

INCOME REPLACEMENT



IF YOU BECAME SICK OR
HURT AND COULDN'T
WORK, HOW WOULD YOU
PAY YOUR BILLS?

INCOME REPLACEMENT

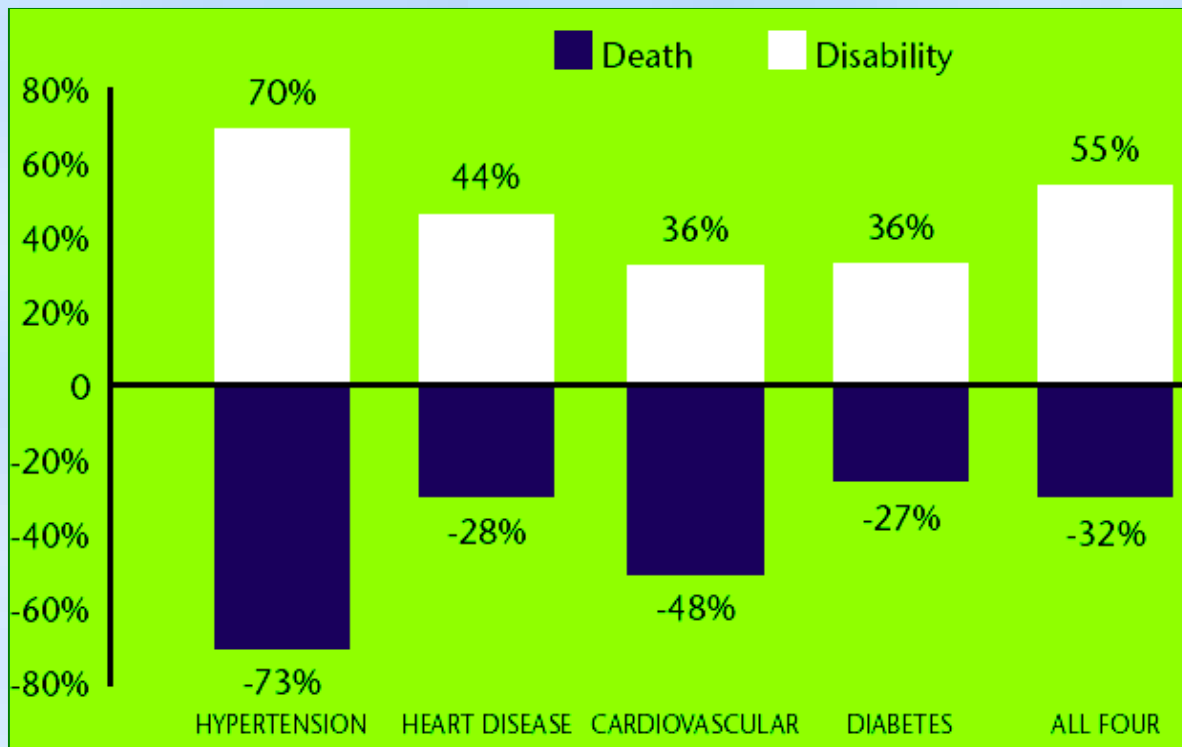
During a prolonged illness or injury, you could lose your income and everything it provides. What are the odds it could happen to you? And what can you do about it?

Myth # 1: It won't happen to me.

The truth is that during the course of your career, you are three and a half times more likely to be injured and need disability coverage than you are to die and need life insurance.

-Health Industry Association of America, 2000

As the following chart illustrates, deaths have decreased while disabilities are up dramatically. For example, the number of deaths due to hypertension have decreased by 73%, yet disabilities due to hypertension have increased 70%.



Source: National Underwriter, May 2002; The JHA Disability Fact Book
2003/2004 Edition – Need for Disability Insurance

In the last 10 minutes, 390 Americans became disabled.

A fatal injury occurs every five minutes and a disabling injury every 1.5 seconds.

There is a death caused by a motor vehicle crash every 12 minutes; there is a disabling injury every 14 seconds.

-National Safety Council, 2001/2003

Nobody wants to think about it, but you must take steps to protect your family and your future from what might happen if you became disabled and could not work.

Understand the need

In the last 20 years, deaths, due to the “big three” (cancer, heart attack and stroke) have gone down significantly. But *disabilities* due to those same three are up dramatically! Things that used to kill, now disable.

-National Underwriter, May 2002

Smooth the road to financial security by making educated choices.

Recent years have hurt more than helped the financial security of most Americans and their families. Savings are low. Personal spending continues to rise, hand-in-glove with consumer debt. Consumers continue to pile on debt and have established a new consumer debt of record of \$1.76 trillion.¹

When it comes to financial security, we are our own best friends – or our own worst enemies. *The choice, for better or worse, is always ours.* Through careful planning and follow-through, achieving financial security and protecting our lifestyle is within our reach.

¹ Safemoneyreport.com, Jul 9, 2003

Does your lifestyle depend on your income?

Would you be able to maintain your standard of living if you were too sick or hurt to work? Probably not. According to the 1997 *Business Almanac*, most people’s savings wouldn’t cover six months’ worth of expenses. Even if you have a spouse who works, could your spouse’s income alone support the whole family? And what would happen to your savings? To your retirement plans? To your children’s opportunity for a college education?

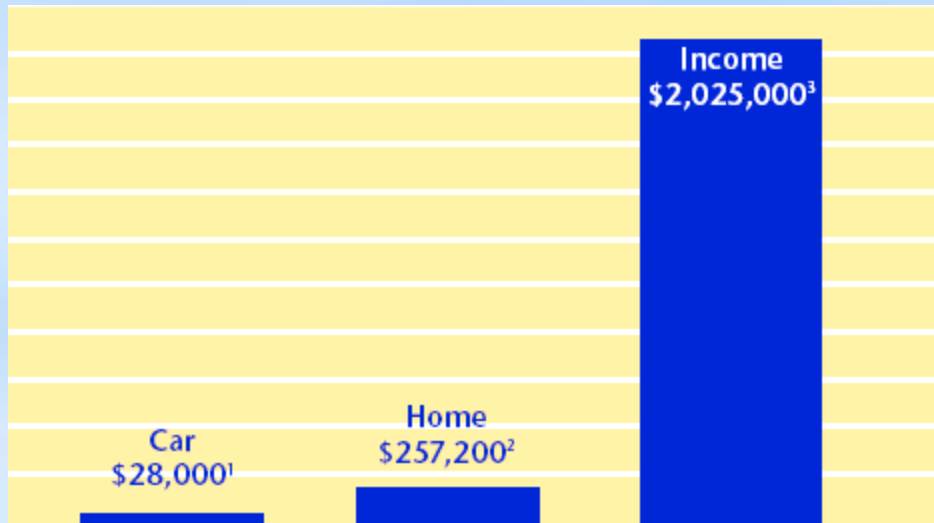
What is your earning potential?

Potential Earnings to Age 65 (with 5% Annual salary increases)

What is your most valuable asset?

There are many components to financial security, but income is the most important of all. Use the chart on the right to estimate how much you'll earn between now and age 65. Then consider all the things that income will buy – Your home, your cars, your food, college, vacations, basically your lifestyle.

Protecting your income allows you to continue to enjoy what it pays for, from now until the day you retire.



Your home may be your *biggest* asset, but your ability to work and earn an income is your *most valuable* asset.

¹ Motor Trend, April 30, 2003

² U.S. Census Bureau, March 24, 2004

³ Projected cumulative income, 35-year-old earning \$3,000/month assuming 4% annual increase to age 65.

ANNUAL INCOME \$50,000	
AGE 30	\$4,516,000
AGE 35	\$3,322,000
AGE 40	\$2,386,000
AGE 45	\$1,653,000

ANNUAL INCOME \$100,000	
AGE 30	\$9,032,000
AGE 35	\$6,644,000
AGE 40	\$4,773,000
AGE 45	\$3,307,000

ANNUAL INCOME \$150,000	
AGE 30	\$13,548,000
AGE 35	\$9,996,000
AGE 40	\$7,159,000
AGE 45	\$4,960,000

Disability Insurance – Are You Protecting the Right Assets?



Life is full of risks. You might be surprised to learn what poses the greatest threat to most people during the course of **one year**.



- ❖ 1 in 222 housing units catch fire*
- ❖ 1 in 160 people receive injuries in motor vehicle accidents*
- ❖ 1 in 117 people die*
- ❖ 1 in 10 people, age 25-64 suffer a disability*

**Source: 1994 Statistical Abstract of the United States*



Don't forget to protect your most valuable asset... your ability to earn an income.

NEED FOR REGULAR LIVING EXPENSES?

- 3. Food.....\$ _____
- 2. Clothing.....\$ _____
- 7. Mortgage or Rent, Including Maintenance.....
\$ _____
- 9. Utilities (electricity, gas,
phone, water, heat).....\$ _____
- 5. Car Payments & Upkeep
or Transportation.....\$ _____
- 15. Medical & Dental Care.....\$ _____
- 17. Loan Payments &
Installment Purchases.....\$ _____
- 20. Insurance Premiums.....\$ _____
- 9. Donations, Dues,
Periodicals, Etc.....\$ _____
- 10. Taxes (state, local &
property).....\$ _____
- 28. Other.....\$ _____

- Total Needed.....\$ _____

HAVE AVAILABLE FROM OTHER SOURCES?

- Employer Sick Pay.....\$ _____
After _____ for _____
- Personal Insurance.....\$ _____
After _____ for _____
- 7. Interest, Dividends, Rent.....\$ _____
- 9. Other (liquidations, A/R, etc.).....\$ _____

- Total Available.....\$ _____
- Total Needed (minus).....\$ _____

- Total Available....\$ _____

- Additional Income Needed....\$ _____

PLAN RECOMMENDED _____

FOR CLIENT _____

BY AGENT

Understand the need

What are the chances of having at least One disability lasting three months or longer before reaching age 65?

Age	Probability
30	51%
35	48%
45	40%
50	34%

Source: Commissioner's Individual Disability Tables, CSO

Life is full of risks. Protect your most valuable asset.

Insuring your income could be the most important thing you ever do. It's natural to insure your home, your car and other valuables. Why not protect the funds that provide those items – your income.

Take a moment, now, to think about your personal financial situation.

Are you saving enough for retirement? Would your family be able to financially survive without your income? If the answer to these questions is "no," you're not alone. The fact is, fewer and fewer Americans are setting aside enough money to achieve their financial objectives – let alone protect what they already have.

You might be surprised to learn what poses the greatest threat during the course of one year:

Odds for Risk	Covered by Insurance
1 out of 5	that your auto will be damaged in an accident
1 out of 21	that you will have a disabling accident
1 out of 96	that you will have a fire
1 out of 114	that you will die

Source: Field Guide 2001, National Safety Council, World Almanac

A serious disability can last a long time.
When a disability lasts a long time, the financial loss it creates can significantly affect your family's lifestyle and future security.

That's why disability income insurance is one of the most important components of any financial plan. It can help assure that you and your family will have the income you need to live on – and that your retirement savings will continue to grow.

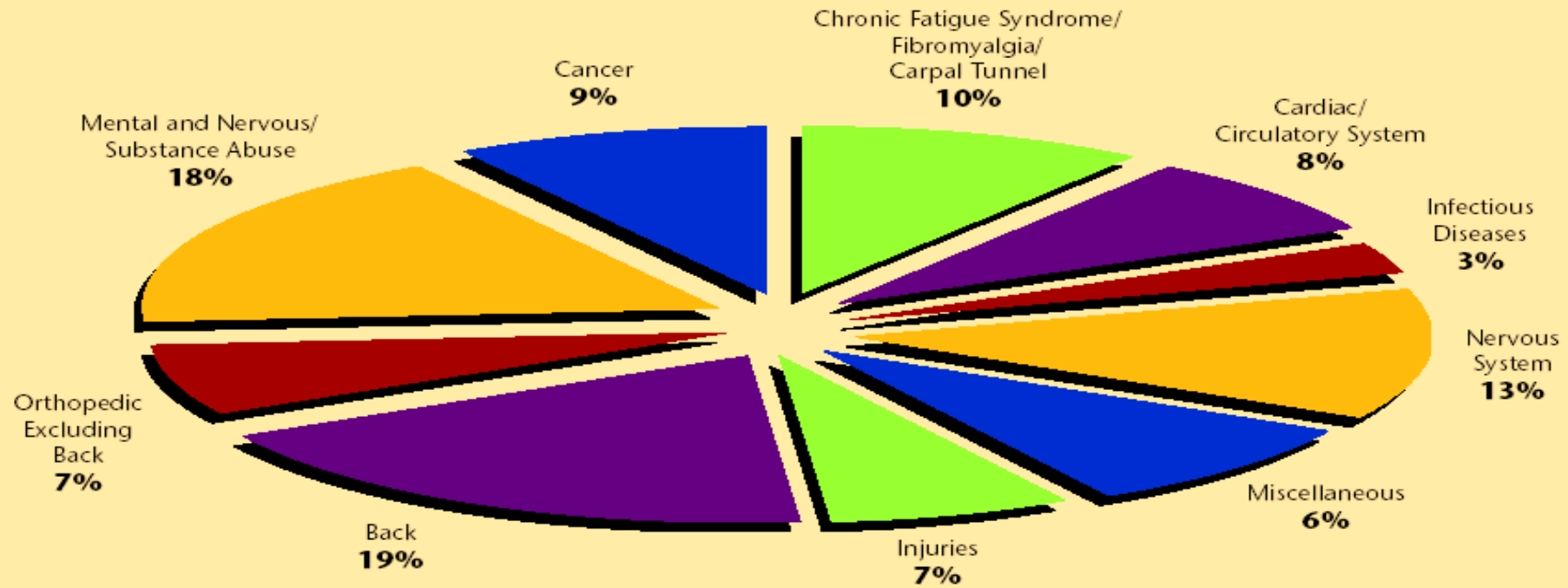
If the disability has lasted one year, what is the probability the disability will last:

	Age			
	25	35	45	55
1 More Year	67%	76%	79%	81%
2 More Years	57%	67%	72%	73%
5 More Years	47%	57%	62%	62%

Source: Commissioner's Individual Disability Table, CSO

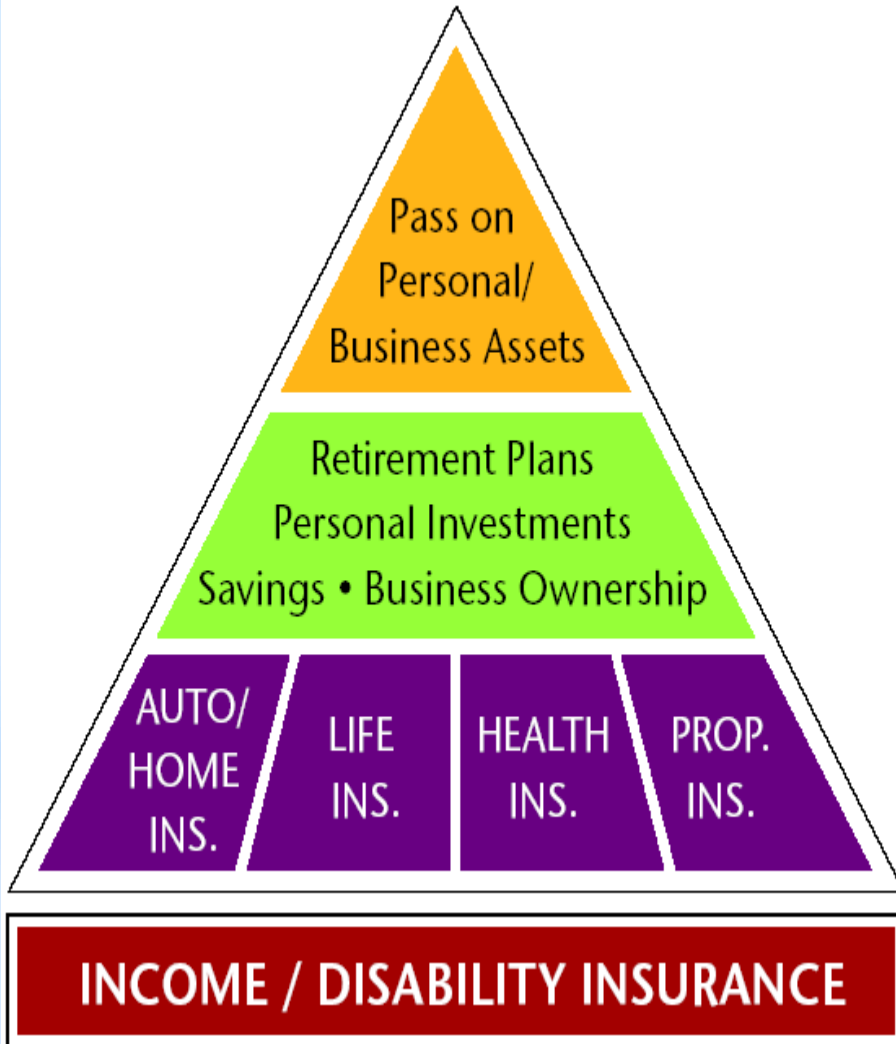
Disability plays no favorites.

The causes of disability may surprise you. Here's a typical breakdown by percentage of claims.



Source: Principal Life Adjustable Disability Insurance claims incurred in any year as of January 1, 2004. The above is for illustration purposes only and is not intended as an inclusive representation of all claims.

Understand the need



How solid is your financial foundation?

How would you replace your lost income?

Your income is the foundation of your financial plan. It's what makes everything else possible. So just as you protect yourself against unexpected property damage, medical expenses and loss of life, you should also protect yourself against loss of income due to disability.

GROUP LONG-TERM DISABILITY

Surprisingly, less than half of U.S. employees have employer-paid income protection.¹ If your employer offers a group long-term disability (LTD) program, it may replace a portion of your income should you become too sick or hurt to work. This is a valuable benefit and good safety net, yet because the benefits are often taxed, some people find their group LTD benefits may not be enough.

WORKER'S COMPENSATION

If your disability results from a work-related illness or injury on the job, you may be eligible to receive benefits from your employer's workers' compensation insurance. Coverage and benefits vary from state to state.

¹ Public Opinion Strategies Survey, Health Insurance Association of America, 1997

SOCIAL SECURITY

If you become disabled, you may be eligible for Social Security benefits, though more than half of all claims submitted to Social Security are denied.²

According to the *Social Security Handbook*, you are not considered “disabled” or entitled to disabled worker’s benefits unless you meet all of the following four conditions:

- *You cannot engage in any substantial gainful activity because of a physical or mental impairment. You must not only be unable to do your previous work, but also any other type of work, considering your age, education and work experience. (It does not matter whether such work exists in your immediate area, whether a specific job vacancy exists, or whether you would be hired if you applied for such work.)*
- *Your impairment(s) is determined medically by a doctor.*
- *It is expected that your impairment(s) can either result in death or last for at least 12 months in a row.*
- *Your impairment must be the primary reason for your inability to engage in substantial gainful activity.*

If your claim is approved, there is a six-month waiting period before benefits will begin. Benefits typically replace only a fraction of pre-disability income.

² *Social Security Forum, Volume 21, No. 5 – May 1999 (for fiscal year 1998)*



SAVINGS

Even if you regularly save 10 percent of your income, one year of disability could easily wipe out many years of savings.

BORROWING

What bank would lend you money if you were too sick or hurt and could not work?

OTHER INCOME

Could you maintain your standard of living Without placing additional strain on yourself and your family?

INDIVIDUAL DISABILITY INCOME INSURANCE

An affordable personal policy could provide you with a monthly benefit that is income tax free, when you pay the premium.

Can you live on 42% of your income?

Since group disability insurance benefits are usually taxable, even a typical policy covering 60% of your income might not be enough. Individual disability income (IDI) insurance can help supplement your group disability benefits to better meet your income replacement needs.

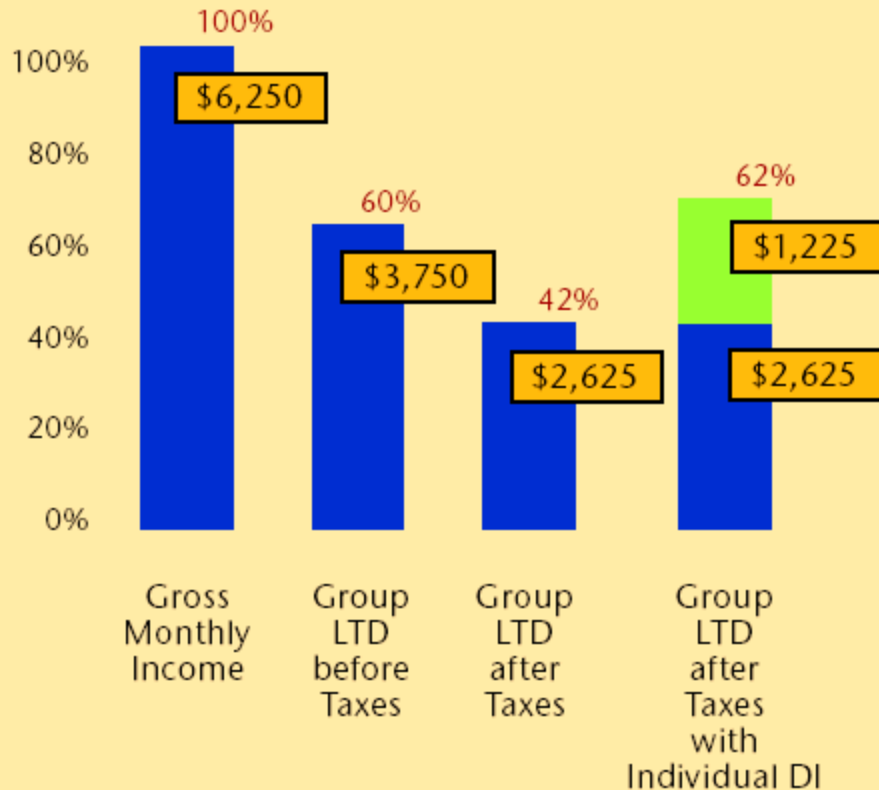


Chart based on \$6,250 gross monthly income (\$75,000 annual), with 60% Group Long-Term Disability program, assuming a 30% tax bracket for Federal, State and FICA.

Nearly half of the one million Americans who filed for bankruptcy protection in 1999 did so after being sidelined by an unexpected illness or injury.

-New York Post, April 3, 2000,
"There's No Insuring You Won't
Go Bankrupt"

Are you neglecting your disability income?

The vast majority of Americans are choosing, consciously or subconsciously, not to purchase individual disability income insurance – which is too bad. If they only knew there are simple, affordable solutions to fit just about every need and budget. Your situation is unique, your future one of a kind. That's why disability insurance can be tailored to fit your needs.

During a prolonged illness or injury, you can lose your income – and everything it provides. "Income replacement insurance" provides peace of mind – knowing that if you become too sick or hurt to work, your benefits could help maintain your current lifestyle including food, housing and continued retirement savings.

Top 5 Reasons NOT to Buy Disability Income Insurance

5. Social Security will take care of me.

Fact: Social Security initially denies about 65 percent of all disability claims.

4. I expect to stay healthy.

Fact: Statistics show that one in ten people age 25 to 64 will suffer a disability.

3. It costs too much

Fact: The average annual cost is typically one to three percent of what you earn.

2. I can always do it later.

Fact: People usually don't get healthier as they grow older, and coverage will cost more.

1. I can rely on my savings.

Fact: Even if you save 10 percent of your salary, a one-year disability could wipe out many years of savings.

¹*Social Security Forum, Volume 21, No. 5 – May 1999
(for fiscal year 1998)*

²*1994 Statistical Abstract of the U.S.*

The time to take action is now.

Why not contact your financial professional to discover how much disability income insurance you need and how much it might cost? Then you'll be in a better position to make educated choices about your coverage.

Each family faces different challenges in life. They have different needs, different incomes, different goals and different opportunities. Yet each family can benefit now by working closely with their financial representative – and by making educated decisions about their current and future financial security.

Which job would you rather have?

JOB A – without coverage

Annual Salary

\$100,000

If you're working

\$0

If you're sick or hurt and
can't work

JOB B – with coverage

Annual Salary

\$98,000¹

If you're working

\$57,600²

(Tax-free)

If you're sick or hurt and
can't work

For just a small percentage of your salary, you could insure a portion of your income - and protect what your income provides.

¹ \$100,000 annual salary less \$2,000 annual premium

² Benefit amount depends on various factors. Your financial representative can illustrate the exact amount you're eligible for based on current underwriting guidelines.

Here's what to look for in a disability income insurance

policy:

Is the policy non-cancelable and guaranteed renewable?

A non-cancelable and guaranteed renewable policy provides considerable security, since the insurance company can't raise your premium or cancel the policy for as long as you pay the premiums. A policy that is only "guaranteed renewable" can increase premiums under certain circumstances.

Definition of Disability

When you buy disability coverage, you're essentially buying the insurance company's definition of disability. There are three basic definitions that typically include "own occupation" and "any occupation," as well as "partial" or "residual" disability.

Own Occupation - This refers to the occupation you were working in just prior to your disability. If your "own occupation" is protected, the policy will not require you to work in another occupation. This is sometimes referred to as "regular occupation" or "your occupation."

Any Occupation - Some policies will not pay benefits if you can perform "any" occupation you are suited to, based on your education, training and experience.

Look for a policy that considers you disabled if you cannot perform the substantial and material duties of your own regular occupation. You can further enhance your policy with coverage that provides benefits in the event of a partial disability.

Partial, Residual and Loss of Income Disability

Some policies will pay a proportional benefit if you become partially/residually disabled and experience a loss of earnings. Most companies use a "percent of income" formula to determine benefits for a residual disability. Some policies will cover you if you can work part-time due to your disability and still do all your regular duties – or if you can work full-time but do only part of your regular duties due to your disability.

How long is the waiting period?

The waiting period (also known as the elimination period) is the length of time you must wait before benefits begin to be paid. It can be as short as 60 days or as long as a year. As a rule, the shorter the waiting period, the more expensive a policy will be. Most people choose either a 90-day or a 180-day waiting period. Consider your available savings and assets when making this choice.

What about guaranteed future insurability?

This means that while you are working, you can increase your policy's monthly disability income benefit as your salary grows – without providing evidence of medical insurability. This feature can usually be added to the policy by rider.

THIRD-PARTY ARTICLES

- While premature death tends to have a bigger emotional impact, **disability can be equally, if not more, devastating to a family's financial stability.** (Reference: Excerpt from article "Disability Insurance Less Popular than Life But Can Be More Important, Post-Gazette.com; November 20, 2000)
- **Unless you're independently wealthy**, you need insurance if you stand a chance of losing your income because of a disability. (Reference: Excerpt from article "Ouch! Don't Forget Disability Insurance", CNN Money website; March 25, 2003)
- **Why You Need Disability Insurance** (Excerpts from this article by Ric Edelman, www.ricedelman.com)
 - ❖ **It Won't Happen To Me**
 - Although only 15% workers have DI coverage, virtually all homeowners have insurance on their homes. I'll bet you do too. Yet, has any house on your street ever burned down? Unlikely, because the odds of that happening are only one in 1,200.
 - Yet your odds of suffering a disability before age 65, one that lasts 90 days or more is an incredible 1 in 8. So if you think it won't happen to you, maybe – just maybe -- it might.
 - ❖ **It's Too Expensive**
 - Without question, DI coverage is expensive.
 - Have you ever seen one of those insurance commercials on late night TV? "For just two dollars a week...you cannot be turned down...veterans only..." and other nonsense. These policies are only two bucks a week because the insurance companies know they're not going to pay a claim!
 - A policy is cheap when the insurance company knows it is unlikely to pay a claim. But policies are expensive when there is a higher probability that you will file a claim. Therefore, the more expensive the policy, the more you need the protection.
- A Rand Health Study published in January 2004 found that the number of people **ages 30 to 49 who are disabled increased by more than 50% between 1984 – 2000.** (Reference: Excerpt from article "Safety Net", Fortune Magazine article; June 7, 2004)

ADVANTAGES

Non-Cancellable Personal Disability Insurance

1. Enhanced Contract Provisions Available

- Liberal Own Occupation Definition
- Long-Term Partial/Residual Benefit to age 65
- Long-Term “COLA”
- Unique Non-Disabling Injury Benefit
- Guaranteed Physical Insurability
- Rehabilitation Benefits
- Additional “ADL” Catastrophic Coverage

2. Premiums Will Not Increase

3. Coverage cannot be cancelled

4. Portability

5. Benefits typically tax-free

6. Pays in addition to any other benefits

