

How to Calculate Premium

for Life, Accidental Death & Dismemberment (AD&D) and Disability Insurance

To calculate premium due, multiply the benefit amount by the premium rate set forth in your policy. Be sure to apply salary definitions, benefit maximums, rounding rules, age reductions, guarantee issue limits, and spouse coverage limitation or restrictions. These are set forth in your policy. Please see the examples below to calculate premium. The volumes and rates are for illustration purposes only.

Life and Accidental Death & Dismemberment Insurance

Premium for Life and AD&D coverage is based on the full benefit amount. The premium rate is expressed per \$1,000 of benefit

EXAMPLE: Benefit equals \$15,000 with a rate of \$0.20 per \$1,000 of coverage.

Benefit	÷	Rate Units	=	Units	x	Rate	=	Monthly Premium
\$15,000		1,000		15		\$0.20		\$3.00

Salary Based Life and Accidental Death & Dismemberment Insurance

Premium for Life and AD&D coverage is based on the full benefit amount. The premium rate is expressed per \$1,000 of benefit

EXAMPLE: Life benefit equals 2 times salary to a maximum of \$100,000 with a rate of \$0.10 per \$1,000 of coverage. If the employee's annual salary is \$25,250, premium is calculated as follows:

Annual Salary	x	Salary Multiplier	=	Benefit	=	Benefit (Rounded to the Next \$1000)	÷	Rate Units	=	Units	x	Rate	=	Monthly Premium
\$25,250		2		\$50,500		\$51,000		1,000		51		\$0.10		\$5.10

Using the previous example, if the annual salary is \$65,000, premium is calculated as follows:

Annual Salary	x	Salary Multiplier	=	Benefit	=	Benefit Limit (Maximum Benefit Allowed)	÷	Rate Units	=	Units	x	Rate	=	Monthly Premium
\$65,000		2		\$130,000		\$100,000		1,000		100		\$0.10		\$10.00

Dependent Life Insurance

Premium for Dependent Life is based on either a rate per \$1,000 of benefit or a family unit. If based on a rate per \$1,000, you may use the above examples for calculating premium

NOTE: The dependent rates are regardless of the number of children the employee is covering. If the benefit is \$10,000 and the employee has 5 children, you calculate premium based on \$10,000 only, not \$50,000. If the rate is based on a family unit, use the example below:

EXAMPLE: If 50 of your employees elect dependent life coverage and the dependent life rate is \$1.25 per family unit, premium is calculated as follows:

Employees	x	Rate per Employee	=	Monthly Premium
50		\$1.25		\$62.50

Short-Term Disability Insurance

Premium for STD is based on the weekly benefit amount. The premium rate is expressed per \$10 of benefit.

EXAMPLE: STD benefit equals 60% of weekly salary to a maximum of \$500.

If the employee's weekly salary is \$400 and the STD rate is \$0.80 per \$10, premium is calculated as follows:

Weekly Salary	x	Benefit Percentage	=	Weekly Benefit	÷	Rate Units	=	Units	x	Rate	=	Monthly Premium
\$400		60%		\$240		10		24		\$0.80		\$19.20

Using the previous example, if the employee's weekly salary was \$1,200, premium is calculated as follows:

Weekly Salary	x	Benefit Percentage	=	Benefit	=	Benefit Limit (Maximum Benefit Allowed)	÷	Rate Units	=	Units	x	Rate	=	Monthly Premium
\$1,200		60%		\$720		\$500		10		50		\$0.80		\$40.00

Long-Term Disability Insurance

Premium for LTD is based on the monthly salary (also called covered payroll). Premium is not based on the benefit amount. The premium rate is expressed per \$100 of monthly covered payroll.

EXAMPLE: LTD benefit equals 60% of salary to a maximum monthly benefit of \$5,000.

If the employee's monthly salary is \$2,538, and your LTD rate is \$0.65 per \$100, the benefit and premium are calculated as follows:

BENEFIT	Monthly Salary	x	Benefit Percentage	=	Benefit				
	\$2,538		60%		\$1,522.80				
PREMIUM	Monthly Salary	÷	Rate Units	=	Units	x	Rate	=	Monthly Premium
	\$2,538		100		25.38		\$0.65		\$16.50

The LTD benefit was calculated to verify the employee had not reached the maximum benefit of \$5,000 allowed under the policy. The LTD benefit is not part of the premium calculation.

Using the previous example, if the employee's monthly salary was \$9,000, the benefit and premium are calculated as follows:

BENEFIT	Monthly Salary	x	Benefit Percentage	=	Benefit	=	Benefit Limit (Maximum Benefit Allowed)						
	\$9,000		60%		\$5,400		\$5,000						
PREMIUM	Maximum Monthly Benefit	÷	Benefit Percentage	=	Maximum Monthly Covered Payroll	÷	Rate Units	x	Units	x	Rate	=	Monthly Premium
	\$5,000		60%		8,333		100		\$83.33		\$0.65		\$54.16

If you need assistance calculating premium, please contact your Dearborn Group account executive.