Assurity®

Life Insurance Financial Underwriting Guidelines

16-167-01151 (12/19)

Important Notice

Financial Underwriting Guidelines for Whole Life, Single Premium Whole Life, Term Life and Universal Life

These policies are underwritten by Assurity Life Insurance Company, Lincoln, Nebraska, and may contain reductions of benefits and limitations. For costs and complete details of the coverage, please contact Assurity Life Insurance Company or review the policy. **The specific policy is your ultimate authority for any questions about this product.**

This is a generic financial underwriting guide. **Product availability, features and rates may vary by state**. Your state may require a state-specific contract and/or application. State-specific applications are available on AssureLINK at https://assurelink.assurity.com in the Product Center for each product by selecting the Applications/Forms option on the left.

This is a financial underwriting guide for policy Form Nos. I L1901, I L0880 (R01-13), I L1505, I L1201 (R01-13), I L1802, I L1702 and I L1921. **Any prior guide does not apply to this product.**

This financial underwriting guide is for agent use only. It is not for use with consumers and is not for use in New York.

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Financial Underwriting Guidelines for Life Insurance

Every application for individually underwritten life insurance includes an income factor being used to prevent or reduce speculation. This is often based on earned income, but can be adjusted on a case-by-case basis by other particulars of an individual's situation. Examples (for life insurance) could include total net worth, estate tax consequences, and age. The need for financial underwriting becomes more important with larger face amounts, and for business cases. Providing financial information with the application helps to qualify the amount of risk more quickly.

In many situations, the untimely death of an individual will create a financial loss. The purpose of financial underwriting is to determine whether the amount of coverage applied for and already in force bears a reasonable relationship to this loss.

Basic financial underwriting is concerned with:

- Establishing a valid insurable interest
- Relating insurance to demonstrable needs
- Ensuring a reasonable level of persistency.

The maximum guideline formula for each life insurance application includes the total amount in force plus the applied for amount with all companies, excluding group insurance, Acci-Flex Accident and Simplified Whole Life.

If the premium amount is 5 percent or greater than the gross family income, additional questions may be asked by the underwriter.

When the owner is someone other than the proposed, a financial insurable interest must exist. This includes a financial relationship such as owning property together or sharing a bank account. Insurable interest must be present at the time of application. If legitimate insurable interest does not exist at the time of application, the contract is not valid.

Alternative ownership arrangements that are valid examples of insurable interest include the following:

- Business partners own policies on each other as part of a buy-sell arrangement for the business
- A corporation owns a policy on a key employee
- A trust owns a policy on the life of a person who owns the trust for tax purposes
- The parent of a juvenile child
- A fiancé if the wedding is within 12 months; otherwise insurable interest is required

There are other acceptable arrangements which we may allow with proper justification.

NOTE: Some states prohibits an employer from owning life insurance on an insured where the employer is the beneficiary.

The following general purposes (not all-inclusive) for life insurance will be discussed in more detail. A common understanding of each application by sales representatives and underwriters will help ensure a smoother processing of the application and should improve time service to clients.

- Income replacement
- Insurance on those of older ages
- Juvenile insurance
- Grandparent gifts
- Charitable giving
- Deferred compensation/split
- Buy/Sell
- Key person
- Business loan

Questions on any application may be directed to the Assurity Contact Center at (800) 276-7619, ext. 4264.

Backdating Policy Issue Date

Assurity will backdate the policy issue date six months prior to application's signature date to "save age" (i.e. allow for a lesser age to qualify for a lesser rate). However, Assurity will not backdate the policy issue date to "save eligibility" (i.e. allow for a lesser age to meet eligibility requirements).

Bankruptcy

Consideration of financial stability is an important part of the underwriting process. No coverage will be considered if bankruptcy is ongoing or pending, and until bankruptcy is discharged.

Income Replacement

<table>
<tr><th colspan="3">Guidelines</th><th>Routine Requirements</th></tr>
<tr><td></td><td>Earned</td><td>Unearned</td><td rowspan="8">Always needed: Gross annual earned income on the application.

Always needed: details of all existing life coverage and whether it is individual or group coverage

Third party financials from a CPA will be required for applications of $2 million or greater. Examples are a current income statement and balance sheet.</td></tr>
<tr><td>Adults to age 30</td><td>Up to 30 X earned income</td><td>X3</td></tr>
<tr><td>30 through 39</td><td>Up to 25 X earned income</td><td>X3</td></tr>
<tr><td>40 through 49</td><td>Up to 20 X earned income</td><td>X3</td></tr>
<tr><td>50 through 59</td><td>Up to 15 X earned income</td><td>X3</td></tr>
<tr><td>60 through 64</td><td>Five to 10 X earned income</td><td>X3</td></tr>
<tr><td>65+</td><td>Three to five X earned income</td><td>X3</td></tr>
<tr><td colspan="3">The total in force with all companies (excluding group coverage) should not exceed an applicant's annual earned income times the multiple for age or current net worth, whichever is greater.</td></tr>
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Income replacement coverage establishes security against loss by providing funds to repay personal debt and continue income. In effect, the goal is to determine an amount, which maintains the previous lifestyle. This amount is referred to as the Human Life Value. This value is calculated via a multiple of income. Income in this context would include salaries, wages and bonuses.

A homemaker/spouse would qualify for a face amount equal to 10 times the household income, not to exceed $1 million in face amount. Amounts above $1 million will require additional financial verification.

Underwriting may evaluate applications in excess of these limits. Individuals with high net worth, potential estate taxes based on a financial advisors evaluation, and a Cover Letter from the sales representative providing specific information on why the guidelines should be exceeded will be required. Copies of the most recent tax return with all schedules, a balance sheet, and schedule of assets and liabilities should be included. Inspection reports may be obtained at any time, and are required on some larger amounts. (Prepare your clients for providing such information.) Premiums greater than 5 percent of the gross family income may require additional clarification.

Older Age Coverages
(Retirees or post-age 70)

Guidelines	**Routine Requirements**
Half of net worth or three to five times earned income. For instances where federal exemptions eliminate estate tax liability, the following formula may be used: Total line= [earned income plus retirement Social Security] x 5, plus 15% to 20% of net worth.	Always needed: Gross annual earned income on the application. Always needed: details of all existing life coverage and whether it is individual or group coverage Third party financials from a CPA will be required for applications of $2 million or greater. Examples are a current income statement and balance sheet.

At the older ages, the value of the gross estate will generally be the dominant factor in determining an acceptable total line. Half of net worth or three to five times earned income is used depending on age and medical history.

Life insurance applied for by children on dependent elderly parents will not be accepted. When an elderly parent is financially dependent, even small amounts of coverage present justification problems, since the burden of the financial dependence terminates upon death. For elderly parents not dependent, there must be insurable interest to consider the application. If insurable interest is documented the parent/parents must apply as owner(s).

The three-year contemplation of death rule requires the estate of an insured-owner that transfers existing life insurance within three years of the decedent’s date of death to include the insurance proceeds as part of the taxable estate.

Juvenile Insurance

Guidelines
A juvenile is ages 15 days through age 17 years.
All siblings should apply for equal amounts or already have equal amounts in force.
$100,000 is the maximum amount that will be offered **without** financial information on the parents or legal guardian.
Can offer $100,001 or more if one parent (or the person who is financially and/or legally responsible for the child) has **two times** the amount of insurance in force on themselves.

If the parents or the legal guardian(s) are insurable, they should be adequately insured before applying for life insurance on a dependent child.

Do not complete an application on a juvenile not yet 15 days of age. (This does not apply to a Children's Rider.) Mortality is highest during this initial period of life. If completed before 15 days, we immediately return the application and any premium to the Applicant, even if the 15 days elapsed. A new application with up-to-date responses will be required.

Infants born prematurely (two weeks or more before due date) are not considered for insurance until six months of age because of the extra mortality involved. Depending on birth weight or congenital defects, consideration for insurance could be postponed until one year of age or longer.

Applications for insurance in equal amounts, which can include the same face amounts and/or the same premiums, need to be submitted at the same time for all siblings under age 18; unless an equal amount of life insurance is already in force with us or another company. This helps to avoid anti-selection.

The parent(s) or legal guardian(s) for a juvenile must carry at least two times the amount of insurance on the child (for face amounts of $100,001 or more). This is to help avoid speculation and anti-selection. We consider well-documented exceptions.

Parents or legal guardian(s) are generally the only persons eligible to purchase life insurance on their child. Other persons, such as grandparents, may apply; however, the parent or legal guardian must sign the application and the HIPAA authorization form. This signature shows acceptance of the insurance and certifies the child's current health status.

Grandparents applying for coverage on a grandchild must have equal coverage on all grandchildren.

If an Applicant does not have an insurable interest in the child's life, he/she cannot be Policyowner or Beneficiary, however, we would allow he/she to be the premium payor. (Aunts and uncles do not ordinarily have an insurable interest in the life of a niece or nephew).

Grandparent Gifts

A Grandparent can be an applicant, policyowner and premium payor for an application on a juvenile provided a parent or legal guardian is a beneficiary and signs the application and HIPAA authorization form. This can leave the grandparent's estate with a gift tax problem.

- Through gifting, the grandparents reduce their taxable estates and remove future growth on those assets from estate tax. They also reduce probate costs by removing assets from the probate estate. They can also create a life insurance trust and accomplish the same objectives.
- If the grandparent retains ownership, a subsequent policyowner should be named to lessen probate costs.
- If a grandparent is concerned about reducing the size of the estate, ownership should be placed with some other party, like their own child (the father or mother of the grandchild).
- The policy should pass by contract rather than by will or intestate succession.
- Another possibility is to pass ownership to the child.
- The grandparent has the same or similar coverage on all grandchildren.

NOTE: We discourage ownership of a contract by a child who is under the age of majority. While some states permit contracts with minors, we reserve the right to refuse ownership by juveniles.

Charitable Giving

Guidelines	Routine Requirements
Annual contribution x 10 equals charitable amount of life coverage. (Does not include charitable remainder trusts.)	Always needed: Gross annual earned income on the application. Cover letter and copy of contribution record for past two years. Third party financials from a CPA will be required for applications of $2 million or greater. Examples are a current income statement and balance sheet.

The use of life insurance in charitable giving is most often simply an attempt to provide an uninterrupted continuation of an existing pattern of giving. The pattern of giving will typically be defined monetarily, but donations of time and services will be evaluated also.

Favorable Factors

The proposed insured has an established pattern of giving; a long-standing volunteer relationship, or has personally benefited from the organization's services.

Personal life coverage is already in force for income replacement and/or estate needs, and the intended charitable amount is in line with the proposed insured's income and net worth.

The proposed insured pays the premium and is the owner (unless state regulations require otherwise).

Unfavorable Factors

There is no pattern of giving or long-standing relationship.

Personal in-force coverage is minimal.

The charitable organization is paying all premiums, initiating applications selectively, and/or is insisting on ownership (even though not required by state regulation).

The amount allowed is an approximation of an amount equal to or less than the anticipated remaining lifetime contributions. The multiple is 10 times the average annual contribution unless more specific justification is available, i.e., charitable remainder trusts.

Deferred Compensation/Split Dollar

Guidelines	Routine Requirements
The amount must be justified for the deferred compensation and/or the reverse split dollar program	Always needed: Gross annual earned income on the application. For cases $250,001 or more: A financial questionnaire will be requested. Third party financials from a CPA will be required for applications of $2 million or greater. Examples are a current income statement and balance sheet.

These arrangements are used when someone with the need for life insurance and someone else with the ability to pay premiums agree to purchase insurance and share in the proceeds. Each plan is custom-tailored and is not limited to any particular business relationship. An employer/employee relationship is the most common with the employer paying the premium.

It is always important to integrate possible purposes to avoid situations where the same loss is covered more than once, i.e., personal income replacement versus deferred compensation coverage, charitable remainder trust versus overall estate protection.

Business Related Insurance

Life Insurance is often used in well-defined business contexts to alleviate the financial strain caused by the unexpected death of an owner or key employee. The purpose is not to enhance the financial position of the organization but to maintain the same financial position that existed prior to the loss. Accidental death benefit is rarely appropriate in business coverages.

Business Loan Insurance

Guidelines	Routine Requirements
Collateralized and Non-collateralized - Not to exceed 75 percent of loan amount. Mortgage – Up to 100 percent of mortgage balance.	Always needed: Gross annual earned income on the application. Copy of loan agreement. For cases $250,001 or more: A financial questionnaire will be requested.

This is debt coverage in a business environment. It is the company's ability to repay the loan and the emerging equity in the purchased asset that allows assumption of the risk at the time the loan is extended. It is important to document any existing amount of business coverage, since this coverage may also be available for collateral assignment.

The underwriter would evaluate the loan amount, the duration of the loan, the source of the loan and the interest rate on the loan. Loans originating from non-mainstream lenders should be avoided.

All borrowers listed on the loan must have equal coverage based on their share of the business.

Buy-Sell Coverage

Guidelines	**Routine Requirements**
Percentage of ownership times corporate value and/or five to 10 times average net earnings for past two years. To determine market value, we will use capitalization of net income. Capitalization is from two to 10 times, depending on the proven record of the business.	Always needed: Gross annual earned income on the application. For cases $250,001 or more: A financial questionnaire will be requested. Third party financials from a CPA will be required for applications of $2 million or greater. Examples are a current income statement and balance sheet. Underwriter may also request a copy of the Buy/Sell agreement. Some cases may require business and/or personal tax returns. **Note:** Any other type of financial information can be requested at the underwriter' discretion.

Buy/Sell partnership, stock purchase, stock redemption, entity purchase and cross-purchase all describe coverages sought to preserve existing assets from forced liquidation upon the unexpected or untimely death a business owner or other business associate.

Buy/Sell agreements fall into two categories: cross purchase, and entity. Cross purchase allows individual owners to purchase insurance coverage on other owners. An entity agreement allows the business to purchase and own all coverages.

A Buy/Sell agreement details the specifics of the agreement between the business associates involved. Two major considerations for a Buy/Sell agreement are the identification of major principles in the business, and their respective ownership positions; and a determination of the market value of the business. Partners or owners are considered for insurance in proportion to their percentage of ownership in the business.

Key-Person Insurance

Guidelines	Requirements
Multiples of earned income of the proposed insured from the business. • To age 50, an income factor of 10 times income is suggested. • Above age 50, an income factor of five times income is suggested. • An established time with the company, unless it can be documented that the proposed individual brings "so much to the table" that profitable business continuation would be dependent on this individual. • One or two employees requested key-person coverage on their employer/owner (who wants the employees to run the business after the owner's death) involve speculation, and should not be submitted. If a purchase agreement between the parties exists (see Buy-Sell), consideration may be given.	Always needed: Gross annual earned income on the application. For cases $250,001 or more: A financial questionnaire will be requested. Note: any other type of financial info can be requested at Underwriter's discretion.

Business situations exist where the individual(s) in a business have a worth to that organization that helps ensure continued profitability. The purpose of key-person coverage is to insure against the loss of the individual's expertise, skills, revenue-producing abilities, and the integrity and reputation they may bring to the business. In the event of the death of this person, future earnings of the business may be at risk. Also impacted are investments, credit, and the "good-will" of the business. The cost for the business to replace an individual can require an extensive and time-consuming search, often with the expenditure a great deal of resources.

In the case of a new company, occasionally an estimate can be made of the value of the key person's relative contribution in organizing the business, securing financing and planning future operations. In many instances, however, the underwriter must depend on considerations of the individual's background and experience, as well as the economic track record. Since a significant percentage of new businesses fail in the first few years of operation, key person underwriting should be more conservative for new enterprises.

Factors evaluated for key-person coverage include:

- Analysis of an individual's and the company's track records
- The ability of the key-person to secure needed financing for the business
- Special skills or talents in the individual's occupation
- Examination of the financial position of the business
- The age of the proposed insured, and the number of years of employment remaining. Key-person insurance becomes speculative over the age of 60 since most organizations will have a successor plan in place by this time.

Sources of Financial Information

Detailed information regarding the need and purpose of coverage may be requested by the underwriter along with any of the following requirements.

- Income is always needed on the application
- The agent's cover letter
- Inspection reports and business beneficiary inspection reports
- Personal and/or Business Financial Questionnaire
- Personal financial statements detailing a breakdown of personal assets, liabilities, and worth plus income information
- If the premium is greater than 5 percent of the gross family income, we may request an inspection report with additional clarification questionnaire
- Business financial statements from a CPA including balance sheet, income statement and accompanying notes.
- Copy of most recent W-2
- Agreements or contracts including buy-sell agreements, estate analysis calculations, trust agreements, loan instruments or similar documentation
- Individual, Corporate or Subchapter S corporate returns with their various schedules:
  - Sole proprietorship income—Detailed under Schedule C
  - Partnership—Partner's income detailed under Schedule K
  - Corporate—Schedule E details owner's compensation and ownership
  - Subchapter S corp.—Ownership and income Schedule K-1

Revisions to this Guide

Date	Section	Update
12/01/2019	Important Notice	Added Assurity Universal Life
12/01/2019	Important Notice	Removed LifeScape Joint Whole Life
08/01/2019	Important Notice	Added Assurity Whole Life

About Assurity

We are never more than one call away. **Literally.**

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Claims Questions
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By Email claimsinfo@assurity.com
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Why Assurity?

At Assurity, we're working hard to make the business of insurance simple – more human – by listening, showing that we care and offering customers invaluable insurance products and financial protection. More than a business with a bottom line, we're a mutual organization whose mission is helping people through difficult times. By dedicating ourselves to the community, the environment and using our business as a force for good, we're able to take the long view when it comes to upholding our promises. Assurity is also the first major life and specialty health insurer to become a Certified B Corporation®, demonstrating we meet the rigorous standards of social and environmental responsibility.