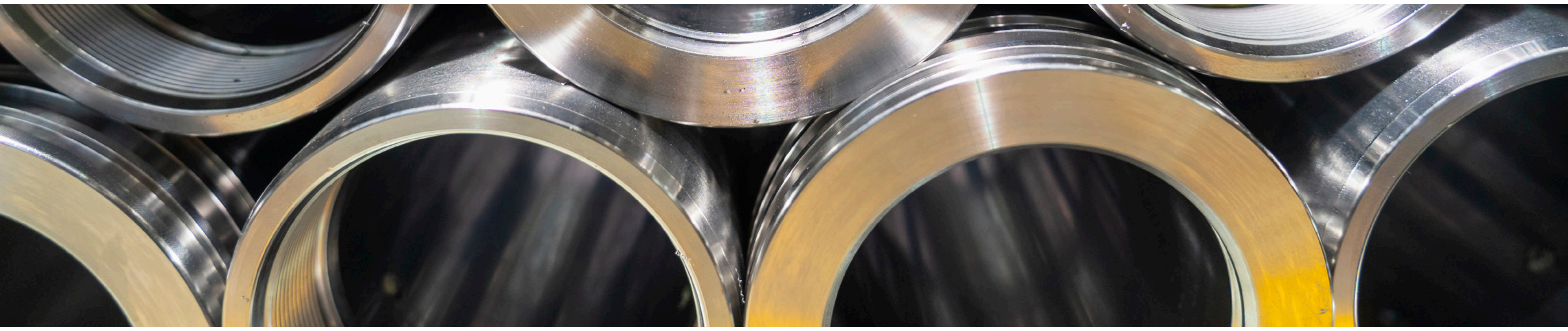


Supplemental Executive Disability Case Study

Machining and Equipment

Client Profile

Midwestern Industrial Industry

Total Employees — 400+

Key Team Members (vice presidents and officers) — 20

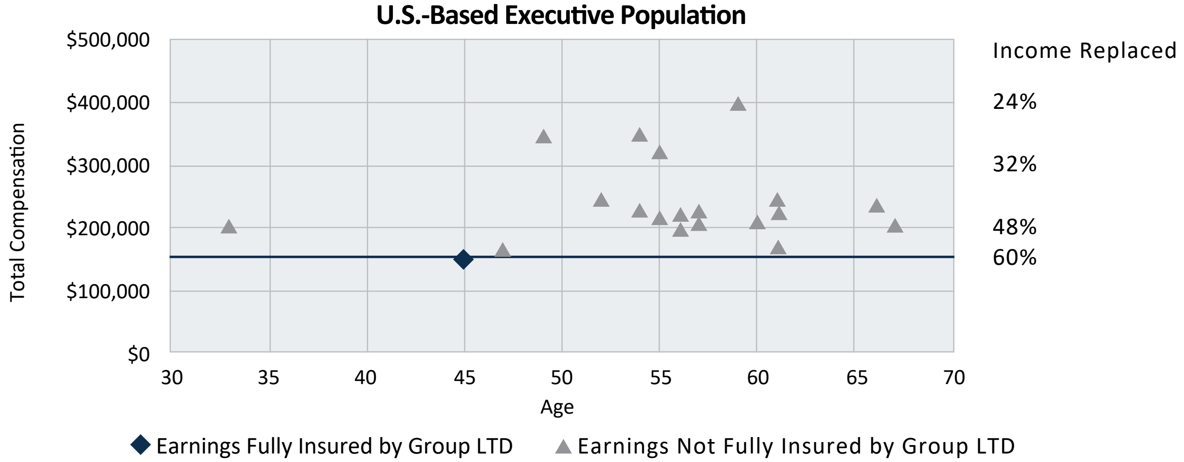
Background

The M Member Firm benefits advisor identified an opportunity within the firm's existing client list and at renewal performed an insurance gap analysis. The analysis revealed the existing plan did not adequately protect the higher incomes of key team members. There was significant compensation not insured by the existing plan. This gap was outlined for the head of Human Resources using an income replacement gap chart (see below). It was important to align benefits for the key team members with those offered to other employees, while adhering to a tight budget with little room for additional expenses.

Existing DI Plan

The existing plan provided 60% of salary, bonus, and commissions to a maximum monthly benefit of $8,000, protecting up to $13,333 per month ($160,000 per year). The employer paid the premiums, and the benefits were taxable.

Nineteen officers and vice presidents earned more than the coverage limit of $160,000 per year provided by the existing group long-term disability plan, resulting in inadequate income protection (less than 60%, the markers above the blue line in the chart). Because benefits received were taxable as income, total income replacement shown below would be further reduced, and the targeted 60% would not be achieved during a disability.



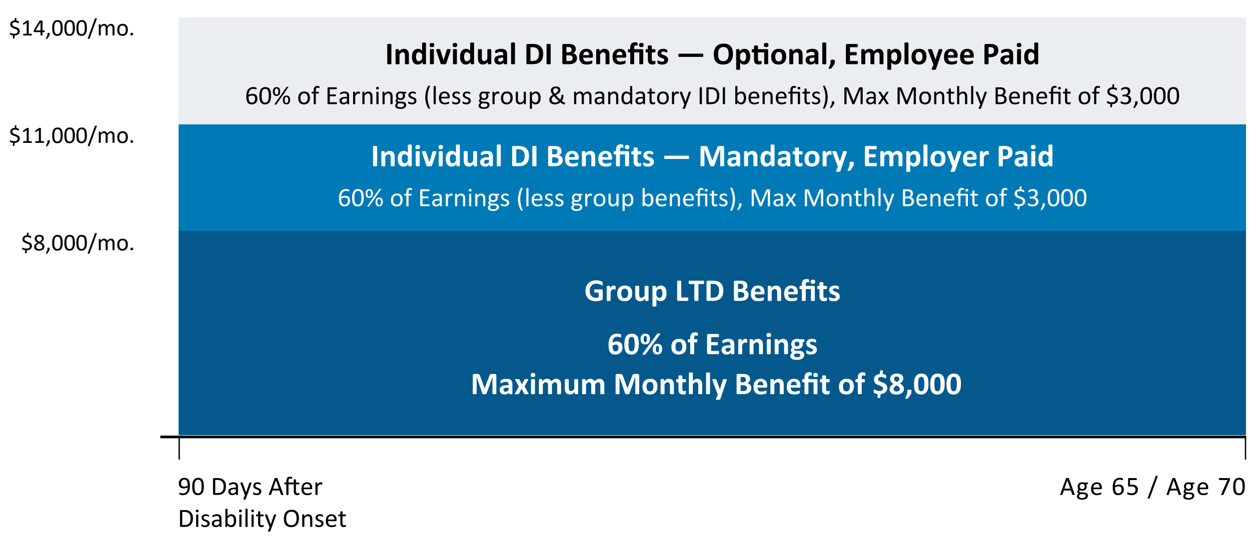
An extended disability among key employees may pose challenges in meeting their financial obligations and paying for additional expenses, dramatically impacting future earnings and retirement goals.

Objectives

- Increase benefits for key team members to achieve 60% income replacement
- Maximize the length of benefit payments due to older ages within the executive population
- Incorporate nontaxable benefits
- Control cost with split funding (employer and employee share premium)

Plan Design Implemented

- Existing group LTD plan was maintained with supplemental individual disability policies added so that 60% of income is insured, increasing earnings protection from $160,000 to $280,000.
- Employer funded the first $3,000 per month of supplemental individual policy benefits, insuring up to $220,000 of earnings at 60%, for all eligible employees (19 officers and vice presidents). These benefits would be taxable.
- Employees earning over $220,000 had the option to elect up to an additional $3,000 per month, not to exceed 60% of earnings. These benefits would be income tax-free.
- The employer-paid portion of coverage included a Catastrophic Disability Benefit rider providing up to an additional $12,500 per month of benefit for the most serious disabilities typically requiring a higher cost of care.
- Supplemental benefits received for total or partial disability would continue to the insured's age 70, providing an enhancement to the To Age 65 benefit period of the Group LTD benefits.



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