PACIFIC ADVISORS

Seattle Office:
1702 North 34th Street
Seattle, WA 98103
Phone: 206.633.2922
Fax: 206.633.0185

St. Louis Office:
230 South Bemiston Ave.
Suite 1425
St. Louis, MO 63105
Phone: 314.678.2576
Fax: 314.721.1047

Toll Free Phone: 877.455.9580
www.pacificadvisors.net

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IDI Underwriting Insight: Knee Problems *continued*

Your DI underwriter takes into account the nature and severity of the injury and the treatment required to determine whether the impairment requires an exclusion rider on the policy. Many exclusion riders for knee injuries can be reviewed in the future for possible removal. If the injury resulted in traumatic arthritis of the knee, the exclusion may be permanent. Many surgically-corrected knee problems may not require an exclusion if a period of time (sometimes as little as a year) has elapsed since recovery and release from care.

If there are significant occupational requirements, a knee problem may pose more of an under-writing concern. Being overweight also poses additional problems with recovery or re-injury of the knee.

Other disorders may require a longer-term or even permanent exclusion. Examples include:

- Osgood-Schlatter disease (a form of osteochondritis affecting the knees) causes degeneration of bone and cartilage, as does degenerative arthritis of the knee.
- Plica syndrome (irritation/pain, swelling or snapping in the knee lining) can occur from an injury or certain exercises, repetitive motions or kneeling. It can often be treated without surgery but can require surgery and physical therapy.

With all knee impairments, DI underwriters make the most equitable decision based on the circumstances of each individual situation, and can also advise you on when it may be possible to reconsider a knee exclusion.

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Brokerage News

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IDI Underwriting Insight: Knee Problems

One of the more frequently encountered medical histories is that of knee impairments. In fact, the knee is one of the most often injured joints in the body and is second only to back injuries as a cause of musculoskeletal disorder. When applying for Individual Disability Insurance, what should clients with a history of knee impairment expect?

Several supporting and moving parts, including bones, cartilage, muscles, ligaments and tendons help knees do their job. All of these areas are subject to disease and injury, which means there can be many types of knee impairments. Here are some of the most common conditions:

- Injuries – meniscal, cruciate ligament, and collateral ligament and tendon.
- Diseases – chondromalacia, arthritis, Osgood-Schlatter disease and plica syndrome.

The most common injuries involve the ligaments and can vary from mild sprain of one ligament to complete ligament or tendon rupture. Treatment for knee injuries can involve anything from exercise and muscle strengthening to surgical correction or even knee replacement.

(continued on page 4)

News You Can Use

- **Principal Life has a new and improved BOE policy,** including lower new issue rates, new definitions of total and residual disability, and much more. Contact us for more information and state approval.
- **Prudential has re-priced its LTC3 product.** New rates take effect April 5th, 2011 (subject to state approval). Prudential has also made changes to the LTC3 product. Visit the News section of our website for more details.
- **Two educational audioconferences in April:**
  - April 20th, 11:00am PDT - Prospecting with Steve Kloyda
  - April 27th, 11:00am PDT - Real Life Cases with Petersen International

  Check the Events section of our homepage one week before each audioconference for complete details if you are not on our email list.

Inside this issue:

If there are specific topics you'd like to see covered in future newsletters, please contact:

Kelsie Van Tine

at kelsie@pacificadvisors.net

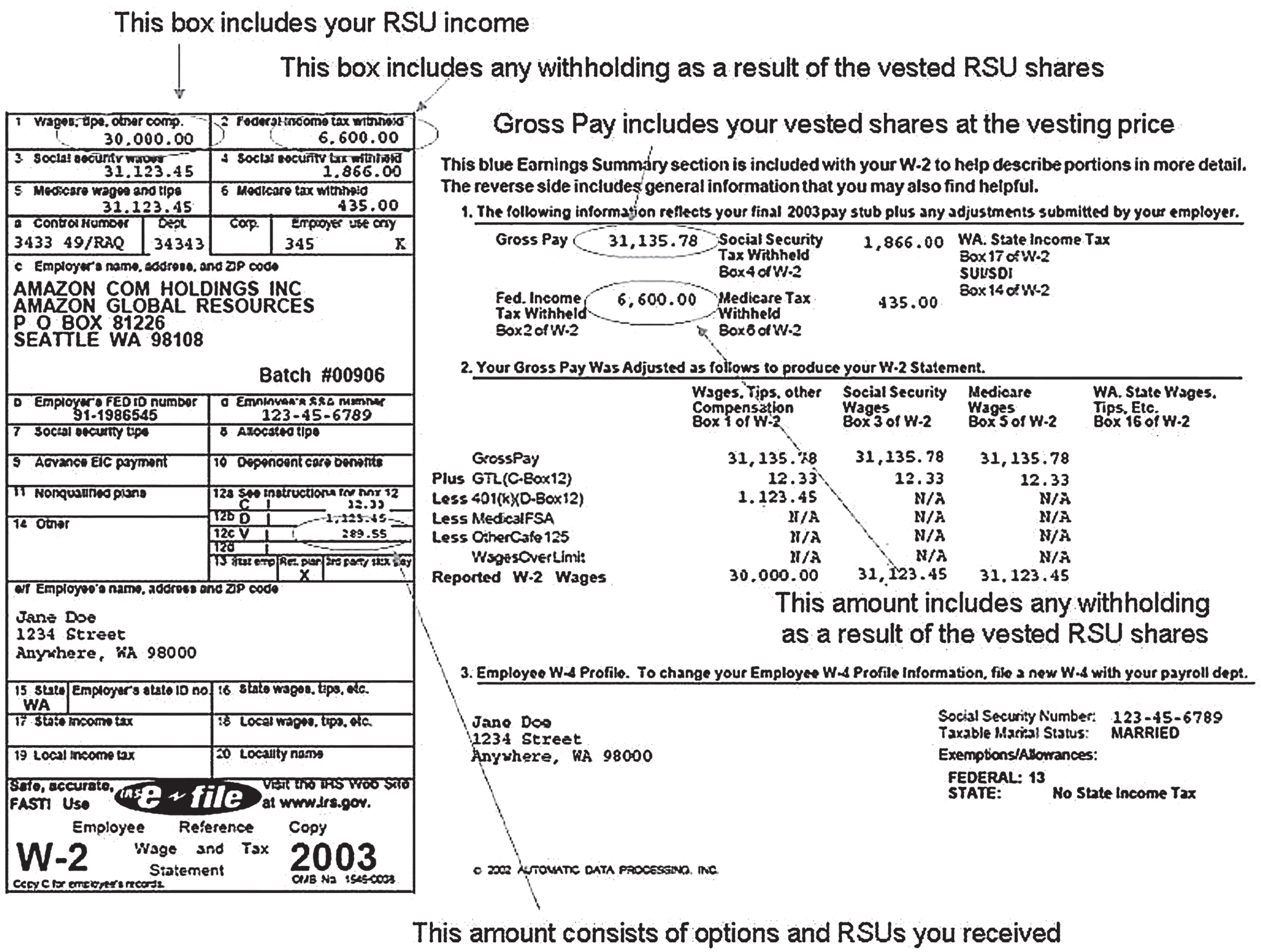
Visit our website at www.pacificadvisors.net
for industry news and upcoming events!

The Impact of Restricted Stock Units on Individual DI

Restricted Stock Units (RSU) are a form of stock-based compensation that has gained popularity and are part of more and more stock compensation programs. An RSU is a grant valued in terms of company stock, but company stock is not issued at the time of the grant. After the recipient of a unit satisfies the vesting requirement share of company stock or a cash equivalent are distributed. The biggest difference between RSUs and employee stock options is that RSUs are taxed as ordinary income at the time of vesting and will appear on the participants' W-2 while stock options are usually taxed at the time of option exercise.

As RSUs are reported as earned income they can be taken into consideration when calculating individual disability benefits unlike stock options. Since the value of RSUs can vary from year to year as stock prices change and the amount of vested shares fluctuates, Restricted Stock Units are treated as bonus income. Carriers will require a consistent RSUs vesting history and will take the average value of the last three years of vested RSUs into consideration.

How is RSU income reported on a W-2? See an example below:



Federal Employee Disability Retirement Benefits

Government employees generally participate in the Federal Employees Retirement System (FERS), Public Employee Retirement System (PERS) or other similar government sponsored programs. These retirement programs include a disability benefit that is separate from any group long-term disability plan that may be available and impacts what is available in the individual market. Following is a summary of the disability benefits available through FERS.

FERS disability benefits are computed in different ways depending on the annuitant's age and amount of service at retirement. In addition, FERS disability retirement benefits are recomputed after the first twelve months and again at age 62, if the annuitant is under age 62 at the time of disability retirement.

FERS Disability Computation if -

- Under age 62 at retirement, and...
- Not eligible for immediate voluntary retirement

One receives their 'earned' annuity based on the general FERS annuity computation as follows:

For the first 12 months -	60% of your high-3 average salary minus 100% of your Social Security benefit for any month in which you are entitled to Social Security benefits. However, you are entitled to your 'earned' annuity, if it is larger than this amount.
After the first 12 months -	40% of your high-3 average salary minus 60% of your Social Security benefit for any month in which you are entitled to Social Security disability benefits. However, you are entitled to your 'earned' annuity, if it is larger than this amount.
When you reach age 62 - Your annuity will be recomputed using an amount that essentially represents the annuity you would have received if you had continued working until the day before your 62nd birthday and then retired under FERS.	If your actual service, plus the credit for time as a disability annuitant equals less than 20 years, 1% of your high-3 average salary for each year of service. If your actual service plus the credit for time as a disability annuitant equals 20 years or more, 1.1% of your high-3 average salary for each year of service. Total service used in the computation will be increased by the amount of time you have received a disability annuity. Average Salary used in the computation will be increased by all FERS cost-of-living increases paid during the time you received a disability annuity.

FERS Disability Computation if -

- Age 62 or older at retirement, or...
- Meet the age and service requirements for immediate voluntary retirement

One receives their 'earned' annuity based on the general FERS annuity computation as follows:

• If age 62 or older at retirement with less than 20 years of service • Under age 62 qualified for an immediate voluntary retirement	1% of the high-3 average salary for each year of service
• If age 62 or older with 20 or more years of service	1.1% of the high-3 average salary for each year of service