Occupation</u>	<u>Classification</u>	<u>Occupation</u>	<u>Classification</u>
Religious - Organization Members: (Priest, Minister, Nun, etc.) (refer to end of listing for concerns)	Low Risk	Surgeon	Low Risk
Repairman: - Office	Low Risk	Surveyor (Crew)	High Risk
- Non-Office	High Risk	Switchboard Operator	Low Risk
Reporter (Newspaper, Court)	Low Risk	Tailor	High Risk
Repossessor	Ineligible	Taxi Driver	High Risk
Restaurant Manager	Special Consideration	Teacher	Low Risk
Rodman (Surveying Crew)	High Risk	Teacher's Aide	Low Risk
Roofer	High Risk	Technician	Special Consideration
Routeman	High Risk	Telephone/Telegraph Lineman, Repairman or Installer	High Risk
Sales Clerk (Retail Counter Sales, Floor Sales)	High Risk	Tennis Pro	High Risk
Salesman: - Demonstrator	Low Risk	Tester	High Risk
- Door-to-Door	High Risk	Tile Layer	High Risk
Saloon/Bar Employee	High Risk	Timekeeper	Low Risk
School Bus Driver	High Risk	Toolmaker	High Risk
Scientist	Low Risk	Travel Agent	Low Risk
Secretary	Low Risk	Tree Surgeon	Ineligible
Service Station Manager Or Attendant	Ineligible	Truck Driver	High Risk
Ship Employee	Ineligible	Typesetter	Low Risk
Shipping/Receiving Clerk	High Risk	Typist	Low Risk
Social Worker	Special Consideration	Underwriter	Low Risk
Statistician	Low Risk	Veterinarian	Low Risk
Steam Fitter	High Risk	Warehouseman	High Risk
Steel Worker	Ineligible	Watch Repairman	High Risk
Stenographer	Low Risk	Watchman	High Risk
Stevedore	Ineligible	Welder	High Risk
Steward	Ineligible	Wholesale Sales	Low Risk
Stock Clerk	High Risk	Window Washer	High Risk
Stone Mason/Stone Worker	High Risk	Wirer	High Risk
Supervisor	Special Consideration	Wood Cutter	Ineligible
		Wood Worker	High Risk
		Waiter	Ineligible
		Waitress	Ineligible
		X-ray Technician	Low Risk
		Zoologist	Low Risk

The following occupations require additional information when considering a quote. Please contact your underwriter prior to quoting.

OCCUPATION

CONCERNS

Long Haul Drivers

- Salary:
Difficult to determine eligible earnings due to various methods of payment (e.g., per trip, mileage.)
- Independent contractor versus employee/ employer relationship

Members of Religious Organizations

- Free room and board
- Oath of poverty
- Allowances (car, clothing, food, transportation, etc.)
- Would salary cease in event of disability?

Any employee receiving living allowances (e.g., house parent, residential manager, apartment complex manager)

- Allowances (housing, car, etc.)

3. Employee Demographics

A. Age:

The higher the average age of the group, the higher the potential incidence of LTD claims. Groups with higher than average ages will generally have higher LTD rates. As people age, they are typically earning more. The result is increased incidence at higher payout levels.

B. Gender:

Generally, females exhibit a lower incidence of LTD claims and the average monthly benefits for females tend to be lower. However, during child bearing years, the incidence increases sharply due to maternity related claims. Therefore, rates for shorter elimination periods will reflect this increased incidence.

C. Earnings:

Generally, occupations receiving a relatively low wage are poor experience risks, since a career path or incentive to return to work is not present. Many of these jobs require little skill or independent judgment, or are hazardous.

4. Plan Experience

LTD claims tend to be low in frequency but high in severity. Typically, only three to five insureds per 1,000 become eligible for benefits every year. But when an eligible insured becomes disabled, the potential liability is high.

LTD plan experience is not utilized in rating until groups are over 200 lives.

- ◆ <200 life groups are manually rated, and experience is not generally taken into account.
- ◆ >200 lives - experience of an account is used to help determine rate. The most recent three years of experience is used. The larger the account, the more credibility is given to the experience of the account in determining the appropriate rate.

5. Eligibility Guidelines

Eligible Employees:

All full-time employees working a minimum of 30 hours per week are eligible. Part-time employees and those not working regular hours or employees working less than 30 hours are unacceptable.

Exceptions:

Schools - 20 hours per week (minimum)

Eligibility of 20 hours per week - restricted use only. Liberalized on a case-by-case basis with underwriter approval.

IV. INFORMATION NEEDED TO QUOTE LTD

The following information is needed for cases with:

Less than 200 Lives:

1. Full name and complete address of policyholder.
2. Specific nature of business (four digit SIC code)
3. Definition of eligibility:
 - ◆ number of employees eligible for LTD
 - ◆ clearly defined classes, if multiple classes for rating or benefits, differentiation is requested.
4. For each eligible employee:
 - ◆ gender
 - ◆ birth date or age
 - ◆ salary
 - ◆ job title - occupation
5. It is very helpful to have a copy of the current carrier's policy or certificate to assist in matching or enhancing the inforce plan.

200 or More Lives:

In addition to the information needed for less than 200 lives, you also need the following for each of the prior three years:

1. Copy of policy or certificate
2. Paid premium/paid claim history
3. Rate history
4. Open claims:
 - ◆ age at disability
 - ◆ date of disability
 - ◆ monthly benefit (net of Social Security)
 - ◆ cause of disability (if available)
 - ◆ occupation (if available)

V. QUOTING AND PRESENTATION TIPS

Obtaining the most Competitive Quote

The following points are vital to obtaining the most competitive quotation on a prospect. The following information should be shared with an underwriter when you consult him for assistance, rate relief, or special consideration:

1. Prior plan, carrier, and competition
 - ◆ Why is the policyholder switching LTD carriers?
 - ◆ Details as specific as possible - who, what plans and what rate?
 - ◆ Is your quote really “apples to apples”?
2. What plan are you quoting? Expect to provide the plan design from the application, computer worksheet, or computer rating.
3. Industry - how was the exact four digit SIC determined?
4. Are you quoting other lines of business?
Do you have other inforce business?
5. What do you feel is significant about the risk? Sell your underwriter on the merits of the risk policyholder, broker/agent, etc.
6. What exactly will it take to sell this case?

Preparing an LTD Proposal for Presentation

LTD is unfamiliar to many brokers and buyers. Therefore, it comes across to many as a complicated product. Breaking the product down for the broker and the consumer can assist your sales efforts greatly because your prospects will understand the product they are purchasing.

LTD can be broken into eight major points. If you are well versed in these major points, and your proposal and cover letter lay them out effectively, you should be well prepared to present your product.

1. Benefit Percentage
2. Maximum Monthly Benefit
3. Elimination Period
4. Definition of Disability
5. Definition of Partial Disability
6. Integration Method
7. Benefit Period
8. Pre-Existing Conditions Exclusion

Of course, there are other features of an LTD contract that may be important to the sale of the product. However, the above benefits represent the core of the product.

VI. SALES TIPS

The following factors can be as valuable to an LTD sale as rate, contract, and plan design:

- ◆ **Packaging:** Sell the combination of product lines, if possible. There is a comfort factor in having all coverages, or as many coverages as possible, under one carrier. It is easier for the client to deal with only one insurer.
- ◆ **Sell Your Company's Strengths:** Sell the strengths your company brings to the marketplace.
- ◆ **Sell Yourself as an LTD Resource:**
 - volunteer to make sales presentations
 - volunteer to do spreadsheets
 - develop direct mail material
- ◆ **Home-Office Billing:** Many LTD carriers use self-accounting billing procedures. Maintaining the billing records on a monthly basis is a time-consuming process for the insurer, therefore, a home office billed product may be very appealing.
- ◆ **Play on Your Field:** Volunteer to do a proposal or contract comparison. Put the competition on the defensive by laying out your strong points and forcing them to respond to how you have laid out the comparison.
- ◆ **Monthly Dollar Costs, Not Rates:** LTD is inexpensive in comparison to other lines of coverage because you are dealing with only small percentages of covered payroll. Typically, rates are usually less than two percent of payroll. A fairly big difference in a rate does not necessarily mean a big net cost difference. Therefore, break it down to actual premium dollars.

Example:

Number of lives = 20
 Average Salary = \$24,000
 Monthly Covered Payroll = \$40,000
 Your rate = .50%
 Competition's rate = .45%

Calculation:

<u>You</u>		<u>Competition</u>	
\$ 40,000	Covered Payroll	\$ 40,000	Covered Payroll
<u>X .50</u>	Rate	<u>X .45</u>	Rate
\$ 200	/Monthly Premium	\$ 180	/Monthly Premium
 \$200 ÷ 20 = \$10.00 (monthly cost/employee)		 \$180 ÷ 20 = \$9.00 (monthly cost/employee)	

Your rate represents a difference of \$1.00 per employee or, said another way, only a \$20.00 per month difference in actual cost for the entire group.

If you break the process down to this level, you can sell the small difference in actual cost.

- ◆ **Claims Services:** Sell your company's claims paying ability. Particularly for larger groups, claims handling is an important issue. (See page 31 for more details.)

Claims Services

Social Security Approval Assistance

Assisting a claimant in obtaining a Social Security award is an important service your company provides. A Social Security approval is good for the policyholder and the claimant. Advantages of receiving Social Security are:

1. A disabled insured becomes eligible for Medicare after two years of disability.
2. A disabled insured will continue to have dollars go toward his/her Social Security retirement benefits. If he or she does not have a Social Security approval, zero dollars will be averaged for his/her quarters of disability, which could significantly reduce the retirement benefit.
3. The policyholder will have better claims experience due to the Social Security offset in the contract. Therefore, for larger accounts which are experience rated, the result will be more stable rates on the LTD.

In the 1980s, the Social Security Administration had an approval average of 36 percent.* That means approximately one out of three people who applied were approved.

Your company assists clients to receive a Social Security approval. Normally, the approval ratio of your company will be more than double the 36 percent Social Security average.

**Social Security Administration, 1989*

Rehabilitation

- ◆ Claims are reviewed on a monthly basis - rehabilitation candidates identified
- ◆ Rehabilitation process managed and monitored by Certified Rehabilitation Coordinator (CRC)
- ◆ Full-time representative for on-site claimant visits
- ◆ Consulting physician provides advice and clarification on claims issues
- ◆ Consulting physician provides recommendations on additional claims information to be obtained

Medical Expertise

- ◆ Working hand-in-hand with claims personnel
- ◆ Seven full-time staff physicians, plus . . .
- ◆ Regional Consulting Physician (RCP) program. The RCP program is a network of physicians available for expert consultation from the following specialties:
 - Occupational medicine
 - Physical medicine and rehabilitation
 - Cardiology
 - Internal medicine with special interest in rehabilitation of stroke patients
 - Invasive cardiology
 - Psychiatry
- ◆ Physicians provide clarification, guidance, and training for claims personnel.

VII. SOLD CASE PROCESS

When the plan design is finalized and the case is sold, please submit the following information to your company's home office:

1. Application

The application must be completed, signed and dated by the policyholder.

2. Contributory Cases

Completed enrollment cards are required for all new and late enrollees on contributory cases to determine who elected or declined LTD coverage.

Note: It is the responsibility of the policyholder to maintain individual enrollment cards on all employees.

3. Non-Contributory Cases

Employee census must contain name, date of birth, gender, salary and occupation for all employees.

(As all eligible employees are considered enrolled under a non-contributory plan, no enrollment cards are needed.)

4. Prior Carrier's Policy

If the group previously had LTD coverage, a copy of the prior policy is needed to administer continuity of coverage. The case is rated using the submitted census data. If data has changed from the original quote (e.g., number of lives, classes, occupations, salaries), the case will be underwritten again to determine the acceptability of the group, policy provisions and the rate to be charged.

Your underwriter will confirm final rates by letter and/or telephone.

Note: The census should accurately reflect eligibility as of the effective date of the policy.

VIII. GLOSSARY OF INSURANCE TERMS

-A-

Accumulated Sick Leave - The number of sick leave days accumulated by an employee. Usually used in conjunction with the policy elimination period.

Accumulation of Elimination Period - If disability stops during the elimination period for a specified number of days (varies by elimination period), then the disability will be treated as continuous. However, days that the insured is not disabled will not count toward the elimination period. Typically, seven days for a 30-90 day elimination period and 14 days for an elimination period of more than 90 days.

Adverse Selection - The tendency of poorer risks to seek or continue insurance to a greater extent than normal risks; the process by which risks not contemplated by the insurance company become insured.

Affiliate - Corporations related through common ownership of their securities or interlocking directorates (definitions differ by state laws). Commonly can be covered under the same LTD plan as other affiliates.

Age Discrimination in Employment Act (ADEA) - This Federal law prohibits discrimination on the basis of age in such matters as hiring, job retention, compensation (e.g., benefits) and other terms, conditions and privileges of employment. Compliance is the responsibility of the policyholder. The protected ages are 40 and older.

“All Sources” Integration - Sometimes called an indirect offset. Basically, it allows a corridor of “other” benefits to be paid before any integration occurs. Under this approach, the insured receives a benefit equal to the lesser of:

1. The benefit percentage (typically 50 or 60 percent) of the insured’s basic monthly earnings (with no integration with other income benefits); or
2. A higher percentage (typically 70 percent) of the insured’s basic monthly earnings integrated with other income benefits; or
3. The maximum monthly benefit.

“All Sources” plans must be written with Primary and Family Social Security offset.

Amendment - A legal document changing the provisions of the master policy, signed jointly by the insurance company and an authorized representative of the policyholder.

Anniversary Date - The date on which the policy becomes effective and at 12-month intervals from the original effective date.

Annual Salary - Earnings in effect for the 12 month period immediately prior to the date disability begins. Annual salary includes all earnings before any deductions. It generally does not include bonuses, overtime pay and extra compensation, other than commissions. Commissions may be averaged over the 12 month period prior to the date disability begins.

Associated Groups - A collection of individuals with some common bond (e.g., Bar Association, American Medical Association).

-B-

“Backdoor” Integration - Under the “backdoor” approach, the insurer will pay an eligible insured a benefit equal to the **lesser of**:

1. The benefit percentage, (typically 50 or 60 percent) of the insured’s basic monthly earnings, less other income benefits except Family Social Security; or
2. A higher benefit percentage, (typically 70 percent) of the insured’s basic monthly earnings, less all other income benefits, including Family Social Security; or
3. The maximum monthly benefit.

Other income benefits are deducted from a percentage of salary, rather than the maximum benefit for the higher paid insureds. In addition, the “backdoor” approach provides a higher benefit to the insured who has dependents than it does to the insured with no dependents. The rationale is that the insured with dependents will have higher fixed expenses than the insured with no dependents.

Base Rate - The starting rate that is developed according to covered salaries, demographics of the group and basic plan design.

Basic Monthly Earnings (BME)* - The insured’s monthly rate of earnings from the employer in effect just prior to the date disability begins. It does not include bonuses, overtime pay and other extra compensation.

***Note:** This is the standard policy definition for BME. Other options are available.

Benefit - The amount payable by the insurance company to a claimant, assignee, or beneficiary under each coverage.

Benefit Percentage - The percent of covered salary allowed under the contract to determine the benefit payable.

Benefit Period - The duration an insured is paid a benefit when he or she is disabled.

-C-

Carve-Out - To quote on only a portion of an entire group that is eligible for LTD (e.g., all full-time salaried employees, full-time managers, all full-time teachers earning \$30,000 or more per year).

Case Rate - The rate derived by combining the experience rate and the manual rate. The experience rate is weighted by the credibility factor and the manual rate is weighted by (1-credibility factor).

Cash Sickness Plan - See State Disability Plan.

Census Data - Statistical information such as date of birth, gender, income, or occupation on persons eligible for or insured under a group policy. This information is used to determine premium rates or benefits.

Claim Frequency - A measurement of the use of a plan of insurance. It is the number of claims in a given period. Typically for LTD, three to five claims per 1,000 insureds are expected annually.

Claim Reserve - Funds reserved by an insurer to settle incurred but unpaid claims; may also include reserves for potential claim fluctuation.

Class - The category into which an insured is placed in the schedule of insurance in order to determine the amount of coverage for which he or she is eligible under the policy. For LTD, under current legislation, coverage does not have to be offered to all classes of employees (see Carve-Out). If coverage is offered to a class, all employees in that class must be offered coverage.

Closed Claim - A claim for which all contractual benefits have been paid. Closed claim information is needed to experience rate cases greater than 200 lives.

Complications of Pregnancy - Pregnancy complicated by concurrent disease or abnormal conditions significantly affecting usual medical management.

Constant Premium - In experience rating proposals and inforce cases, the purpose is to evaluate the adequacy of the current rate. Premiums must be adjusted to reflect changes in the rate level.

Constant Rate Factor (CRF) - Constant rating factors adjust actual premium paid on a case to reflect any changes in rates due to experience rate changes.

Constant Rating - Experience rating attempts to project future experience based on past performance. To evaluate the adequacy of the inforce rate, all of the past experience must be based on the same rate basis. Thus, we convert all premium to what would have been paid if the current rate had been inforce for the entire period of time. Constant rating is used for rate changes due to experience and not benefit/plan changes.

Consumer Price Index (CPI) - An index measuring the change in the cost of typical wage earner purchases of goods and services, expressed as a percentage of the cost of these same goods and services in some base year.

Continuity of Coverage - This provision assures that a person insured by the prior carrier does not lose coverage solely because of a change in carrier. Continuity of coverage is a standard feature on all takeover cases.

Contribution - That part of insurance premiums paid by either the policyholder or the insured, or both.

Contributory Insurance - Insurance for which the insured is required to make a premium contribution. Seventy-five percent participation is required.

Conversion - This privilege allows an insured to convert to a different insurance plan without providing evidence of insurability when coverage under the group plan terminates.

Cost of Living Adjustment (COLA) - An adjustment to the claimant's monthly benefit. The percentage increase is chosen by the policyholder within limits. (See "Optional Provisions" section of guide for options.)

An insured will be eligible for COLA on the first anniversary of total disability benefit payments and each following anniversary, to the end of the duration chosen.

Cost of Living Freeze - After the first deduction for each of the other income benefits, the monthly benefit will not be further reduced due to any cost of living increases payable under these other income benefits.

Covered Payroll - The amount of salary that will be covered by the LTD payroll. Used in calculating the premium and indemnity.

Credibility Factor - Actuarial factors based on the number of lives, gender and age distribution of a group, which are used to determine how much weight is put on the pure experience rate.

-D-

Deficit Reduction Act of 1984 (DEFRA) - Concerns LTD plans that are funded through voluntary employee beneficiary associations, VEBAs. The intention is to stop employees from over-funding self-insured benefit plans in order to avoid paying taxes.

Disability - A physical or mental condition which makes an insured incapable of performing one or more duties of his/her occupation, or any occupation.

Disability Benefits - When the insurer receives proof that an insured is disabled due to sickness or injury and requires the regular attendance of a physician, the insurer will pay the insured a monthly benefit after the end of the elimination period. (Refer to contract for proof of disability and the duration of benefits.)

Disability Income - Payments received from life and health policies when an insured is partially or totally disabled due to loss of income because of sickness or injury.

Disability Income Insurance - A form of health insurance that provides periodic payments when the insured is unable or partially able to work as a result of illness, disease, or injury.

Discontinuance and Replacement (D&R) - Discontinuance requires that a prior carrier extend benefits in the event of total disability for liability incurred prior to termination of the contract. Replacement requires the succeeding carrier to provide continuity of coverage in a “no loss/no gain” fashion. (See Continuity of Coverage.)

Division - A unit separated or distinguished from the whole policy of which it is a part, such as a unit in a different state or a unit in a different occupation (e.g., Division 1 - Corporate Headquarters, Division 2 - Subsidiaries).

Duration - The length of time a benefit period continues or lasts.

-E-

Earned Premium - That part of the premium for which coverage (protection) has already been provided and which the insurer has, therefore, “earned.”

Effective Date - The date on which insurance coverage under a policy begins.

Eligibility - The provision of the group policy stating requirements which must be satisfied in order to become insured.

Eligibility Date - The date that the employee first becomes eligible for insurance under this policy.

Eligibility Period - (For Contributory Plans Only) The period of time following the eligibility date (usually 31 days) during which a member of an insured group is eligible to apply for insurance without supplying evidence of insurability.

Elimination Period - A period of consecutive days of disability for which no benefit is payable. The elimination period is shown in the policy specifications and begins on the first day of the disability. (Also referred to as qualifying period.)

Employee Census - See Census Data.

Employee Contribution - That portion of a group insurance premium rate paid by an insured, generally through payroll deduction.

Employee-Pay-All - A term used to describe a group insurance plan under which the insured person pays the entire cost.

Employee Retirement Income Security Act of 1974 (ERISA) - Covers the entire area of employee benefits. It was enacted in an endeavor to provide sweeping reforms in such areas as protection of plan assets, the need to require financial efficiency of existing funds, and the necessity of ensuring and enforcing the rights of participants.

Employer-Employee Groups - Groups made up of employees of a common employer. Group policies may be issued to the employer to cover such employees.

Enrollment - In group insurance, the process of explaining the proposed plan to eligible employees and assisting them to complete their applications for coverage properly.

Enrollment Card - A document signed by the employee as notice of his/her desire to, or not to, participate in the benefits of the group plan. In a contributory case, this card also provides the employer with authorization to deduct contributions from an employee's pay. It also provides the employer with signed evidence that the benefits were offered and declined by those not wishing to participate.

Enrollment Period - Period during which employees may enroll for coverage under a group plan. This period includes the eligibility period and if contributory, the 31-day enrollment period during which employees may enroll for insurance without furnishing evidence of insurability.

Evidence of Insurability - A statement or proof of a person's physical condition and/or other factual information affecting his/her acceptability for insurance.

Exclusion - Specified conditions or circumstances for which the policy does not provide benefits.

Exempt (Exempt Employees) - A classification of employees who are not subject to overtime compensation and working limits under the Fair Labor Standards Act.

Expense Load - A factor applied to the case rate to develop the street rate.

Experience Exhibit - A paid/incurred study:

1. Actual - a study of incurred claims to earned premium.
2. Adjusted - a study of incurred claims, minus time value adjusted to constant rated premium.

Experience Loss Ratio - The term used to describe the relationship between the premiums paid to an insurer and the benefits (including reserves and time value adjustments) paid out over a fixed period of time.

Experience Rate - The rate at which the case would have broken even in the past. The experience rate would have produced premiums adequate to pay expenses and cover the incurred claims actually experienced. If the case was 100 percent credible, the case rate would equal the experience rate.

Experience Rating - The process of determining the premium rate for a group risk wholly or partially on the basis of that risk's experience.



Facultative Reinsurance - A type of reinsurance in which the reinsuring company retains the right to reject any business ceded to it.

Family Integration - See Primary and Family Integration.

Final Application - The application made part of the policy signed by the policyholder on receipt of the policy formally establishing the risk.

Freeze - See Cost of Living Freeze.

Full Integration - See Primary and Family Integration.

Full Maternity - If an insured becomes disabled as a result of a pregnancy or complications of pregnancy, the disability will be covered on the same basis as any other illness.

-G-

Grace Period - Period of time, usually 31 days, following the premium due date in which the insurance remains in force and payment of the premium may be made without penalty.

Gross Monthly Benefit - The insured's monthly benefit before any reductions/offsets.

-H-

Health Insurance - Protection which provides payment of benefits for covered sickness or injury. Included under this heading are various types of insurance such as accident insurance, disability income insurance, medical expense insurance, and accidental death and dismemberment insurance. The term "health insurance" should be used exclusively in referring to the entire class of coverage.

-I-

Incidence Study - A report showing the percentage of expected open claims in relation to actual open claims.

Incurred But Not Reported Period (IBNR) - The elimination period plus one month. A period of time in which the new claim liability is usually unreported and therefore, unknown.

Incurred Claims - Paid claims plus open claim reserves, plus IBNR reserve.

Indemnity - Liability of an insured loss. Calculated as a percentage of covered payroll according to the plan design as chosen by the policyholder.

Indexed Pre-Disability Earnings - Insured's basic monthly earnings in effect just prior to the date his/her disability began, adjusted on the first anniversary of benefit payments and each following anniversary.

Inforce - The total outstanding volume of insurance on the lives of covered employees at any given time. Measured in terms of cases, lives, amount (volume) of insurance, or premium.

Installment Commission Payment - An administrative procedure whereby the commissions to be paid in a policy year are estimated at the beginning of the policy year, divided by the premium frequency, and paid in equal installments each time a premium is paid. An adjustment is made for the last month of the policy year of the total payments and the actual amount that should have been paid.

Integration - In an LTD policy, it is general practice to provide that income benefits from other sources will reduce the benefits under the long term disability plan. Offsetting with other income is used to avoid disability income benefits being higher than the benefit percentage specified in the contract.

Integration Plans - If retirement benefits are not received, the LTD benefit is unaffected. However, benefits received from retirement plans reduce the LTD benefits otherwise payable.

-K-

KEOGH Act or HR-10 - Provides for a tax qualification of plans covering self-employed professionals, owners of unincorporated businesses and their eligible employees. Employee's rights to the benefits must be fully vested and the plan must be non-discriminatory; also known as the Self Employed Individual's Tax Retirement Act.

-L-

Late Applicant - An employee eligible for insurance under a group policy who applies for coverage after expiration of his/her eligibility period. He or she is usually required to furnish evidence of insurability.

Loss Ratio - The ratio between the losses incurred and the premium earned by an insurance company during a specified time.

-M-

Manual Rate - The premium rate developed for a group plan based on standard rate tables and the insurer's underwriting principles, adjusted by applicable loads and discounts.

Maternity - Disabilities caused by pregnancy or complications of pregnancy are covered under LTD as any other illness.

Maternity Rate - A cost included in the base manual rate to cover the income lost due to pregnancy. Typically, the cost is higher on short term elimination periods such as 30 and 60 days.

Maximum Benefit - The maximum monthly amount any insured may receive under an insurance contract.

Maximum Covered Payroll - The maximum amount of monthly earnings for which an insured may be covered. The maximum covered payroll for any insured depends on the maximum monthly benefit and the benefit percentage. For example, a benefit of 60 percent of salary to a maximum benefit of \$2,000 per month produces a maximum covered payroll of \$3,333 per month.

Medical Examination - 1) A physical examination performed for the purpose of providing information for use by an insurance company to determine an employee's acceptability for insurance. 2) Examination of an insured by a physician to determine the extent, validity, or duration of a disability.

Mental Illness - Mental illness refers to disability due to or resulting from psychiatric or psychological conditions, regardless of cause, such as schizophrenia, depression, manic depressive or bipolar illness, anxiety, personality disorders, and/or adjustment disorders or other conditions, usually treated by a mental health provider or other qualified provider using psychotherapy, psychotropic drugs or other similar modalities used in the treatment of the above conditions.

Minimum Benefit - Disabled insureds will not receive less than \$100 or ten percent of the gross monthly benefit, whichever is greater. (Exception: Missouri is 15 percent of the gross monthly benefit or \$100, whichever is greater. A \$50 minimum benefit is required for municipalities.)

Monthly Benefit - The amount payable by the insurer to the disabled insured.

Monthly Indemnity - See Indemnity.

-N-

Non-Contributory Insurance - Insurance for which an insured is not required to make a premium contribution. One hundred percent participation is required.

Non-Medical - Insurance which is issued without a medical examination being required.

-O-

Occupational Hazard - Occupations that expose the insured to greater than normal physical dangers by the very nature of the work in which the insured is engaged.

Of Counsel - Refers to attorneys who are retained by law firms on a part-time or project basis.

Offset - See Integration.

Older Workers Benefit Protection Act of 1990 (OWBPA) - This federal law amends the Age Discrimination in Employment Act by specifically stating that ADEA is applicable to employee benefit plans. It reinforces ADEA's "equal cost or equal benefit" principle to age related reductions in employee benefit plans (i.e., durations need to comply with ADEA requirements). It also prohibits the cessation of the LTD benefits when a disabled insured receives pension benefits.

One Year Survivor Benefit - The insurer will pay a benefit to the eligible survivor or estate when proof is received that the insured died:

1. after total disability had continued for a minimum of 180 days; and
2. while receiving a monthly benefit.

Open Claim Reserves - Company funds set up for active current claims in order to sustain the risk adequately.

Open Enrollment Period - A specified time period during which uninsured persons who did not enroll during their eligibility period may obtain a certain plan of insurance without presenting evidence of insurability to the writing company. Certain guidelines and limitations apply.

-P-

Paid Claims - The total amount of money expended by the insurance company on claims submitted by a policyholder for a specified period of time.

Paid/Incurred - An exhibit which measures the ratio of incurred claims to paid and/or constant premium claims for the purpose of determining the experience of a case.

Partial Disability - Due to sickness or injury, the insured, while unable to perform all the material duties of his/her regular occupation on a full-time basis, is:

1. performing at least one of the material duties of his/her regular occupation or another occupation on a part-time or full-time basis; and
2. currently earning at least 20 percent less per month than his/her indexed pre-disability earnings due to that same sickness or injury.

Participation - Taking part with others in an insurance plan. Seventy-five percent participation is required on contributory cases and one hundred percent on non-contributory cases.

Part-time Employment - The employment status of an employee working anything less than on a full-time basis (namely, less than 30 hours per week). This employment status is significant in the group insurance field because the usual requirement for eligibility is that the applicant be actively employed on a full-time basis.

Pending Claim - A description of the status of a claim for benefits during its processing stage, which is the time period between the date of the first notice of claim is received by the insurer or his/her representative and the date the final determination of the insured's liability is paid or denied.

Pension Contribution - Pays a normal LTD benefit plus an additional benefit to the pension fund to provide a full pension benefit at age 65. (Replaces the portion of the deferred benefit that is lost between age of disability and age 65.)

Period of Disability - The length of time during which an insured is physically or mentally incapable of performing one or more of the material duties of his/her occupation.

Pilot's Rider - With respect to employees employed as pilots, co-pilots and crew members:

Disability means that because of sickness or injury the insured cannot perform each of the material "duties" of any gainful occupation for which he or she is reasonably fitted by training, education, or experience. The loss of a pilot's license, for any reason, does not in itself constitute disability.

Plan Change - A written request submitted to the Home Office from the client representative for the purpose of changing an inforce plan.

Pooled Claims - Claims applicable to pooled risks which are excluded from individual case experience rating or retention.

Pre-Existing Conditions - A sickness or injury for which the insured received medical treatment, consultation, care or services including diagnostic measures, or had taken prescribed drugs or medicines for a specific period prior to the insured's effective date.

Primary and Family Integration - The LTD benefit is reduced, dollar for dollar, by all Social Security benefits paid or payable because of the insured's disability. This includes any benefits payable to eligible spouse and/or children.

Primary Integration - The LTD benefit is reduced, dollar for dollar, by Social Security benefits paid or payable to the insured because of the insured's disability. This does not include benefits payable to the eligible spouse and/or children.

Probationary Period - See Waiting Period.

Progressive Partial Disability - See Partial Disability. (With Progressive Partial, the elimination period can be satisfied with a period of total disability, partial disability, or a combination of both.)



Qualifying Period - See Elimination Period.

-R-

Recurrent Disability - A disability which is related to or due to the same cause(s) as a prior disability for which a monthly benefit was payable.

Reducing Benefit Duration (RBD) - This benefit duration is less costly than other methods and covers those age 70 and over as is required by ADEA.

Rehabilitation -

1. Restoration of a disabled insured to a gainful occupation.
2. A provision in some long term disability income policies that provides for continuation of benefits or other financial assistance while a disabled insured is attempting to work at his/her old job or a new job. This includes being trained for a new job.

Rehire Provision - If a former employee is rehired within one year of the date his/her employment is terminated, previous service in an eligible class will apply towards the waiting period to determine that employee's eligibility date.

Reserves - Funds designated to cover unpaid liabilities for claims incurred during a specific time period.

Residual Disability - "Disability" and "disabled" mean that because of sickness or injury:

1. the insured cannot perform each of the material duties of his/her regular occupation; and
2. after benefits have been paid for the own occupation period, the insured cannot perform each of the material duties of any gainful occupation for which he or she is reasonably fitted by training, education or experience; or
3. the insured, while unable to perform all the material duties of his/her regular occupation on a full-time basis is:
 - a. performing at least one of the material duties of his/her regular occupation or another occupation on a part-time or full-time basis; and
 - b. currently earning at least 20 percent less per month than his/her indexed pre-disability earnings due to that same sickness or injury.

Note: Total disability is not required to qualify for retirement benefits.

Retirement Benefits - Money which is payable under a retirement plan either in a lump sum or in the form of periodic payments. It does not represent contributions made by an employee, and is paid based on the employer's contribution to the retirement plan. (Please refer to the contract for integration of retirement benefits.)

Retirement Income Protection Plan - Designed to continue employee and employer contributions to the employee's retirement investment account during long term disability.

Retirement Plan - A plan which provides retirement benefits to employees and which is not funded wholly by employee contributions. The term does not include a profit-sharing plan, a thrift plan, an individual retirement account (IRA), a tax sheltered annuity (TSA), a stock ownership plan, or a non-qualified plan of deferred compensation.

-S-

Seasonal Worker - A temporary employee, working in an industry or business which limits activity to a certain portion or season of the calendar year. Under normal circumstances, not insurable for LTD.

Self-Accounting - The employer prepares the premium statement for each payment date and submits it with the check to the insurance company. The insurance company has the prerogative to audit the employer's records. Most LTD carriers use this type of billing.

Self-Insurance - Providing insurance benefits financed and administered entirely by the employer, in lieu of purchasing coverage from an insurer.

SIC Codes (Standard Industrial Classification) - SIC codes are part of a standardized classification system developed to promote the comparability of statistics describing various facets of the economy of the nation. These codes are used by businesses for market research. They are used to classify businesses in order to measure experience and make appropriate adjustments as necessary in rates, products, or underwriting rules.

Social Security Act - Federal legislation providing social insurance on a national scale.

Social Security Definition of Disability - The inability to do any substantial work in any occupation for an anticipated period of one year or longer.

Social Security Freeze Forever - Provides that if an insured is disabled after the date the Social Security Freeze is effective and becomes entitled to receive a monthly benefit, the monthly benefit cannot be reduced in the future due to any cost of living increase in Social Security benefits payable.

Split Classes - For rating purposes, the division of a census is called split classes. Different states and different benefits are the two most common reasons for splitting a census.

State Disability Plan - A plan of accident and sickness or disability insurance required by state legislation for those employees doing business within that particular state.

Street Rate - The rate paid by the policyholder.

Subsidiary - An entity which is controlled by virtue of majority (51 percent) stock ownership by the parent firm. Normally can be covered under the same LTD policy as the parent company.

Survivor Benefit (One Year) - see One Year Survivor Benefit.

Survivor Benefit (Three Month) - If after an insured has been continuously disabled for at least 180 days, upon receipt of proof that the insured has died while receiving a benefit, the insurer will pay to the eligible survivor, or estate if there are no survivors, a lump sum benefit equal to three times the gross monthly benefit paid.



Termination Date - The date coverage under the policy ceases.

The Inflation Protector (TIP) - An option to provide an annual increase of \$500 to the maximum monthly benefit. The increased amount will automatically become effective on each anniversary of the policy for four years, or until the maximum benefit equals \$10,000, whichever occurs first.

Third Party Administrator - A person or firm other than the insurer or policyholder hired for administration of the group insurance plan.

Time Value Adjustment - Adjustments to incurred claims are based on the "time value of money." Assigning the actual dollar amount of benefits to its incurred period does not accurately reflect the value of those benefits in the incurred period. The value of the dollars paid after the incurred year is less than the fact amount. In order to reflect the incurred year liability accurately, a six percent annual discount rate is applied to account for the time value of money.

Tolerable Loss Ratio - "Break-Even Point." The maximum percentage of premium available to cover incurred claims without losing money on the case. For example, a tolerable loss ratio of 80 percent means up to 80 cents of every premium dollar can be allocated to cover incurred claims and still remain profitable. The remaining 20 cents covers expenses and profit. The tolerable loss ratio varies with premium size.

Total Covered Payroll - The amount of monthly earnings (within the specified covered payroll limitation) for which all employees are insured under the LTD policy.

Transferred Business - A group insurance plan that is transferred from one insurance carrier to another. The prior carrier has the responsibility of all claims incurred prior to the effective date of the transfer.

Two Year Survivor Benefit - The insurer will pay a benefit to the eligible survivor, or estate, when proof is received that an insured died;

1. after total disability had continued for 12 or more consecutive months; and
2. while receiving a monthly benefit.

This benefit will be paid for two years from the date of death.

-U-

Underwriter - An employee of an insurance company who determines the acceptability of risks and sets premium levels.

-V-

Voluntary Employee Beneficiary Association (VEBA) - A VEBA is a voluntary association of employees organized for the purpose of providing life, sickness, accident or other benefits (not related to retirement) to its members and their dependents.

-W-

Waiting Period - As shown in the policy specifications, means the continuous length of time an employee must serve in an eligible class to reach his/her eligibility date.

Waiver of Premium - Premium payments for an insured are waived during any period for which benefits are payable. Premium payments may be resumed following a period during which they were waived.

-Z-

Zero-Day Residual - See Residual Disability.

PLEASE NOTE:

The Field Marketing Guide provides basic information on the features of the policy. It is not intended to be all inclusive, nor is it designed to duplicate policy provisions. You should contact a company representative for exact policy language, as well as for any limitations and restrictions that may apply.

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