

# Take advantage of key disability insurance differentiators

Use this reference guide to know what to look for in your disability contract



Disability insurance can be complex. That's because there are several ways it can be structured, creating plenty of options to customize coverage to meet employee needs.

That's why it's important, to have a good handle on what's in your disability contract. Just one word or phrase can make a big difference when – or if – an employee qualifies as disabled. Use this guide as a reference to understand common disability provisions in Principal® group short-term disability (STD) and long-term disability (LTD) contracts.

## Key definitions differentiate our coverage

For both STD and LTD coverage, there are some important definitions that play a role in who's covered and how.

**“Or” definition of disability** – The Principal “Or” definition provides comprehensive income protection, with a focus on returning to work. Using the “or” definition, employees qualify for benefits by meeting either of the following criteria:

Unable to perform the majority of substantial duties of their own job (for STD) or own occupation (for LTD)

or

Unable to earn 80% of their pre-disability income while working in a modified capacity

**“Own job” definition** – When it comes to returning to work, many disability insurance carriers have “own occupation” language in their contracts for both STD and LTD. The Principal contract provides an “own job” definition for STD. That means we look at the job the employee was performing on the date of the disability – not the occupation.

Why is this key? STD coverage is typically purchased as a replacement for or supplement to sick leave – or as a salary continuance benefit – with the expectation that the employee will return to his or her original job. So, the “own job” definition is a significant distinction.

## Easing the financial impact

The effect of losing income can last well after a disability. Principal offers a way to reduce this financial impact.

**Extended earnings protection benefit** – When they return to work following a disability, employees earning commissions or billing for services may need extra time to return to the financial level they were at before the disability.

Extended earnings protection, available with LTD coverage, can supplement an employee's income when they're back to work. It continues to pay a benefit for up to six months while the employee's income is below 80% of pre-disability levels. The benefit is proportionate based on the employee's pre- and post-disability income.\*

\*Not available in CT.

**“Unable to earn 80%” language** – Many disability contracts require “20% income loss” to start paying disability benefits. Principal requires that an employee be “unable to earn 80%” of their pre-disability income. What's the difference? It can be considerable.

Disabled employees whose income is based partially or totally on commissions, services or billable hours may not experience an immediate income loss. The “20% income loss” language doesn't recognize the immediate impact of a disability because payments from these sources can continue to be received after the disability begins. The “unable to earn 80%” feature in the Principal contract acknowledges the impact of the disability immediately, and allows the employee to qualify for benefits sooner.

**Let's look at an example.** Isaac, a real estate agent, sells his usual share of new business in May and June. In July, he's diagnosed with a disabling illness. As part of his treatment schedule, he's restricted to a 20-hour work week. He continues to receive commission checks during this time from sales made in May and June. As a result, “20% income loss” is not realized for the first two months of his disability. The Principal contract recognizes that Isaac is “unable to earn 80%” of his pre-disability income because his treatments have restricted him to work at 50% capacity, even though he continues to receive income from sales prior to the disability. This provision allows Isaac to begin qualifying for disability benefits sooner than he would under a contract with the “20% income loss” language.

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