

DI Retirement Security

Answers to Common Questions

General program information

Q: Why do clients need DI Retirement Security?

A: When clients become too sick or hurt to work, most likely their contributions to 401(k)s (and employer matches) and/or other qualified retirement savings plans would stop. This impacts the amount of funds available at retirement.

Q: How does the DI Retirement Security sales program work?

A: If the insured becomes disabled, Principal Life Insurance Company pays Disability Income (DI) insurance benefits to an irrevocable Trust. The Trustee invests the benefits on the insured's behalf until he or she reaches the end of his/her benefit period. At that point, trust assets are distributed to the client per the terms of the Trust Agreement.

Q: How much of an impact can a total disability have on a client's retirement income?

A: Assume a client becomes disabled at age 40 and remains disabled until the end of a To Age 65 benefit period. Without DI Retirement Security, he or she could lose approximately \$1.2 million in retirement assets (assumes \$2,000/month in contributions beginning at age 40 through age 65 and a five percent rate of return compounded annually).

Q: Who is the target market for this program?

A: Individuals and business owners with incomes of at least \$76,000/year, including any contributions to qualified retirement plans and those who already have individual disability income insurance.

Policy details

Q: Are there occupation class restrictions?

A: No, this program is available to all occupation classes.

Q: Are there restrictions to the DI policy benefit design?

A: Yes, it is only available for HH 750 policies. Elimination Periods are 180 and 365 days. Benefit Periods are To Age 65 or To Age 67. Available riders include: Future Benefit Increase, Cost of Living Adjustment (COLA) and Mental/Nervous Substance Abuse Disorder Limitation¹.

¹ Required on single-life policies written in and for residents of FL, LA and NV. Optional in all other states for multi-life cases. Required on all DI policies in CA. Not available in VT. In TX, 3% discount with 5-year benefit period; 5% for all other benefit periods. Not available on 2-year benefit period.

Q: Are there eligibility restrictions?

A: Yes, DI Retirement Security is not available for government employees, individuals with group long-term disability coverage that includes a "retirement supplement," or anyone who is over insured based on Principal Life's current Issue and Participation (I & P) guidelines. It may not be available or the benefit amount may be reduced for certain occupations if there is existing DI coverage with lifetime benefits. Additional underwriting guidelines may apply.

Q: How are existing lifetime benefits considered?

A: For 3A-M, 4A-M and 5A-M occupation classes DI Retirement Security benefits plus existing lifetime benefits cannot exceed \$25,000/ month. You can ignore lifetime benefits or a Lifetime Benefit Rider on the base policy for all other occupation classes.

Q: Could you provide an example of how lifetime limits work for –M occupation classes?

A: A 3A-M, 4A-M or 5A-M occupation class that has a lifetime benefit is calculated as follows:

- A lifetime benefit base policy of \$25,000/month is not eligible for benefits.
- A lifetime benefit base policy of \$5,000/month is eligible for the maximum benefit of \$15,000/month.
- A lifetime benefit base policy of \$18,000 is eligible for \$7,000/month of benefits.

Q: What is the maximum amount of coverage a client can purchase?

A: If the policy is individually paid or a bonus from an employer, the maximum policy benefit is the lesser of 15 percent of annual earned income or \$4,300/month (includes \$50/month trust administration fee). If the policy is paid for by the employer with before-tax dollars, the amount is the lesser of 19 percent of annual earned income or \$5,525/month (includes \$50/month trust administration fee). These amounts are subject to change each year based on current IRS Defined Contribution Guidelines.

Q: What is the minimum amount of coverage a client can purchase?

A: The minimum policy benefit is \$1,000/month. Consideration may be given for a lower minimum policy benefit in a multi-life/employer case situation (subject to minimum premium requirements).

Q: Can a client receive the \$4,300/month benefit (includes \$50/month trust administration fee) for DI Retirement Security if he or she has reached the maximum I & P limits with a traditional DI policy?

A: Yes, the current Principal Life I & P limits are not impacted by the DI Retirement Security policy. Principal Life coordinates our coverage with other types of existing retirement disability plans or policies. We also make sure the client is not over-insured based on Principal Life's current I & P guidelines.

Q: Is this benefit tied to a client's current employer or retirement plan contribution?

A: No, the benefit amount issued is NOT tied to a specific employee or employer contribution. The employee is also not required to provide proof of an existing qualified retirement plan to be eligible for DI Retirement Security. *This is a competitive advantage over other carriers.*

Q: Is DI Retirement Security available with other sales programs?

A: Yes, it is available with the Association sales program and on a multi-life voluntary or employer-paid basis.

The Trust agreement

Q: Who administers the Trust agreement?

A: Bankers Trust Company, Des Moines, Iowa.

Q: Does Bankers Trust charge investment management fees?

A: The underlying mutual funds charge investment management fees, known as 12(b)(1) fees. These indirect fees are assessed before the share price is established each day and are reflected in the daily account balance. Bankers Trust also assesses a \$50/month trust administration fee. This fee will not be assessed to the Trust until Principal Life begins making disability claim payments to the Trust. However, the grantor/insured may purchase an additional \$50 monthly benefit to cover this monthly fee. If additional coverage is not purchased, this \$50 per month fee is deducted first from Trust earnings, if available, then Trust principal.

Q: Can the client access money in the Trust, prior to the end of the benefit period?

A: Access to Trust assets can be obtained under certain situations as defined in the Principal Life Declaration of Trust Agreement (e.g., death before the end of the benefit period, certain financial hardships, etc.).

Q: What happens to proceeds of the Trust if the insured dies while on claim?

A: The proceeds go to the insured's estate.

Q: Can creditors access the funds within this irrevocable Trust?

A: No, per Iowa law, creditors cannot access the assets in the Trust.

Trust investment options

Q: What investment options does the Trustee offer?

A: Bankers Trust currently offers six asset allocation models with Class C funds (managed by Forward Funds). Bankers Trust provides a website that you can access through www.principal.com/bankerstrust. This helps clients determine which asset allocation model is appropriate for them, based on their investment style and risk tolerances.

Q: Can I view detailed information on each fund allocation model?

A: Yes, on the website above you can select the allocation you would like to view from these options:

- Income Allocation
- Income and Growth Allocation
- Balanced Allocation
- Growth and Income Allocation
- Growth Allocation
- Aggressive Growth Allocation

Q: Are there any other investment options?

A: Yes, at the time of disability, your client can select to invest in a tax-deferred annuity or other securities available through the Trustee.

Q: When does the client select investment options?

A: After disability claim benefits start being paid to the Trust.

Trust taxation

Q: Are benefit payments made to the Trust taxable?

A: Benefits are income tax-free when premiums are paid by the insured with after-tax dollars. Benefits are taxable when premiums are paid by an employer with before-tax dollars. Investment earnings within the Trust are taxable.

Q: What happens to earnings (interest, dividends or capital gains) generated by the Trust?

A: Earnings from the Trust are reinvested within the Trust.

Q: Are earnings (interest, dividends or capital gains) generated by the Trust taxable and who pays the taxes on them?

A: Trust earnings are taxable annually to the client and declared on his or her tax return each year, unless benefits are invested in a tax-deferred annuity.

Q: How do clients know how much Trust earnings to declare on their income taxes?

A: Once the insured is eligible to receive disability benefits and money has been deposited into the Trust, the Trustee/Trust Administrator sends an annual Form 1099 to the grantor for all interest, dividends and capital gain distributions each year. Any increase in market value is not taxable until the funds are sold and the grantor "recognizes" the gain.

Q: Are tax rules different for DI Retirement Security compared to a traditional Individual DI policy?

A: Tax rules for DI Retirement Security are the same as for Individual DI:

- Schedule C business owners are not able to deduct premiums as a business expense.
- Benefits received under the policy are tax-free.
- Partners and more than two percent shareholders in S-corporations are required to bonus premiums to owners if the premiums are paid by the business, so their benefits are tax-free.
- Owners of C-corporations can either establish a salary continuation program (deduct premiums without including them in an owner's income resulting in taxable benefits at claim time) or an executive bonus plan (include premiums in the owner's income resulting in non-taxable benefits at claim time.)

Q: Is the balance of money in the Trust included in the insured's estate at termination of the Trust (Age 65 or 67 or at the time of death)?

A: The value of the Trust is included in the Trust grantor/insured's estate regardless of when the insured dies since the grantor/insured has a "retained interest" in the Trust. In some cases, this could create estate tax liability, but should not be seen as a negative. Virtually any retirement income savings product is included in a plan

participant's estate. The use of irrevocable designations is often used to get property out of an estate of an individual making the designation. This is clearly not the case for DI Retirement Security.

Q: Is there a step up in basis for the Trust property?

A: Since the value of the Trust is included in the estate of the Trust grantor/insured, there should be a step up in basis for the Trust property. The only exception that may apply is investment property that generates untaxed ordinary income. The earnings in a deferred annuity, for example, are subject to income tax. Also, interest earnings for the year of the death are taxable. Unrealized capital gain, however, would receive a step up in basis. This fact makes this program more attractive than normal qualified plans that tax benefits upon distribution to the plan participant or beneficiaries.

Q: How do I know if the benefits are taxable?

A: The following chart illustrates the different ways DI Retirement Security can be funded and the possible tax consequences associated with each option.

PREMIUMS PAID BY	TAX CONSIDERATIONS ²	MAXIMUM BENEFIT AMOUNT ³	MINIMUM BENEFIT AMOUNT
Employee with after-tax dollars	Benefits received are income tax-free. Trust earnings are taxable annually and declared on the insured's tax return, unless benefits are invested in a tax-deferred annuity.	\$4,300	\$1,000
Employer	Benefits received are taxable. Trust earnings are taxable annually and declared on the insured's tax return, unless benefits are invested in a tax-deferred annuity.	\$5,525	\$1,000
Employer, but bonused to employee	Benefits received are income tax-free. Trust earnings are taxable annually and declared on the insured's tax return, unless benefits are invested in a tax-deferred annuity.	\$4,300	\$1,000

² Upon a qualifying disability, benefits are paid to the irrevocable trust.

³ Includes \$50/month trust administration fee.

Contact information

Q: Who can I contact if I have additional questions about DI Retirement Security?

A: Contact your Disability Income Regional Vice President or the National Sales Desk at 800/654-4278.

Q: Who can I contact if I have additional questions about the investment options available from Bankers Trust?

A: Contact Scott E. Johnson, Bankers Trust, at 800/362-1688.



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