

# Product Profile

## OVERHEAD EXPENSE INSURANCE



### OVERVIEW

**Overhead Expense (OE) insurance reimburses a business owner for business expenses incurred during a disability.** The policy is ideal for owners of small and medium-size businesses whose personal service is key to the continued earning of business income. Principal Life Insurance Company's OE policy is non-cancelable. It is guaranteed renewable to age 65 (or in certain states<sup>2</sup>, five years from the policy date, whichever is later) and is conditionally renewable for life.

OE insurance is not a substitute for personal disability income coverage. It's still important for an owner to protect his or her personal income and ability to save for retirement in the event of a disability.

### PROFILE OF PURCHASERS

- Owners of small- to medium-size businesses
- Ages 35 to 55
- 3A/3A-M and above occupation classes (4A is most common)
- Often sold to accountants/CPAs, dentists and medical professionals

## Did you know?

- Business owners ranked business protection as their **#1 PRIORITY** and income protection as their **#3 PRIORITY**.<sup>1</sup>
- **ONLY 7%** of business owners have protected their businesses with Overhead Expense insurance; **93% ARE STILL AT RISK**.<sup>1</sup>

### PRODUCT AND UNDERWRITING GUIDELINES

- **Issue ages:** 18-60
- **Occupation classes:** 5A/5A-M, 4A/4A-M, 3A/3A-M, 2A, A\*
- **Elimination periods:** 30, 60 or 90 days
- **Benefit factors:**
  - 12, 15,<sup>2</sup> 18, 24 or 30<sup>2</sup> times in most states
  - 12, 18 or 24 times in CA
- **Maximum number of owners** (with a \$15,000/year minimum earned income):
  - Eight for fee-for-service businesses
  - Four for other types of businesses
- **Rates:** Sex-distinct (unisex in CA and MT)

#### OE MAXIMUM ISSUE AND PARTICIPATION LIMITS

Occupation Classes	Elimination Period	Monthly Benefit Factor				
		12	15 <sup>2</sup>	18	24	30 <sup>2</sup>
5A/5A-M, 4A/4A-M and 3A/3A-M	30 Day	\$30,000				
	60/90 Day	\$50,000	\$40,000		\$30,000	
2A/A*	30/60/90 Day	\$10,000				

\*The A Occupation class is not available in CA.

## AVAILABLE FEATURES

### Riders

Further customize your clients' OE policies with our competitive riders:

#### No cost – most states

- Automatic Increase Option
- Benefit Update

#### No cost – California

- Automatic Benefit Increase
- Benefit Update

#### Additional cost – most states

- Business Loan Protection<sup>2</sup>
- Residual Disability Benefit<sup>2</sup>
- Return to Work

#### Additional cost – California

- Return to Work<sup>3</sup>

### Sales programs and discounts

Certain discounts can be stacked together, offering clients even greater savings:

- Simplified underwriting
- Select Occupation: 10%
- Multi-Life:<sup>4</sup> 20%  
(not available in OH)
- Association: 10%  
(not available in OH and CA)

## COVERED BUSINESS EXPENSES

Covered overhead expenses are those business expenses that are deductible for federal income tax purposes, including, but not limited to:

- Replacement salary expense
- Lease or principal and interest payments for occupied space for business operation for which the owner was obligated to make payments prior to his or her disability
- Premiums for medical malpractice, property or liability insurance
- Utilities and telephone bills
- Accounting, billing, legal and collection fees
- Janitorial, security and maintenance services
- Professional and trade dues/subscriptions
- Employee salaries and benefits (some limitations apply)
- Office supplies and postage
- Real estate taxes

## BUILT-IN POLICY COMPONENTS

- Accounting/Legal Fee Benefit
- Advance Benefit Option<sup>2\*</sup>
- Carry Forward Feature
- Cosmetic or Transplant Surgery Benefit
- Death Benefit
- Exchange Privilege
- Interrupted Elimination Period
- Presumptive Disability Benefit
- Recovery Benefit\*
- Recurring Disability Benefit
- Waiver of Premium Benefit

\*Not available in CA.

## SALES TIP



Approach business owners with Principal Life's **complimentary business planning services** which are conducted by a team of Principal Life experts.

- **Buy-sell reviews** – Review of buy-sell agreements to ensure they're effective and properly funded.
- **Business valuations** – Help identify next steps in the business continuation planning process.

The OE insurance policy is ideal for owners of small and medium-size businesses whose personal service is key to the continued earning of business income.

## POINTS TO DISCUSS WITH CLIENTS

### Business protection insurance to help maintain business value and credit ratings

- Having benefits to reimburse business expenses helps ensure the doors of a business remain open in the event of a business owner's disability.
- Most business owners realize even a temporary closing can be financially devastating to the business. OE insurance serves as "interruption" protection if an owner becomes too sick or hurt to work.
- Business owners are often familiar with purchasing other types of protection like fire/hazard and workers' compensation. It just makes sense for them to protect their businesses from the threat of a disability with OE insurance, too.



### Taxation

- Premiums are deductible as a necessary business expense.
- Any benefits received are taxable; however, since they must be used for expenses that qualify for federal income tax deduction, the net benefits are virtually tax-free.

## SALES IDEAS

### More coverage, lower cost

Promote the Multi-Life Discount<sup>4</sup> and the advantages of comprehensive disability coverage.

#### EXAMPLE

#### OE + DI + DI = 20% discount<sup>4</sup>

A business owner buys an OE policy and two employees buy Individual Disability Income (DI) insurance policies. The result is a 20 percent discount for each of them.

### Simplified underwriting

Offer Simplified underwriting to clients to streamline the sales process. It is available for clients up to age 50 and features:

- Up to \$10,000 in monthly OE insurance benefits
- Accelerated turnaround time once the application, TeleApp interview and OE supplement are completed and received
- No, blood, urine, EKGs or APSs required

## BUSINESS LOAN PROTECTION<sup>2</sup>

The Business Loan Protection rider helps ensure a loan continues to be paid if an owner becomes disabled (up to \$2 million maximum available). It's offered in most states; not available in California.<sup>2</sup>

Types of loans<sup>5</sup> commonly covered:

- The purchase of a practice or existing business
- The purchase of a large piece of equipment
- The expansion of a business or practice
- Facility renovations and improvements
- An increase in working capital or inventory build-up
- The purchase of building or land (for the sole use of the business)

The loan obligation should be in the form of term, balloon, variable rate, commercial mortgage, lease financing or those for working capital or increase in inventory.

**Sales opportunity:** Consider approaching financial institutions about business loan protection for their customers' business-related loans. Get started with the Financial Institutions Market Profile (JJ1975).

**TIP:** Review the Business Loan Protection product profile (JJ1873) for details.



**FOR MORE INFORMATION**

Contact your local representative.

Not all benefits, features and riders are available in all states or to all occupation classes.

<sup>1</sup> 2012 Business Owner Market Study, conducted by Harris Interactive® for The Principal®.

<sup>2</sup> Not approved in all states. Not available in California. Go to [www.principal.com/distateapprovals](http://www.principal.com/distateapprovals) for more information.

<sup>3</sup> Only available in California on Policy HH670 (4A and 5A occupation classes).

<sup>4</sup> Three or more employees with a common employer must purchase individual disability insurance policies from Principal Life. In Ohio, only Individual Disability Income and DI Retirement Security receive the discount or count toward the three-person minimum.

<sup>5</sup> Does not cover the following loans: line of credit, credit card, revolving line of credit, interest only, family or investment (loans that solely finance an investment).



WE'LL GIVE YOU AN EDGE®

Principal Life Insurance Company, Des Moines, Iowa 50392-0002, [www.principal.com](http://www.principal.com)

While this communication may be used to promote or market a transaction or an idea that is discussed in the publication, it is intended to provide general information about the subject matter covered and is provided with the understanding that none of the member companies of The Principal® are rendering legal, accounting, or tax advice. It is not a marketed opinion and may not be used to avoid penalties under the Internal Revenue Code. You should consult with appropriate counsel or other advisors on all matters pertaining to legal, tax, or accounting obligations and requirements.

For producer information only. Not for use in sales situations.