

From Here to SecuritySM

A Step-by-Step Guide to Disability Income Insurance

WE UNDERSTAND WHAT YOU'RE WORKING FOR.®

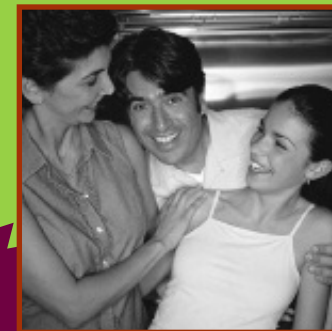


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Policy and rider descriptions are not intended to cover all definitions, restrictions, conditions or limitations. Refer to policies and riders for full details. Policies and riders are subject to state availability. Some riders are subject to an additional premium.

Disability insurance has limitations and exclusions. For costs and details of coverage, contact your Principal Life financial representative. Insurance issued by Principal Life Insurance Company. Principal Life is a member of the Principal Financial Group®, Des Moines, IA 50392.



*Based on the
experience of
Principal Life financial
representatives and
clients across
America*

WE UNDERSTAND WHAT YOU'RE WORKING FOR.®



Why do you work?

Ask most people why they work and the answers won't surprise you. "To pay the mortgage." "To help the kids through college." "To put food on the table and pay the bills." It's simple! *We work to make our lives work.*

But what would happen if you became too sick or too hurt to work? Would you have enough income to maintain your lifestyle and protect your family's future? For many people, the answer is "No."



That's why we wrote this book. It's based on the ideas and experiences of our financial representatives across America, not to mention more than 125 years of Principal Life Insurance Company service to business owners, employees and their families.

It's designed to simplify and demystify the rules of the road to financial security. Along the way, we'll help you discover how disability income insurance can help you achieve *your* goals – whatever they might be.

Here's to enjoying the journey!

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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 – starting now?

2: Protect your plan and your income page 18

Discover how disability income insurance helps protect you and your family. Then use our step-by-step worksheet to calculate how much you may need.

3: Review your plan regularly page 28

Because change is the one great constant in life, you should review your objectives and your plan at least once a year.

4: Glossary of insurance terms page 32

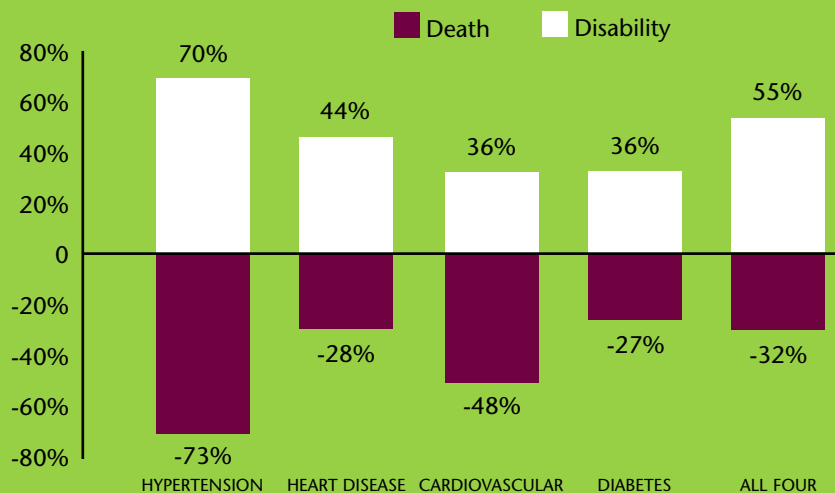
Myth #1

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 numbers 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.

— *National Safety Council, 2001*

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

— *National Safety Council, Injury Facts,
2003 Edition*

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

— *National Safety Council, Injury Facts,
2003 Edition*

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

Understand the need

1

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 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.

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?

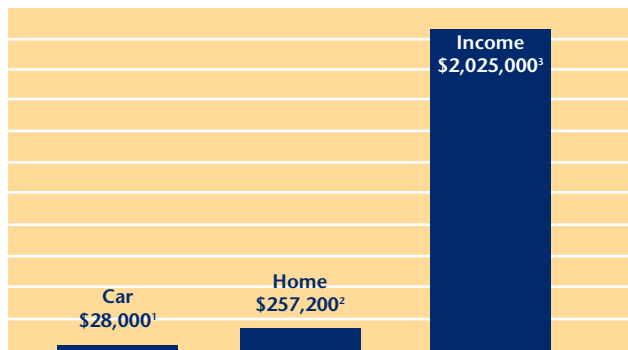
¹ *Safemoneyreport.com, July 9, 2003*

The time to address FINANCIAL SECURITY is now!

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 – now and in the future.

Protecting your income allows you to continue to enjoy what it pays for, from now through your retirement years.



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.

What is your earning potential?

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

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



Understand the need

1

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*

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.

The good news is that you can take control of your personal financial situation – starting now!

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.

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

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.

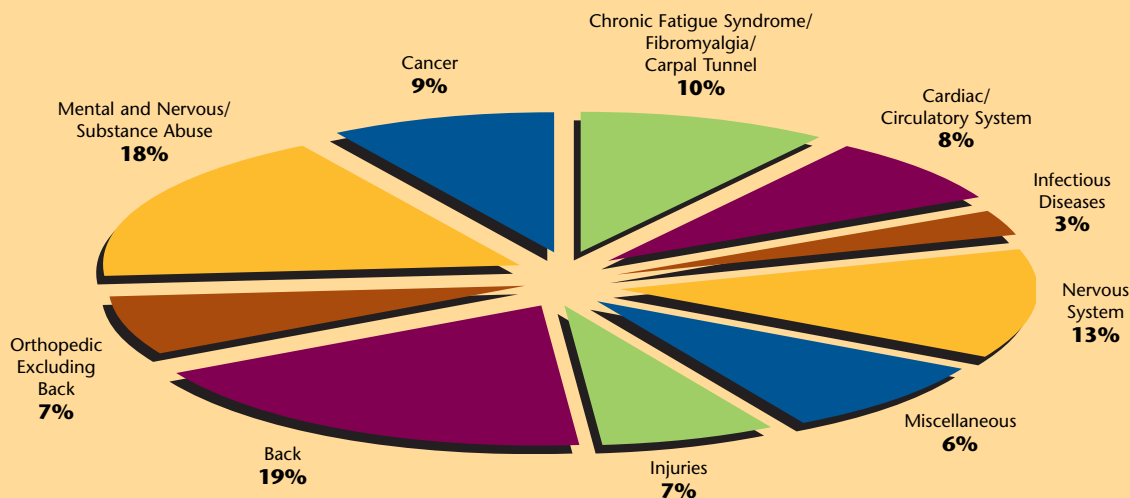
If the disability has lasted one year, what is the probability the disability will last:

	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 Tables, CSO

Disability plays no favorites.

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



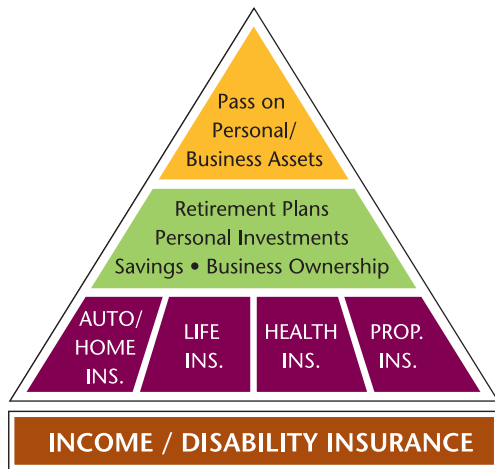
Source: Principal Life Adjustable Disability Insurance claims incurred in any year as of January 1, 2004. The above is for illustration purposes only and is not intended as an inclusive representation of all claims.



Try our easy-to-use insurance need calculator.
Visit www.principal.com/disabilitysecure

Understand the need

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How solid is your financial foundation?

How would you replace your lost income or the loss of your ability to continue saving for your future?

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.

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.

1. 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.)

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

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

2. Your impairment(s) is determined medically by a doctor.
3. It is expected that your impairment(s) can either result in death or last for at least 12 months in a row.
4. 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.

WORKERS' 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.

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 (DI) insurance can help supplement your group disability benefits to better meet your income replacement needs.

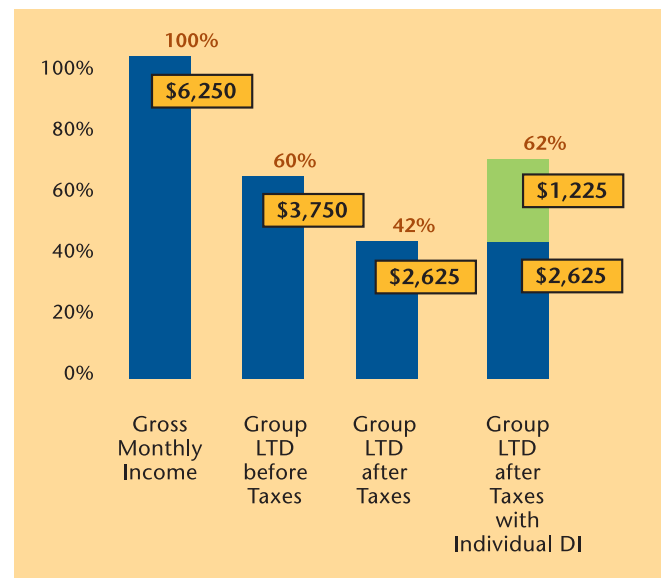


Chart based on \$6,250 gross monthly income (\$75,000 annual), with 60% Group Long-Term Disability program, assuming a 30% tax bracket for Federal, State and FICA.



Understand the need

1

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 insurance needs?

The vast majority of Americans are choosing, consciously or subconsciously, not to purchase individual disability income insurance – which is unfortunate. 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. Disability income insurance provides peace of mind – knowing that if you become too sick or hurt to work, your benefits could help maintain your current lifestyle.

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.

Now let's take a look at some examples of four typical families – the Singles, the Youngs, the Up-and-Comers and the 40-Somethings.

Each family is at a different stage 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.

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.¹
- 4. I expect to stay healthy.**
Fact: Statistics show that one in ten people age 25 to 64 will suffer a disability.²
- 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 eliminate 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.*



Understand the need

1

Needs (and strategies) can be very different from one person to the next.

In 2001, the average American household spent \$2,235 on dining out.

— *U.S. Department of Labor
Consumer Expenditure Survey*

Meet the Singles!

With no spousal income to fall back on, we may have the greatest need for disability income protection.



Some people are single by choice. Others have lost a spouse, either through death or divorce. Many are single parents. Some are empty nesters. But all share a common concern. Since they have only one income to rely on, they have an even greater need to protect their income and their ability to save for retirement in the event of a disability.

If you're single, there's no better time than now to make a complete review of your financial situation, including short-term goals, insurance policies, savings and investments. Make sure you're taking full advantage of your benefits at work. Compare your possible resources with current monthly expenses. The worksheet on page 22 will guide you through this process.



Meet the Youngs!
We're a new family (and we're just getting by).
We can't afford to get started.

The Youngs might be surprised to discover how little they need to set aside each month to achieve and protect their long-term financial goals. Premium rates for disability income insurance are usually lower for policies purchased at younger ages. So the Youngs can purchase a small, affordable policy now. Then later, as their income grows, they may be able to adjust their policy to increase coverage.

Contrary to popular belief, the Youngs shouldn't have to give up something to protect their income. Quite often, extra cash can be created simply by reviewing and improving personal money management habits. Are they paying too much for their mortgage or their home and auto insurance? Are they paying the lowest possible rate on their credit cards? Think about it. How much extra money could you create, each month, if you were able to find simple expense-saving opportunities? There are endless possibilities.



Understand the need

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Meet the Up-and-Comers!
The kids are growing fast (and so are our careers). How should we deal with our changing lives and objectives?

As your family and careers grow, so should your plan for financial security. Ask yourself the following questions.

- Are you taking full advantage of your benefits at work?
- Are you setting aside a portion of your growing income to help protect your future income?
- As you buy larger homes, accumulate greater assets and dream bigger dreams, are you taking steps to protect your family and assets should you or your spouse become too sick or hurt to work?
- Are the policies you bought years ago still adequate?
- Have you thought about how a disability could impact your ability to save for retirement?

Use the kids' preschool and grade school years to build your financial security foundation. Ask your financial representative how to create affordable base levels of protection.

As children grow older (and you begin to enter your peak earning years), the thoughts of most parents turn to empty-nesting and retirement. This is a time when income protection is often essential to help ensure you will not have to spend your retirement savings because of a disability. The closer you get to retirement, the more accurately you can forecast your specific income needs and opportunities. It's the best time to fine-tune your strategy for personal financial success.



Meet the 40-Somethings!

The kids are teenagers
and our peak earning years
lie just ahead. How can we
make the future we've
dreamed of come true?

The next 20-some years are likely to be the most busy and exciting years of your lives. They are the years when your income is likely to be highest. You'll be able to afford traveling with your family to the places you've always wanted to see. It's when you'll want to take up new hobbies, start thinking about grandkids and more. The next 20 years will also be critical years for building your retirement savings.

That's why it's even more important to protect your income now! By doing that, you'll be protecting the lifestyle you've worked so hard to achieve. You'll be protecting your ability to continue saving for retirement. You'll be helping to make sure that your dreams come true.



Myth #2

Insurance is too expensive.

Disability income insurance solutions are available to suit nearly every need and budget. That's why it makes sense to work with a financial representative who can tailor a program to satisfy your personal situation and objectives.

A healthy 35-year-old male making \$75,000 a year can buy disability income insurance that would pay an *after-tax* benefit of \$3,925 per month to age 65, should he ever become too sick or hurt to work. The best part is he could buy that coverage for less than two percent of his annual income!¹

¹ Disability income insurance calculations are based on a variety of factors. Disability income insurance also has limitations and exclusions. For specific costs and complete details of coverage, contact your financial representative.



Whether your goal is maximum income protection, safeguarding specific expenses (mortgage), or budget-based coverage – a disability income insurance policy can be designed to meet your needs.

Think waiting to buy disability income insurance makes sense?

Most people save nothing by waiting to buy disability income insurance – yet they risk becoming disabled before they buy.

	Age				
	30	35	40	45	50
Monthly Premium	\$24.10	\$29.26	\$39.02	\$48.53	\$62.07

Assumptions: \$1,000 monthly benefit, Iowa resident, male, occupation class 4A, non-smoker, 90-day elimination period, benefits paid to age 65, To Age 65 Your Occupation Period, and Residual Disability Benefit rider. See glossary of insurance terms on page 32 for more information. Policy form HH 700. Rider form HH 718.

Protect your plan and your income: Understanding disability income insurance

2

This chapter helps demystify disability income insurance. It includes an easy-to-use calculator tool for determining how much disability income insurance you may need.

Disability income insurance is like choosing between two jobs.

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

\$98,500¹

If you're working

\$57,600²

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 it provides.

¹ \$100,000 annual salary less \$1,500 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. Benefits usually begin when there has been a 20 percent loss of income due to disability. In most cases, if you lose 75 percent or more of your income, you are considered totally disabled.

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 30 days or as long as a year. As a rule, the shorter the waiting period, the more expensive a policy will be. It’s important to know that benefits are typically not paid until the end of the month following the waiting period. (So if you have a 180-day waiting period, you’d receive your first benefit check after 210 days – or more.) 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.

Changing Jobs?



That means your benefits are changing too! Make sure you understand your new benefits package and

how it fits with your personal strategy for achieving financial security. And, if possible, take advantage of every opportunity for employer-provided benefits. If you lose your group disability insurance or if you’re getting a raise, consider purchasing disability income insurance protection.



Protect your plan and your income: Understanding disability income insurance

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Getting Married?



Get ready for changes in your financial life! In addition to combining their

incomes, the Givens sold one house, remodeled and moved into the other, drafted their first wills, and began laying the foundation for their new family's financial future. Selling one home resulted in savings of \$1,100 per month (mortgage, taxes, utilities and insurance). The Givens budgeted a portion of this money for their insurance program, an additional portion goes to their 401(k) plans and the remainder goes into a savings account they call their "Annual Honeymoon Fund."

How long will benefits last?

The benefit period is the length of time benefits are paid. The shortest benefit period is usually two years. A five-year benefit period is fairly common. Most people purchase coverage that lasts until age 65, or longer if available. You should buy the longest benefit period you can afford. If you remain in good health, most companies will allow you to upgrade your coverage at a later time.

Is there inflation protection?

Most disability insurance companies offer "cost of living" riders that help benefits keep pace with inflation, while an insured is disabled and collecting benefits.

Are premiums waived during disability?

Many policies will automatically waive your premiums during a qualified disability. They are typically waived after the lesser of 90 days or the elimination period.

Is there a rehabilitation clause?

Since most insurance companies want to help you resume an active lifestyle and get back to work as soon as possible, they will often offer assistance in your rehabilitation. Some policies are based on a mutual agreement between the policy owner and the company. Other policies limit the amount paid for rehabilitation. Make sure to review the policy, so you have a clear understanding of the insurance company's responsibilities – and yours.

Having a Baby?



This changes everything! Or at least it did for the Martins. David took on a second job, so Stacey could be a stay-at-home mom

for the first few years. That made everything a little tighter. But David could still afford to buy additional life insurance for his growing family's protection – as well as disability income insurance, since his paychecks were even more important than before. Their financial representative was able to customize a program for David with both life and disability insurance that was within their budget.

Qualifying factors for underwriting

When determining your eligibility for individual disability income insurance, insurance companies consider your medical history, your occupational duties and your overall earned income.



Medical history



Occupational duties



Financial history and earned income



Protect your plan and your income: Understanding disability income insurance

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Answer the following questions to determine your current need for disability income insurance protection. Sample answers are provided in the second column. For an easy-to-use, self-completing version of this calculator, visit www.principal.com/disabilitysecure.

How much disability income insurance do you need?

	Yours	Sample
Monthly Disability Benefits and Additional Income		
Group Disability Insurance Benefit How much would you receive each month from your company's group disability insurance coverage? Be sure to deduct any income taxes that will be paid on the benefits you receive under this coverage. <i>Can you live on only 42% of your current monthly income? Since group disability insurance benefits are usually taxable, even a typical policy covering 60% of your income might not be enough.</i>	\$ _____ net	\$2,625 net ¹
Individual Disability Income Insurance Benefit Enter your monthly benefit amount. Proceeds from individual disability income policies are typically not taxable if premiums are paid by you. Consult your tax advisor for details.	\$ _____	\$ 0
Monthly Social Security Disability Benefit In most cases, this answer will be zero. For an exact figure, call 800-772-1213 toll-free, or visit the Social Security Administration website at www.ssa.gov/planners/calculators.htm . Do not enter an amount here if you have group disability insurance, since those benefits would be integrated with any Social Security disability benefits you might receive. <i>Did you know that Social Security initially denies nearly 65% of all disability claims?</i> ²	\$ _____	\$ 0
Additional Household Income Add the monthly net (take-home) value of rental income, your spouse's income, investment returns, early IRA or pension distributions and other income sources. <i>Most peoples' savings will cover less than six months of expenses.</i> ³	\$ _____	\$ 0
Total Monthly Disability Benefits and Additional Income	\$ _____ (A)	\$2,625

¹ Sample assumptions: Based on a \$75,000 annual income, 60% Group LTD coverage and a 30% tax bracket for federal, state and FICA.

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

³ Source: *Business Almanac*, 1997.

	Yours	Sample
Monthly Expenses		
Mortgage/Rent Even if your mortgage is paid off, be sure to consider the monthly cost of property taxes, association fees and any other homeowner expenses. <i>Did you know that 48% of all home foreclosures are due to disability?</i> ⁴	\$ _____	\$1,200
Utilities and Household Expenses Total what you pay each month for electricity, gas, water, telephone, cable, Internet, trash collection and other monthly expenses.	\$ _____	\$ 350
Groceries and Household Supplies Add up your typical monthly expenses for food and supplies. Be sure to include dining out!	\$ _____	\$ 500
Auto Payments and Expenses Include monthly auto payments, fuel, licensing fees and maintenance costs, as well as a contingency fund for repairs.	\$ _____	\$ 300
Loans, Credit Cards and Charge Accounts Total the amount you typically pay each month on your loans and credit cards. Include equity loans, college loans and loans from your life insurance policies. (Car loans and mortgage loans are included elsewhere.)	\$ _____	\$ 200

continued on next page

⁴ Source: Housing and Home Finance Agency of the U.S. Government, 1998.



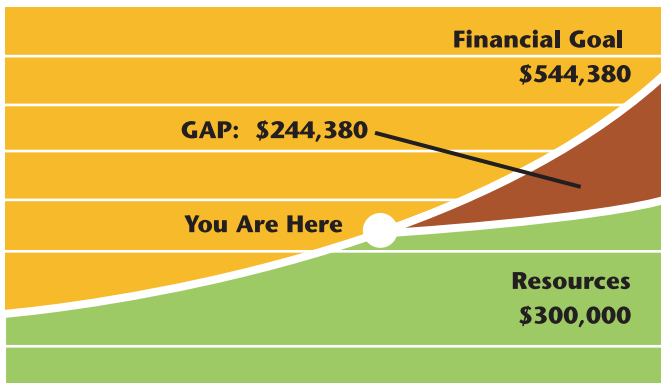
Protect your plan and your income: Understanding disability income insurance

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How much disability income insurance do you need?

Monthly Expenses (continued)

	Yours	Sample
Insurance Premiums Add up your current monthly premiums for medical, dental, life, auto, homeowner's and other types of insurance. (Do not count homeowner's insurance if it's included in your mortgage payment.)	\$ _____	\$ 300
Childcare Add the monthly costs of childcare, school lunches, special interests or events, etc.	\$ _____	\$ 500
Saving and Investing Total your monthly savings for retirement, college expenses or an emergency fund.	\$ _____	\$ 500
Other Monthly Expenses How much do you spend for clothes, entertainment and other monthly expenses?	\$ _____	\$ 200
Total Monthly Expenses	\$ _____ (B)	\$4,050
Your Monthly Disability Income Gap Keep in mind, disability income insurance does not cover 100% of your income. Your financial representative can illustrate the amount you're eligible for, based on current underwriting guidelines.	\$ _____ (A-B)	\$1,425



If you become disabled and are unable to work, your family loses not only your income, but also any savings that would have been invested for retirement. You may even have to spend some savings to make up for the income shortfall.

Graph based on a \$75,000 annual income, 60% Group LTD coverage and a 30% tax bracket for federal, state and FICA.



Myth #3

I can do it myself.

Truth is, it makes sense to work with a financial representative.

Here's why.

- Financial representatives are trained to help you assess your insurance needs, your overall financial situation, your tolerance for risk and the type (or types) of insurance that would be most appropriate for your personal situation.
- He or she will help you understand the complexities of disability income insurance policies and riders – and will help you select the features and benefits that are right for you.
- A financial representative may be a catalyst in the planning process – bringing together any other advisors you may have, such as your attorney or accountant – then helping form a coordinated planning team.

- He or she will complete the forms necessary to start the underwriting process – and will arrange for any follow-up information that may be required. Then he or she will follow up with the underwriters to facilitate the process.
- When the policy is issued, your financial representative will usually deliver it in person, explain the coverage and answer any questions you might have.
- He or she will continue to review your changing needs and will be available to help with any service needs that may arise over time.
- In the event of a disability, your financial representative will be a great resource to you and your family – helping you file a claim.



Review your plan regularly

3

Change is the one great constant in life. That's why it's so important to regularly review your objectives, your plan and your financial protection strategy – at least once a year. Did your job or income change? Did you get married or have a baby? Did someone in your family die?

Buying a New Home?



Home ownership is a core component of most families' financial

security. That's why it's so important to build a budget for financial protection into your new home purchase. When the Morrisons bought their dream home in 1994, they also purchased disability income insurance specifically to help cover the mortgage if either of them should become too sick or hurt to work. When Wes suffered a stroke in 1998, their disability income insurance policy paid benefits – for nearly two years – until he was able to return to work full-time. They were never in danger of losing their dream home.

Now that you've taken the time to create a plan for financial security, you need to make sure your plan, as well as the protections you've put in place, remain in line with your changing goals and your changing life.

Pick a day you'll remember.

Pick a day – each year – to trigger a call to your financial representative to set up an appointment. It could be your birthday, your anniversary, a child's birthday, April 15th – any date that you will easily remember. Take a moment, now, to mark that date on the calendar. You can also ask your financial representative to call you every year on that date.

Don't wait! Some things demand immediate attention.

Whenever a major life-changing event occurs, you should contact your financial representative for a review.

- Marriage or divorce
- Birth or adoption of a child
- Children graduating from college or leaving home
- Inheritance or other windfall
- Major increase in debt, including the purchase of a new home
- Paying off the mortgage
- New job or promotion
- Death of a spouse
- Changing a beneficiary

What your review may discover:

1. **You're well protected.** Your disability income insurance program is working as planned. There have been no major changes since the last review.
2. **Your situation has changed** and your coverage can be adjusted to reflect the change. For example, some disability income insurance policies allow you to increase coverage at predetermined times, without having to provide proof of insurability. Your coverage can also be increased at any time with full underwriting.

Your financial representative can help you through this process with a **Principal From Here to Security ReviewSM**.

For more than a century, associates of Principal Life have worked to help people better understand their changing financial protection needs. We have incorporated this experience into a program called the **Principal From Here to Security ReviewSM**. The program is another valuable tool that enables your financial representative to work closely with you to explore potential changes and additions to your overall financial protection plan.

For more information, contact your financial representative or visit www.principal.com/disabilitysecure.



Try our easy-to-use insurance need calculator.
Visit www.principal.com/disabilitysecure

What now?

Collect all the documents related to your financial plan and insurance protection and store them in a safe place (like a safe deposit box).

If you haven't already done so, you should contact your attorney and draw up a will.

Next, establish a regular schedule for reviewing your plan, your investments and your financial protection strategy with your financial representative. After all, the only thing constant in life is change!

Principal Life and your financial representative can help you through this process with our Principal From Here to Security ReviewSM.



For more information about any of the issues discussed in this booklet, contact your financial representative or visit www.principal.com/disabilitysecure.

Glossary of insurance terms

4

Age Limits

Most policies have limits on the age of the insured. Most have maximum issue ages. Some have minimum ages. And some have a combination of maximum and minimum issue ages.

Agent

An authorized representative of an insurance company who sells and services insurance policies.

Application

A series of questions that give the insurer the information necessary to effectively assess the risk. By signing the application, the proposed insured certifies the accuracy of the information. The application becomes a part of the policy at issue and may be used to determine the validity of a claim in the case of misrepresentation or misstatement of fact.

Any Occupation

Definition of disability whereby the insured will receive benefits only if, due to a qualifying disability, he/she is unable to engage in any occupation which he/she is reasonably qualified for based on education, training or experience.

Benefit Period

The length of time benefits are paid if disabled according to the policy.

Certified Financial Planner™ (CFP®)

A professional credential awarded by CFP Board of Standards for successfully completing a curriculum of insurance and financial planning concepts.

Chartered Financial Consultant (ChFC)

A professional designation for successfully completing a curriculum of insurance and financial planning concepts through the American College.

Chartered Life Underwriter (CLU)

A professional designation for successfully completing a curriculum of life insurance-related concepts through the American College.

Cost of Living Rider

Also called the “Cost of Living Adjustment Rider” – can be added to a policy to help benefits keep pace with inflation, when the insured is disabled and receiving disability benefits for more than a year.

Disability

An illness or injury that prevents a person from working and earning an income.

Disability Benefit

Monthly benefit for a qualifying disability.

Disability Income Associate (DIA)

A Health Insurance Association of America (HIAA) designation acquired upon satisfactory completion of specific coursework. Recipients demonstrate a fundamental understanding of the role disability income insurance plays within the health care continuum – as well as in retirement, estate and long-term care planning – in protecting individuals from the financial losses often associated with disabling injuries or illnesses that prevent them from working.

Disability Income Insurance

Insurance that provides monthly benefits when you are unable to work due to a disabling illness or injury.

Elimination Period

Also known as the “Waiting Period” – the length of time during a qualifying disability you must wait before benefits are paid.

Evidence of Insurability

A requirement for potential insureds to provide proof of medical, occupational and financial insurability before purchasing a disability income insurance policy.

Grace Period

A period (usually 30 or 31 days) following each insurance premium due date, other than the first due date, during which an overdue premium may be paid. All provisions of the policy remain in force throughout this period.

Guaranteed Future Insurability

Policy provisions and/or riders that allow the insured to increase coverage amounts at specified intervals, ages or as income increases, without additional medical underwriting or proof of insurability. Such provisions are typically available for an additional premium.



Glossary of insurance terms

4

Guaranteed Renewable Policy

A policy in which coverage is guaranteed to a specified age as long as premiums are paid. The premium could be changed by an insurer for a certain class of individuals.

Incontestable Clause

A clause that generally allows the insurance company to contest the payment of a benefit for up to two years from issue for misstatements in the application. Fraud and misrepresentation are generally not protected by an incontestable clause and may be contested even after the two-year period has expired.

Insured

Individual who is covered by the insurance policy.

Insurer

The insurance company issuing the insurance policy.

Lapsed Policy

An insurance policy terminated at the end of the grace period because of nonpayment of premiums.

Level Premium

A premium that is guaranteed not to increase for a stipulated period of time.

Long-Term Disability (LTD) Insurance

Group disability coverage provided by an employer for employees, which typically provides benefits for two years or longer.

National Association of Insurance Commissioners (NAIC)

An association of the various state insurance commissioners, who collaborate to codify certain insurance laws and regulations.

Non-Cancelable and Guaranteed Renewable Policy

A policy that cannot be changed or canceled except for nonpayment of premiums – nor can the policy premiums be increased before age 65, regardless of changes in income, occupation or health.

Partial Disability

The insured is unable to perform some of the duties of his or her occupation.

Policy

The printed document issued to the policy owner by a company stating the terms of the insurance coverage.

Policy Illustration

A policy illustration generally illustrates premiums, benefits and other information about the policy.

Premium

The payment, or one of regular periodic payments, that a policy owner makes to own an insurance policy.

Own Occupation

Definition of disability that typically means the insured will receive benefits if he/she is unable to perform the duties of his/her regular (or “own”) occupation due to a qualifying disability. Also known as “regular occupation.”



4

Rated Policy

A policy that has been issued with additional premiums as the result of unfavorable underwriting characteristics of the insured. For example, the proposed insured may have a medical condition not serious enough to decline the policy, but which creates additional risk for the insurer.

Regular Occupation

Definition of disability that typically means the insured will receive benefits if he/she is unable to perform the duties of his/her regular (or “own”) occupation due to a qualifying disability. Also known as “own occupation.”

Rehabilitation Benefit

A provision in a disability income insurance policy that typically allows for additional benefits if the insured takes part in a rehabilitation program.

Reinstatement

The restoration of a lapsed insurance policy. The company requires evidence of insurability and payment of past-due premiums.

Residual Disability

The insured is able to perform some, but not all, of the duties of his or her job or the insured’s ability to work is restricted and, as a result, has a loss of earnings.

Rider

An amendment to an insurance policy that modifies the policy by expanding or restricting its benefits or excluding certain conditions from coverage.

Short-Term Disability Income Insurance

Group disability coverage provided by an employer for employees. It provides benefits for a short period of time, typically three to six months.

Social Security

A federal program that provides retirement, disability and survivor benefits to qualified individuals.

Standard Risk

A category of risk which meets the underwriter’s definition of standard or favorable risk.

Substandard Rating

See “Rated Policy.”

Supplemental Disability Coverage

Individual disability income insurance is sometimes referred to as “supplemental disability coverage” when it is wrapped around group long-term disability insurance.

Total Disability

Solely due to a disabling illness or injury, an insured is unable to perform the duties of his or her occupation or any other occupation he or she is qualified to do based on education, training or experience.

Underwriting

The process of classifying applicants for insurance by identifying characteristics such as age, gender, health, occupation and hobbies.

Waiver of Premium

Under this provision, premiums are typically waived after the lesser of 90 days or the elimination period for the duration of disability coverage in the event of a qualifying disability. This is typically a provision included in the policy at no additional premium.

Workers’ Compensation

State and federal law mandating that employers compensate employees for the financial loss of a disability due to occupational injury or illness. (Applies to most jobs; some exclusions in certain states.)



Notes