M Financial Group®

DISABILITY INSURANCE

EXECUTIVE INCOME PROTECTION:
SOLUTIONS FOR THE HIGHLY COMPENSATED

AN ORGANIZATION'S MOST VALUABLE ASSET

One of an organization's most valuable assets is the talent it employs. In today's competitive business environment, it's essential to offer a quality benefits package that provides significant value for both the employer and its employees and executives.

Group long-term disability (LTD) is often included in an employer's benefits package to protect the incomes of employees if they're unable to work due to illness or injury. It's an affordable and necessary part of income protection planning. However, while group LTD provides the basic coverage needed for all employees, it doesn't always address the needs of higher income employees, key employees, and the executive group.

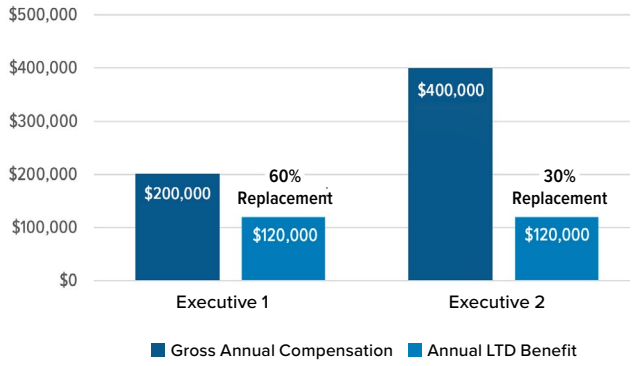
Even highly compensated employees depend on their ability to work and earn an income to maintain their lifestyle and achieve retirement goals. This may not be possible in the event of an extended disability.

UNINTENDED IMPACT ON KEY EMPLOYEES

BENEFIT MAXIMUM

Monthly benefit maximums on employer-sponsored group LTD plans subject highly compensated executives to lower income replacement percentages than other employees.

Income Replacement Gap Example with $10,000 Per Month Benefit Maximum



EXCLUDED FORMS OF COMPENSATION

Variable pay, bonuses, and other incentives can be an important component of executive compensation and are often needed to meet financial obligations and goals. However, many group LTD plans cover only a portion of base salary and fully exclude these other forms of income.

TAXES ON BENEFITS

Group LTD premiums are often employer-paid and deductible as a business expense. This may result in benefits paid to employees being taxable as income, further reducing the percentage of pre-disability earnings received during a disability.

INSUFFICIENT RETIREMENT PLAN ACCUMULATION

Higher income executives often need to save more for retirement, and an extended disability could severely restrict the ability to fund their retirement plans. Further, 401(k) contributions and employer matches stop during a long-term disability, resulting in a loss of investment earnings and capital to the retirement plan that could be disastrous.

RESTRICTIVE CONTRACT LANGUAGE AND NO OWNERSHIP OF COVERAGE

Group insurance typically includes limitations and restrictions on benefits payable, and coverage generally ceases when employment with that employer ends.

ADVANTAGES OF EXECUTIVE INDIVIDUAL DISABILITY INSURANCE (DI)

- **Innovative, Flexible Products** to meet income replacement and asset protection needs
- **Higher Coverage Limits** are achieved with supplemental individual DI
- **Guaranteed Standard Issue (GSI) Programs** provide easier access to coverage without the usual evidence of insurability requirements with or without employer funding
- **Supplemental Executive Policies** can include additional monthly benefits for catastrophic disabilities requiring long-term care, and additional monthly or annual benefits to use for any purpose

OPTIONS TO ADDRESS EMPLOYER GOALS & BENEFIT PHILOSOPHY

- Executive Benefit—provide supplemental benefits to protect higher income earners with comprehensive individual disability income protection that may pay more benefits, in more situations
- Restoration of Benefits—provide or sponsor supplemental benefits to fill gaps in coverage due to uninsured compensation, benefit maximums, limitations on benefits, and taxability of benefits
- Voluntary Benefits—sponsor supplemental benefits to allow employees access to important coverage on a discounted, guaranteed basis, without employer funding
- Risk Mitigation—transfer a portion of the volatile premium risk of group LTD coverage to the fixed, guaranteed premium of non-cancellable individual DI coverage, to achieve benefit targets while stabilizing plan premiums

GSI PLAN STRATEGIES TO ALIGN WITH EMPLOYER BENEFIT PHILOSOPHY

STANDALONE

(Employer Paid)

Provides comprehensive income protection when no employee group LTD plan exists.

GSI coverage is limited.

MANDATORY

(Employer Paid)

Individual DI supplements employee group LTD plan. Employer funding maximizes available GSI coverage and premium discounts.

VOLUNTARY

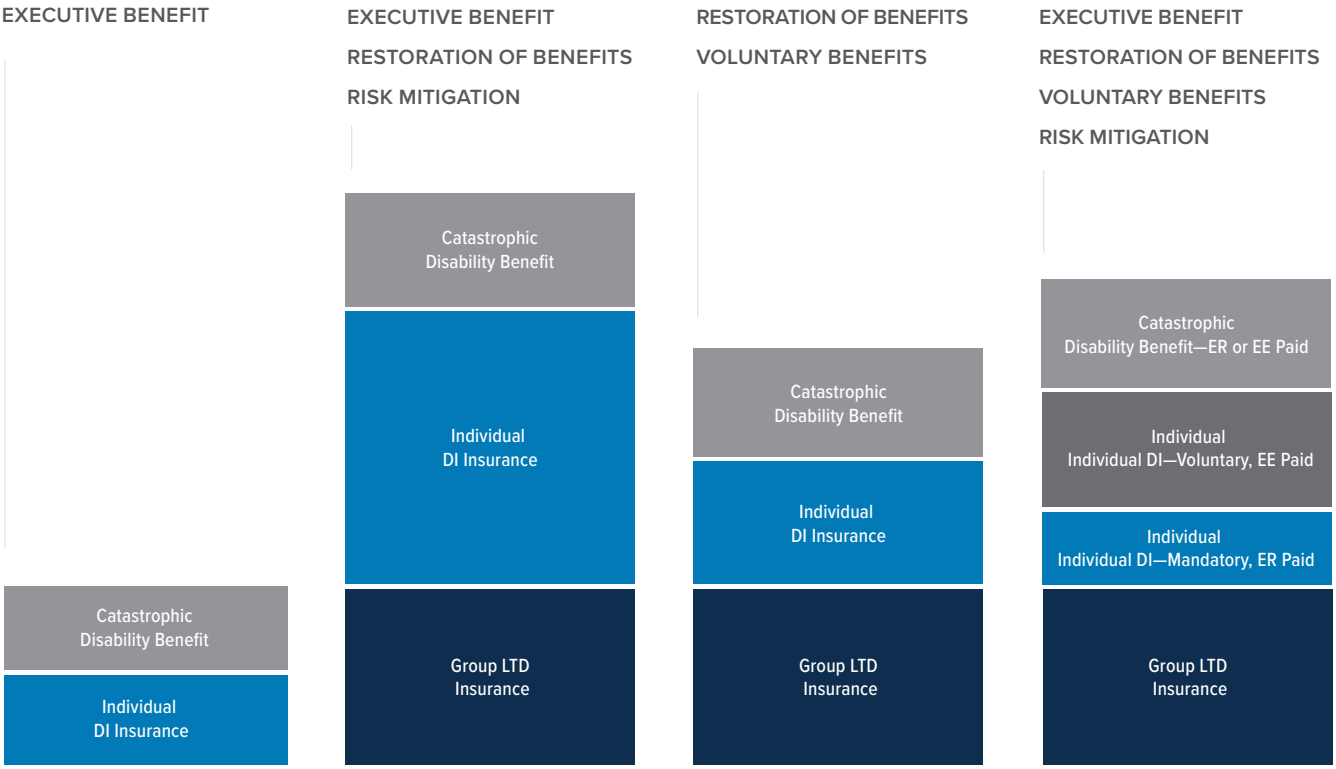
(Employee Paid)

Employer sponsorship of Individual DI allows access to GSI coverage and premium discounts not available on individually purchased coverage without employer funding.

SPLIT FUNDING

(Employer (ER) and Employee (EE) Paid)

Combines an employer-paid mandatory base benefit with an option for the employee to buy up to a higher amount. Minimizes employer funding while providing employees access to GSI coverage and premium discounts.



Catastrophic disability benefit is an optional rider selected at the employer level that pays an additional monthly benefit for catastrophic disabilities, maximizing total income replaced. Additional optional riders are available.

BENEFITS OF AN EXECUTIVE DISABILITY PLAN FOR YOUR ORGANIZATION

- Competitive Benefits Package—provide comprehensive contractual definitions that "match up" with the needs of executives and assist in recruiting, retaining, and rewarding key employees
- Tax-Deductible—enhance purchasing power by leveraging corporate tax deductibility of premium
- Plan Stability—employers benefit by transferring some of the income protection risk to individual coverage to keep group LTD rates more stable long term
- Reduce Unintentional Coverage Gaps—insure all forms of compensation and increase plan maximums with supplemental individual coverage to fill unintended gaps for employees earning high incomes
- Guaranteed Issue —provide for guaranteed standard issue with no medical underwriting or exams (must only meet "active at work" requirement)
- Reduced Cost—premiums are significantly discounted over what employees can purchase on their own—employer sponsorship represents the best way to purchase benefits
- Employer Communication Opportunity—improve communication with employees, enhance appreciation of benefits, and address employee and family's retirement funding needs, offering peace of mind

M Financial Group has been a national leader in designing and providing executive income protection plans for businesses for over 30 years. Please **contact a Member Firm** to learn more.

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