

When an employee works, how are benefits determined?

It's a valid question: How does Principal® calculate long-term disability benefits when an employee can work during a disability? The math can seem complicated. That's why we put together this quick guide.



It all starts with our work incentive benefit. It allows employees to earn up to 100% of their pre-disability earnings through a variety of income sources.

How the work incentive benefit works

For each full month of benefits being paid, employees receive:

For the first 12 months (varies, depending on the policy), the lesser of:

100% of their indexed pre-disability earnings, minus other income and minus earnings from their primary job or another job

or

The primary monthly benefit minus other income

After the first 12 months, the benefit payment is their primary monthly benefit, minus other income, multiplied by the percentage of income loss.

Want to know more?

Policies vary, so use this guide only as a general reference. If you have specific questions, contact the Group Life and Disability Service Team at 800-245-1522.

On the back, you'll find examples that further explain how this works.

To better understand your specific benefits, check the Benefits Payable section of your group disability policy (Part IV – Benefits).

Terms to know

Pre-disability earnings – Employees' monthly earnings before a disability begins.

Indexed pre-disability earnings – Pre-disability earnings adjusted for increases in the Consumer Price Index. This increase happens each March 1st when employees work part-time.

Income loss percentage – Employees' pre-disability earnings minus any current earnings from their primary or other job divided by their indexed pre-disability earnings. See the first example on reverse side for a more detailed calculation.

Primary monthly benefit – The percentage (which varies, depending on the policy) of employees' pre-disability earnings.

Let's take a look at a few examples

Without other income sources

Assumptions	
Pre-disability earnings (PDE)	\$2,600
Primary monthly benefit (PMB) 60% of earnings for this example	\$1,560
Part-time earnings	\$1,250
Other income	None

During the first 12 months, the employee is eligible for the lesser of:

$$\begin{array}{r}
 \$2,600 \text{ (PDE)} \\
 - \$1,250 \text{ (part-time earnings)} \\
 \hline
 \$1,350
 \end{array}
 \quad \text{or} \quad
 \begin{array}{r}
 \$1,560 \text{ (PMB)} \\
 - \$0 \text{ (other income)} \\
 \hline
 \$1,560
 \end{array}$$

In this example, the lesser of the two benefits is \$1,350, so that's what the employee receives each month.

When the employee's part-time earnings and disability benefit are added together, they equal 100% of the employee's indexed pre-disability earnings ($\$1,250 + \$1,350 = \$2,600$).

After 12 months of part-time work, the employee is eligible for:

$$\begin{array}{r}
 \$1,560 \text{ (PMB)} \\
 \times 52\% \text{ (income loss percentage)} \\
 \hline
 \mathbf{\$811.20 \text{ per month.}}
 \end{array}$$

With other income sources

Assumptions	
Pre-disability earnings (PDE)	\$2,600
Primary monthly benefit (PMB) 60% of earnings for this example	\$1,560
Part-time earnings	\$750
Other income	\$150

During the first 12 months, the employee is eligible for the lesser of:

$$\begin{array}{r}
 \$2,600 \text{ (PDE)} \\
 - \$150 \text{ (other income)} \\
 - \$750 \text{ (part-time earnings)} \\
 \hline
 \$1,700
 \end{array}
 \quad \text{or} \quad
 \begin{array}{r}
 \$1,560 \text{ (PMB)} \\
 - \$150 \text{ (other income)} \\
 \hline
 \$1,410
 \end{array}$$

In this example, the lesser of the two benefits is \$1,410, so that's what the employee receives each month.

When the employee's part-time earnings plus other income and the disability benefit are added together, they equal 89% of the employee's indexed pre-disability earnings ($\$750 + \$150 + \$1,410 = \$2,310$).

After 12 months of part-time work, the employee is eligible for:

$$\begin{array}{r}
 \$1,560 \text{ (PMB)} - \$150 \text{ (other income)} \\
 \times 71\% \text{ (income loss percentage)} \\
 \hline
 \mathbf{\$1,001.10 \text{ per month.}}
 \end{array}$$

Remember, disability benefits paid are never more than the employee's primary monthly benefit. In this example, if the employee hadn't received other income, Principal would have paid the primary monthly benefit of \$1,560.

Let's connect. | Contact your financial professional or go to [principal.com](https://www.principal.com).



[principal.com](https://www.principal.com)

Insurance issued by Principal Life Insurance Company, Des Moines, Iowa 50392-0001

This is an overview of long-term disability coverage from Principal. The group policy determines all rights, benefits, limitations and exclusions of the coverage described here. Examples provided are for illustrative purposes only. Contact your local sales representative for more information, including costs and a full proposal outlining the coverage. OR policy form GC 3000-2 (1114)

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