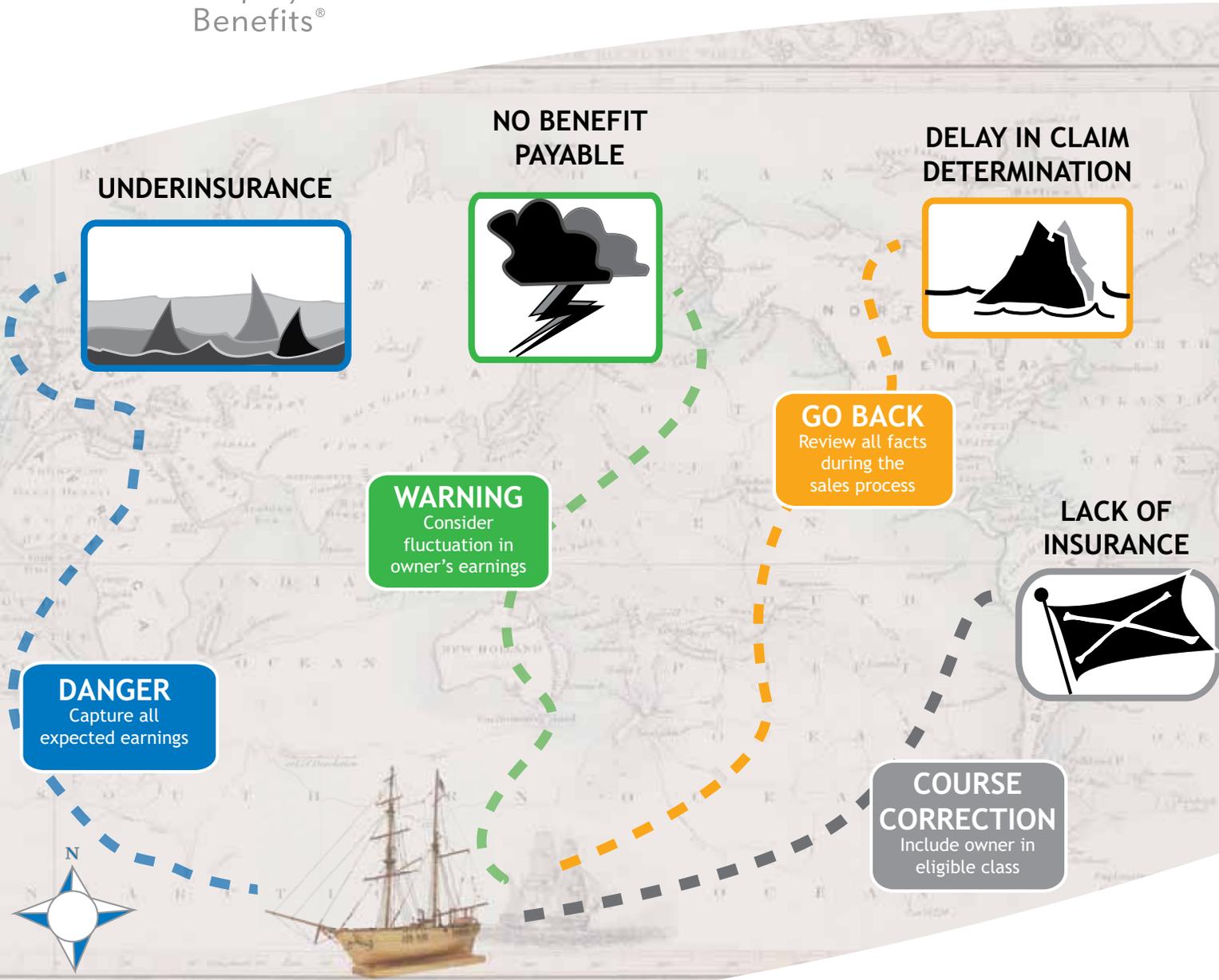




**ASSURANT**  
Employee  
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# Business Entities

## AND YOUR DISABILITY CONTRACT



*Setting the proper course to reach your intended destination.*

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## Introduction

The type of legal entity through which a business owner chooses to conduct business potentially impacts the business owner in a number of ways. Those impacts vary from how much input the business owner has on how the business is conducted, whether the business owner's personal assets are subject to claims of creditors of the business entity, as well as how business owners who work full-time in the business are treated under employee benefit plans sponsored by the business entity.

### Why read these materials?

Taking time early in the sales process to understand the type of business entity the owner has formed and the types of earnings the business owner receives from that entity can reduce the potential for unintended consequences for those business owners, especially if the business owner later files a claim for benefits under the group policy. These materials will help you ask the pertinent questions to obtain necessary information about the business entity and owner(s) so that you can reduce the likelihood that certain unintended consequences may impact the business owner –

- Underinsurance
- Lack of insurance
- No benefit payable
- Delay in claim determination

*These materials also provide our standard group policy language as it relates to business owners, as well as, suggestions and direction when our standard language does not meet the needs of the business owner.*

### What are your next steps?

1. Complete the checklist on page 8.
2. Determine the group's business entity type.
3. Review the business owner's eligibility for coverage and source(s) of income from the business.
4. Discuss with your insurance carrier your client's business entity type, the business owner's eligibility and source(s) of income from the business.
5. The insurance carrier should be able to evaluate the situation and determine what level of coverage is available for the business owner and how the group policy should be written.

*Ensuring effective communication between the insurance carrier and potential policyholder is one of the most critical roles a broker plays. Providing the insurance carrier with the information necessary to evaluate a group insurance plan based on the specific needs of their client so there are no surprises at claim time.*

## Here are Four Examples of the Most Common Pitfalls:

**#1** Karen is the sole proprietor of a 10 life landscaping company who discovers that she is not covered under the group disability insurance policy.

### How did this happen?

A standard eligible class definition in a group disability policy only covers active full-time employees of the policyholder. A sole proprietor is not considered an employee so Karen is not covered in the eligible class.

### How could this have been prevented?

By making sure that the eligible class of the disability policy includes both the sole proprietor and employees if Karen is intended to be covered.

**#2** Ben is a partner in a car dealership who is actively at work and is covered under the group disability insurance policy. Upon filing a claim, he is informed that no disability benefit is payable even though he qualifies as disabled and premiums are paid to date.

### How did this happen?

A disability benefit is based upon covered monthly pay defined in the disability policy as ordinary income as reported on the Partner's Schedule K-1, IRS Form 1065 from the policyholder for the prior calendar year. A review of Ben's ordinary income as reported on the Partner's Schedule K-1, IRS Form 1065 - to determine the disability benefit amount - revealed an ordinary loss for the prior calendar year.

### How could this have been prevented?

The group disability policy was issued with a standard earnings definition for partners of a partnership, and, as issued, does not take into account the potential for fluctuations in earnings from year to year. An earnings definition that takes into account the average ordinary income as reported on the Partner's Schedule K-1, IRS Form 1065 over a greater period of time - such as three years - could have been used.

**#3** A group disability insurance policy is issued to the Richard and Scott Law firm, a partnership. The policy covers both the partners and the common law employees of the firm. Monthly pay for partners is defined as ordinary income from the partnership as reported on the Partner's Schedule K-1, IRS Form 1065 for the prior calendar year. Ms. Richard, one of the partners, becomes disabled. Ordinary income as reported on her Partner's Schedule K-1, IRS Form 1065 for the prior calendar year was \$2,000, resulting in a monthly benefit of \$100, the minimum benefit.

### How did this happen?

A significant portion of Ms. Richard's earnings are not considered in the monthly pay definition. Ms. Richard's Partner's Schedule K-1, IRS Form 1065, for the prior calendar year also reported guaranteed payments from the partnership of \$200,000. Failure to include guaranteed payments resulted in underinsurance.

### How could this have been prevented?

The monthly pay definition could have included guaranteed payments as well as ordinary income both as reported on the Partner's Schedule K-1, IRS Form 1065.

**#4** A group disability insurance policy is issued to The Doctors Group, P.C. The group policy covers the shareholders and common law employees of The Doctors Group, P.C. Monthly pay for the shareholders is draw or salary received from The Doctors Group, P.C. Dr. Dutton becomes disabled. At claim time it is discovered that all of the shareholders of The Doctors Group, P.C. are other professional corporations. Dr. Dutton is the sole shareholder/employee of Dr. Dutton, P.C. Dr. Dutton, P.C., not Dr. Dutton, is the shareholder of The Doctors Group, P.C. Is Dr. Dutton covered under the group policy and if yes, what earnings are covered? No benefits can be paid until more information is obtained.

#### **How did this happen?**

The group insurance carrier was not notified at the time the group policy was issued that the shareholders were other professional corporations. Because of this failure, no benefits can be paid and additional information must be provided to the group insurer to evaluate the situation.

#### **How could this have been prevented?**

The ownership structure of The Doctors Group, P.C. should have been discussed before the group disability policy was issued. Underwriting likely would have agreed to add Dr. Dutton, P.C. and the other professional corporations that are the actual shareholders of The Doctors Group, P.C. as associated companies. Had that occurred, the employee/shareholder of each of those associated companies would have been covered under the group disability policy.

Additional information provided at claim time revealed that Dr. Dutton, P.C. (not Dr. Dutton) receives a draw from The Doctors Group, P.C., plus 1099 income from The Doctors Hospital, a separate corporation. What portion of Dr. Dutton's income from Dr. Dutton, P.C. is covered under the group disability policy?

Only that portion of draw and salary that Dr. Dutton receives from Dr. Dutton, P.C. (not The Doctors Group, P.C.) that is attributable to work performed by Dr. Dutton for The Doctors Group, P.C. will be considered in monthly pay. The 1099 income received by Dr. Dutton, P.C. from The Doctors Hospital will be excluded.

Dr. Dutton may be underinsured. If this potential outcome had been recognized prior to claim time, Dr. Dutton may have purchased individual disability insurance coverage to supplement the group disability coverage.

## Checklist of Things Your Insurer Needs to Know

This Checklist includes basic questions an insurance carrier needs to know to underwrite and if approved, properly issue a group policy that covers both employees and the business owners.

1. Who is the policyholder (legal name)?
2. Who is covered under the policy?
  - Business owner(s)
  - Employees
  - Others - need to specify
3. Are business owners at active work for policyholder?
4. Are business owners individual persons or other entities?
5. If business owners are other entities, will those entities be covered under policy?
6. If yes to 5, what are the legal names, and who is covered at each entity?
7. How are covered business owners(s) compensated?
8. Do business owners receive income from more than one source?
9. Do business owners work only for the policyholder?
10. If no to 9, where do business owners work?

### Additional Considerations:

- The above information will assist in accurately completing our group preliminary application for insurance.
- Group insurance policies insure only individual persons, not other entities. If the business entity owners are other entities, the owners of those entities are not covered unless approved by underwriting and listed as an associated company in the group policy.
- If the business entity type changes, contact your insurance carrier.

## Sole Proprietorships

Consider the following –

<b>Name:</b>	The name of the sole proprietor. May have a doing business as (dba) name.
<b>Potential Covered Persons:</b>	<ul style="list-style-type: none"> <li>• Sole Proprietor</li> <li>• Common Law Employees</li> </ul>
<b>Sole Proprietor:</b>	<ul style="list-style-type: none"> <li>• Must be at active work on a full-time basis for the sole proprietorship</li> <li>• Is not an employee of the sole proprietorship</li> <li>• Does not receive an IRS Form W-2 from the sole proprietorship</li> </ul>
<b>Tax Status:</b>	Sole proprietorship is not a separate taxable entity
<b>Unique Characteristics:</b>	Sole proprietor and sole proprietorship are same person
<b>Potential for Associated Companies:</b>	Low

### Our Standard Group Policy Language if Sole Proprietor is Covered

<b>Eligible Class:</b>	Each full-time sole proprietor or employee of the policyholder
<b>Standard Earnings Definition –</b>	
<b>Sole Proprietor:</b>	Draw or salary from the policyholder for prior calendar year.*
<b>Common Law Employees:</b>	Basic monthly pay (including commissions) from the policyholder for the prior calendar year (excludes bonuses, overtime, and other compensation not considered basic wages or salary).

### What if Standard Group Policy Language Does Not Meet Their Needs?

- Earnings definition changes are subject to underwriting approval.
- For Sole Proprietors whose draw or salary fluctuates from year to year, consider a two or three year average.
- Unique situations should be discussed with underwriting. Contact your Assurant Employee Benefits' sales representative for assistance.

\* We administer as draw plus salary from the policyholder for the prior calendar year.

## Partnerships

Consider the following –

<b>Name:</b>	Not required to include “partnership”
<b>Potential Covered Persons:</b>	<ul style="list-style-type: none"><li>• Partners</li><li>• Common Law Employees</li></ul>
<b>Partners:</b>	<ul style="list-style-type: none"><li>• Must be at active work on a full-time basis for the partnership</li><li>• Are not employees of the partnership</li><li>• Do not receive an IRS Form W-2 from the partnership</li><li>• Could be another business entity</li></ul>
<b>Tax Status:</b>	Partnership is not a separate taxable entity
<b>Unique Characteristics:</b>	Must be formed by at least 2 persons
<b>Potential for Associated Companies:</b>	Yes

## Our Standard Group Policy Language if Partners are Covered

<b>Eligible Class:</b>	Each full-time partner or employee of the policyholder
<b>Standard Earnings Definition –</b>	
<b>Partners:</b>	Ordinary income as reported on the Partner’s Schedule K-1, IRS Form 1065 from the policyholder for the prior calendar year.
<b>Common Law Employees:</b>	Basic monthly pay (including commissions) from the policyholder for the prior calendar year (excludes bonuses, overtime, and other compensation not considered basic wages or salary).

## What if Standard Group Policy Language Does Not Meet Their Needs?

- Earnings definition changes are subject to underwriting approval.
- Partners whose ordinary income fluctuates from year to year, consider a two or three year average of ordinary income as reported on Partner’s Schedule K-1, IRS Form 1065 from policyholder. If a substantial portion of earnings from the partnership are guaranteed payments, consider either guaranteed payments (with or without ordinary income) as reported on Partner’s Schedule K-1, IRS Form 1065 from policyholder, or net earnings from self-employment reported on Partner’s Schedule K-1, IRS Form 1065 from policyholder.
- Unique situations should be discussed with underwriting. Contact your Assurant Employee Benefits’ sales representative for assistance.

## Limited Partnerships

Consider the following –

<b>Name:</b>	Includes Limited Partnership, Limited, LTD, or L.P.
<b>Potential Covered Persons:</b>	<ul style="list-style-type: none"><li>• General Partners</li><li>• Limited Partners (requires underwriting approval)</li><li>• Common Law Employees</li></ul>
<b>Partners (General or Limited):</b>	Must be at active work on a full-time basis for the limited partnership
<b>General Partners:</b>	<ul style="list-style-type: none"><li>• Are not employees of the limited partnership</li><li>• Do not receive an IRS Form W-2 from the limited partnership</li><li>• Could be another business entity</li></ul>
<b>Limited Partners:</b>	<ul style="list-style-type: none"><li>• Generally considered investors</li><li>• Could be employees of the limited partnership</li><li>• If an employee, receives an IRS Form W-2 from limited partnership</li><li>• Could receive guaranteed payment reported on Partner's Schedule K-1, Form 1065</li><li>• Could be another business entity</li></ul>
<b>Tax Status:</b>	Limited partnership is not a separate taxable entity
<b>Potential for Associated Companies:</b>	Yes

## Our Standard Group Policy Language if Partners are Covered

<b>Eligible Class if General [Limited] Partners Covered:</b>	Each full-time general partner[, limited partner] or employee of the policyholder
<b>Standard Earnings Definition –</b>	
<b>General Partner:</b>	Ordinary income as reported on the Partner's Schedule K-1, IRS Form 1065 from the policyholder for the prior calendar year.
<b>Limited Partner:</b>	If common law employee, see below. Guaranteed payments as reported on the Partner's Schedule K-1 IRS Form 1065 from the policyholder for the prior calendar year. Will <u>not</u> cover ordinary income as reported on Partner's Schedule K-1, IRS Form 1065 from policyholder.
<b>Common Law Employees:</b>	Basic monthly pay (including commissions) from the policyholder for the prior calendar year (excludes bonuses, overtime, and other compensation not considered basic wages or salary)

## What if Standard Group Policy Language Does Not Meet Their Needs?

- Earnings definition changes are subject to underwriting approval.
- For General Partners whose ordinary income fluctuates from year to year, consider a two or three year average of ordinary income as reported on Partner's Schedule K-1, IRS Form 1065 from policyholder. If a substantial portion of earnings from the limited partnership for General Partners are guaranteed payments, consider either guaranteed payments (with or without ordinary income) as reported on Partner's Schedule K-1, IRS Form 1065 from policyholder, or net earnings from self-employment reported on Partner's Schedule K-1, IRS Form 1065 from policyholder.
- Unique situations should be discussed with underwriting. Contact your Assurant Employee Benefits' sales representative for assistance.

## Corporations

Consider the following –

<b>Name:</b>	Includes Incorporated, Inc., Corporation, Corp., Limited, or Ltd.
<b>Potential Covered Persons:</b>	Common Law Employees
<b>Shareholders:</b>	<ul style="list-style-type: none"><li>• Must be common law employees of the corporation</li><li>• Must be at active work on a full-time basis for the policyholder</li><li>• Receives an IRS Form W-2 from the corporation</li><li>• Dividends received as investor not considered</li></ul>
<b>Tax Status:</b>	No IRC subchapter S election made so corporation is a separate taxable entity
<b>Potential for Associated Companies:</b>	Yes

## Our Standard Group Policy Language if Shareholders are Covered

<b>Eligible Class:</b>	Each full-time employee of the policyholder
<b>Standard Earnings Definition –</b>	
<b>Employee/Shareholders and Other Common Law Employees:</b>	Basic monthly pay (including commissions) from the policyholder for the prior calendar year (excludes bonuses, overtime, and other compensation not considered basic wages or salary).

## What if Standard Group Policy Language Does Not Meet Their Needs?

- Earnings definitions changes are subject to underwriting approval.
- Unique situations should be discussed with underwriting. Contact your Assurant Employee Benefits' sales representative for assistance.

## Subchapter S Corporations

Consider the following –

<b>Name:</b>	Includes Incorporated, Inc., Corporation, Corp., Limited, or Ltd.
<b>Potential Covered Persons:</b>	<ul style="list-style-type: none"><li>• Shareholders</li><li>• Common Law Employees</li></ul>
<b>Shareholders:</b>	<ul style="list-style-type: none"><li>• Must be at active work on a full-time basis for the subchapter S corporation</li><li>• Can be common law employees of the subchapter S corporation</li><li>• Can receive an IRS Form W-2 from the subchapter S corporation</li></ul>
<b>Tax Status:</b>	IRC subchapter S election made so corporation is not a separate taxable entity
<b>Unique Characteristics:</b>	<ul style="list-style-type: none"><li>• Created by tax election</li><li>• Is a corporation</li></ul>
<b>Potential for Associated Companies:</b>	Possibly

### Our Standard Group Policy Language if Shareholders are Covered

<b>Eligible Class:</b>	Each full-time shareholder or employee of the policyholder
<b>Standard Earnings Definition –</b>	
<b>Shareholder:</b>	Draw or salary received from the policyholder for the prior calendar year. *
<b>Other Common Law Employees:</b>	Basic monthly pay (including commissions) from the policyholder for the prior calendar year (excludes bonuses, overtime, and other compensation not considered basic wages or salary).

### What if Standard Group Policy Language Does Not Meet Their Needs?

- Earnings definition changes are subject to underwriting approval.
- For shareholders whose draw or salary fluctuates from year to year, consider a two or three year average.
- Unique situations should be discussed with underwriting. Contact your Assurant Employee Benefits sales representative for assistance.

\* We administer as salary plus distributions other than dividends as reported on the Shareholder's Schedule K-1, Line 16, Code D, IRS Form 1120S, from the policyholder for the prior calendar year.

## Professional Corporations/Professional Associations

Consider the following –

<b>Name:</b>	Includes Professional Corporation, P.C., Professional Association, or P.A.
<b>Potential Covered Persons:</b>	<ul style="list-style-type: none"><li>• Shareholders</li><li>• Common Law Employees</li></ul>
<b>Owners:</b>	<ul style="list-style-type: none"><li>• If professional corporation, shareholders</li><li>• If professional association, could be shareholders</li><li>• Must be licensed professionals in same field</li><li>• Must be at active work on a full-time basis for the professional corporation/professional association</li><li>• If professional corporation, shareholders are common law employees of the professional corporation</li><li>• Professional corporation shareholders receive IRS Form W-2 from the professional corporation</li><li>• Could be another business entity</li></ul>
<b>Tax Status:</b>	May be eligible to make subchapter S election
<b>Potential for Associated Companies:</b>	Yes

### Our Standard Group Policy Language if Professional Corporation or Professional Association's Shareholders are Covered

<b>Eligible Class:</b>	Each full-time shareholder or employee of the policyholder
<b>Standard Earnings Definition –</b>	
<b>Shareholder:</b>	Whether or not a subchapter S election made: Draw or salary from the policyholder for the prior calendar year. *
<b>Other Common Law Employees:</b>	Basic monthly pay (including commissions) from the policyholder for the prior calendar year (excludes bonuses, overtime, and other compensation not considered basic wages or salary).

### What if Standard Group Policy Language Does Not Meet Their Needs?

- Earnings definition changes are subject to underwriting approval.
- For professional associations that are taxed as partnerships, see Partnerships for standard earnings definition for partners and potential alternatives.
- Unique situations should be discussed with underwriting. Contact your Assurant Employee Benefits' sales representative for assistance.

\* We administer as salary plus distributions other than dividends as reported on the Shareholder's Schedule K-1, Line 16, Code D, IRS Form 1120S from the policyholder for the prior calendar year if a subchapter S election is made, otherwise draw plus salary from the policyholder for the prior calendar year.

## Limited Liability Companies

Consider the following –

<b>Name:</b>	Must include Limited Liability Company, LLC, LC, Ltd., Limited, or if formed by professionals, Professional Limited Liability Company, PLLC, or PLC
<b>Potential Covered Persons:</b>	<ul style="list-style-type: none"> <li>• Members</li> <li>• Common Law Employees</li> </ul>
<b>Members:</b>	<ul style="list-style-type: none"> <li>• Must be at active work on a full-time basis for the limited liability company</li> <li>• Are not employees of the limited liability company</li> <li>• Do not receive an IRS Form W-2 from the limited liability company</li> <li>• Could be another business entity</li> </ul>
<b>Tax Status:</b>	Tax status is chosen when formed
<b>Unique Characteristics:</b>	<ul style="list-style-type: none"> <li>• Not a corporation</li> <li>• Not a partnership</li> </ul>
<b>Potential for Associated Companies:</b>	Yes

### Our Standard Group Policy Language if Members are Covered

**Eligible Class:** Each full-time member or employee of the policyholder

**Standard Earnings Definition –**

<b>Member:</b>	<p>If LLC taxed as partnership: Ordinary income as reported on the Partner's Schedule K-1, IRS Form 1065 from the policyholder for the prior calendar year.</p> <p>If LLC is taxed as a subchapter S corporation, draw or salary received from the policyholder for the prior calendar year.*</p> <p>If LLC is taxed as a subchapter C corporation, basic monthly pay (including commissions) from the policyholder for the prior calendar year (excludes bonuses, overtime, and other compensation that is not considered basic wages or salary).</p> <p>If LLC is a single member LLC: Draw or salary from the policyholder for the prior calendar year.**</p>
<b>Common Law Employees:</b>	Basic monthly pay (including commissions) from the policyholder for the prior calendar year (excludes bonuses, overtime, and other compensation not considered basic wages or salary).

### What if Standard Group Policy Language Does Not Meet Their Needs?

- Earnings definition changes are subject to underwriting approval.
- See Partnerships and Subchapter S Corporations for potential alternative earnings definitions if the limited liability company is taxed as a partnership or as a subchapter S corporation.
- Unique situations should be discussed with underwriting. Contact your Assurant Employee Benefits' sales representative for assistance.

\* We will administer as salary plus distributions other than dividends as reported on the Shareholder's Schedule K-1, Line 16, Code D, IRS Form 1120S from the policyholder for the prior calendar year.

\*\* We will administer as draw plus salary because the single member limited liability company is a disregarded entity and is taxed as a sole proprietorship.

## Associated Companies

Consider the following –

Name:	Policy must include the legal name because it is another business entity
Potential Covered Persons:	<ul style="list-style-type: none"> <li>• Owner(s) of the associated company</li> <li>• Owner(s) must be at active work on a full-time basis for the associated company or the policyholder depending on the specific facts</li> <li>• Common law employees of associated company</li> </ul>
Unique Characteristics:	<ul style="list-style-type: none"> <li>• Business of the policyholder and business of the associated company under common control</li> <li>• Common control through stock ownership, contract or other means</li> </ul>

## Our Standard Group Policy Language if Associated Companies and Their Owner(s) are Covered

Policy language will depend upon the specific facts of the situation. For example:

### Situation 1:

Corporation X owns 100% of the stock in Corporation Y. Corporation Y is a subsidiary of Corporation X and both are subchapter C corporations.

Policyholder:  
Associated Company:  
Covered Persons:  
Eligible Class if Shareholders of Corporation X covered:

Standard Earnings Definition –  
Common law employees:

Corporation X  
Corporation Y  
Common law employees of Corporation X and Y

Each full-time employee of the policyholder or an associated company.

Basic monthly pay (including commissions) from the policy holder or an associated company for the prior calendar year (excludes bonuses, overtime, and other compensation not considered basic wages or salary).

### Situation 2:

The shareholders of Smith, White, and Brown, P.C. are William Smith, P.C., Bruce White, P.C., and Walter Brown, P.C. William Smith is the sole shareholder and employee of William Smith, P.C., Bruce White is the sole shareholder and employee of Bruce White, P.C., and Walter Brown is the sole shareholder and employee of Walter Brown, P.C. All other employees are employed by Smith, White, and Brown P.C.

Policyholder:  
Associated Companies:

Eligible Classes:  
Class I  
Class II

Smith, White, and Brown, P.C.  
William Smith, P.C.  
Bruce White, P.C.  
Walter Brown, P.C.

Each full-time employee of the policyholder.  
Each full-time shareholder of an associated company who is active at work for the policyholder.

## Situation 2: (continued)

Standard Earnings Definition :  
Class I

Basic monthly pay (including commissions) from the policyholder for the prior calendar year (excludes bonuses, overtime, and other compensation not considered basic wages or salary).

Class II  
For shareholders of a professional corporation that has not made a subchapter S election:

Monthly pay must be from your associated company and is only that portion of monthly pay that you received solely for work performed for the policyholder. Monthly pay means that monthly average of draw and salary from your associated company for the three (3) prior calendar years that represents draw and salary attributable to work you performed for the policyholder. Monthly pay does not include any amount received by or reported to you or your associated company for work you performed for any person or entity other than the policyholder. Monthly pay also does not include any of the following: bonuses, overtime, dividends, return of capital, interest, royalty, rental, any other compensation not considered by us as salary, any other income or compensation from the policyholder, your associated company, or any other amounts received from any other source or any other type of compensation.

For shareholders of a professional corporation that has made a subchapter S election:

Monthly pay must be from your associated company and is only that portion of your monthly pay that you received solely for work you performed for the policyholder. Monthly pay means that portion of the monthly average of the amounts reported to you for the three (3) prior calendar years in Box 1, IRS Form W-2 by your associated company and at Line 16, Code D, of the Shareholder's Schedule K-1, IRS Form 1120S by your associated company that represent amounts attributable to work you performed for the policyholder. Monthly pay does not include any amount received by or reported to you or your associated company for work you performed for any other person or entity other than the policyholder. Monthly pay also does not include any of the following: dividends, return of capital, interest, royalty, rental, any other income or compensation from the policyholder, your associated company, or any other amounts received from any other source or any other compensation of any type.

## What if Standard Group Policy Language Does Not Meet Their Needs?

- Covering associated companies is subject to underwriting approval.
- Unique situations should be discussed with underwriting. Contact your Assurant Employee Benefits' sales representative for assistance.

## Standard Earnings Definitions

### **For W-2 employees of an employer (other than shareholders of a subchapter S corporation, professional corporation, professional association):**

Basic pay from the policyholder or an associated company. Bonuses, overtime, and other compensation not considered as basic wages or salary are not included. However, commissions received during the prior full calendar year will be included. If you have been eligible to receive commissions for less than a full calendar year, standard pay will include commissions received during the time you were eligible to receive them.

If you are an hourly employee, standard pay will be based on your hourly rate of pay, but not on more than 40 hours per week.

### **For partners of a partnership or members of a limited liability company treated as a partnership for federal income tax purposes:**

Ordinary income as reported on the partner's Schedule K-1, IRS Form 1065, from the partnership/policyholder for the prior calendar year.\*

### **For shareholders of a subchapter S corporation, or professional corporation, or professional association which has made a subchapter S election:**

Draw or salary received from the subchapter S corporation/policyholder for the prior calendar year\*\*

### **For shareholders of a professional corporation or professional association which has not made a subchapter S election:**

Draw or salary from the professional corporation/professional association/policyholder for the prior calendar year.\*\*\*

### **For sole proprietors:**

Draw or salary from the sole proprietorship/policyholder for the prior calendar year.\*\*\*\*

### **For members of a limited liability company:**

Monthly pay will be determined in the same manner as for a partner of a partnership or owner of a sole proprietorship as appropriate.

\* Subject to underwriter approval may change to include guaranteed payments or net earnings from self-employment both as reported on the Partner's Schedule K-1, IRS Form 1065, from the partnership/policyholder for the prior calendar year.

\*\* We administer as salary plus distributions other than dividends as reported on the Shareholder's Schedule K-1, Line 16, Code D from the subchapter S corporation/policyholder for the prior calendar year.

\*\*\* We administer as draw plus salary from the professional corporation/professional association/policyholder for the prior calendar year.

\*\*\*\* We administer as draw plus salary from the sole proprietorship/policyholder for the prior calendar year.





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