Financial Underwriting

Financial Underwriting is the evaluation of the proposed insured's personal and business financial background. During the analysis we need to confirm that the need for insurance in force with our company and other carriers as well as applied for is reasonable and is in line with the insured's needs. It is the underwriters responsibility to make sure the policy will be affordable in order to sustain premium payments. It is necessary to establish the insurable interest of the beneficiary in the life of the prospective insured at the time of underwriting, and the financial loss that will occur in the event of an unexpected and untimely death of that insured.

While life insurance has other specialty uses such as cash value accumulation, the primary purpose of life insurance is to protect against a loss and the death benefit cannot exceed the client's economic ("human life") value.

The writing agent is an important source of information. Through a cover letter, he/she can provide an explanation of the purpose, need and method used to establish the requested face amount and total line of coverage, as well as any unusual aspects of the case and competitive situations. Copies of the needs analysis and financial statement should accompany applications with large face amounts.

New York Financial Suitability Review:

Effective February 1, 2020 all New York contracts are subject to enhanced suitability review per Regulation 187. In order to perform this additional level of suitability review we will require that the Confidential Financial Questionnaire (form 1392) be completed on all NY applications. To avoid delays, submit this questionnaire with all applications.

Some of the common needs for life insurance are as follows:

Personal Insurance; replacement of income:

Age	Factor Time Income
18-30	40x annual earned income
31-40	35x annual earned income
41-50	25x annual earned income
51-60	15x annual earned income
61-65	10x annual earned income
66-69	5x annual earned income

Earned income is money received from paid work. It is not income from investments, rental property, alimony, savings accounts etc. Underwriters take into the consideration earned income only.

Juvenile coverage for children ages 0-19:

Unless state insurance law dictates otherwise, coverage for juveniles will be considered based on parent or legal guardian's financial picture up to a maximum of $1,000,000 or; a death benefit that $100/month on a permanent plan can buy.

Face amounts in excess of $1,000,000 should not be submitted without prior vetting from an underwriter. The underwriter will base their determination to proceed if the agent verifies the parent or guardian's financial status is high-net worth and thus would require additional estate planning or gifting solutions.

- Child must be at least 14 days old, U.S. citizen or permanent resident.
- All siblings must be similarly insured.
- Acceptable ownership will be parents/legal guardians or grandparents only (guardianship paperwork will be necessary).

Washington state contracts for juveniles under age 18:

- The amount should not exceed the annual household income (earned and unearned).
- The amount should be proportional to the amount issued of siblings and immediate family members.

New York contracts have special rules that must be followed on Juveniles up to age 14.

- For ages 0-4 it's the maximum of 25% of the inforce coverage on the life of the parent who is applying.
- For ages 5-14 it's the maximum of 50% of the inforce coverage on the life of the parent who is applying.
- If parents are joint owners, the 25% or 50% is based on the parent with the greater coverage.

These limits do not apply if a grandparent is purchasing the coverage on the child and the child is not dependent on that grandparent for support. In this situation we are able to follow our normal juvenile guidelines.

If you have a family applying for life insurance it is important that the total premium does not exceed 10% of the client's annual income. If it does, the underwriter will reserve the right to ask for additional financial documentation

Other Personal Insurance

For larger face amounts requested, it is the agent's responsibility to inform the client that the purchase of a life insurance policy is a binding financial contract that requires disclosure of personal and/or business financial information. Depending on the insurance need, specific concrete forms of financial varication or attestation (s) may be required. Below are National Life's Financial Underwriting Requirements:

Requirements/Documentation	Age Range (if applicable)	Face Amount/Coverage Amount
Personal Financial Questionnaire (form 1392)*	All Ages	$2,000,001 - $9,999,999
Income Verification (4506T IRS form, W2's and/or 1099's)	All Ages	At Underwriter's Request or $10,000,000 and up
Electronic Inspection Report	All Ages	$2,000,001 and up
Third Party Verified Financial Statement (Prepared by CPA or Tax Attorney)	18-69	$10,000,000 and up
Third Party Verified Financial Statement (Prepared by CPA or Tax Attorney)	70+	$5,000,001 and up

* All NY applications must include this form at all face amounts.

These are general guidelines. We reserve the right to request financial requirements at the underwriter's discretion. See Business Insurance Guidelines for additional underwriting requirements that may be requested

Estate Protection/ Estate Planning

Life insurance coverage to protect the assets from sale for estate tax purposes.

The personal net worth of an individual or family is used as the basis for a calculation of an approximate estate tax liability and related expenses. The underwriter will consider the nature of the assets and how their value has changed over time at a reasonable rate of growth, compounded up to 10 to 20 years depending on the clients' ages and risk class and offset by expected interest rate.

Final Expense Coverage	National Life does not offer a stand-alone final expense or burial coverage. (With appropriate financial justification to a maximum up to $100,000 may be considered with final expenses being considered as part of the overall need for coverage.)
Coverage on Older Age Applicants & Dependent Parents	**Purpose of insurance:** Personal insurance on older age applicants may be needed for estate tax situations (see estate planning) or asset repositioning. Final expenses may be considered in the overall need for coverage. Income replacement is not applicable at ages 70+. Retirement income: cash value may be used for retirement income, however the death benefit must be financially justifiable. Coverage on dependent parents • A limited amount of coverage may be considered on dependent parents if a financial loss is demonstrated - what is the quantifiable financial loss that the family must replace? • If services provided to the family by the dependent parent would require significant expense to replace, how was that amount determined? • The head of household (adult child of dependent parent) must have sufficient life insurance coverage in force; an amount greater than being applied for on parent. • The head of household's income must be sufficient to support the family finances and total line of coverage for household members. • Coverage cannot be used to create an estate at death. With appropriate financial justification a maximum up to $100,000 (total with all carriers) may be considered, however, if no financial justification is demonstrated no coverage will be issued. Premium to income ratio In order to sustain long term premium payments, generally households with modest annual income should not exceed 10% of income for life insurance premiums. Households with greater annual income may put larger percentage of income in their policies and will be considered on an individual basis.
State & Federal Assistance Recipients	Individuals whose primary source of income is state or federal aid programs, Supplemental Security Income (SSI), or Social Security Disability Income (SSDI) generally have a minimal need for life insurance other than a nominal final expense policy. If this is only source of income we would not offer coverage.
Non-Working Spouse Coverage	Coverage for non-working spouses would be considered for amounts based on the working spouse's income and net worth or for an amount a $100/month premium on a permanent plan can buy.

Charitable Coverage	Personal life insurance needs should be met before consideration of charitable giving. The amount of coverage to be considered will be based on the established history of annual giving and income replacement factor. Large face amounts will require a copy of past tax returns showing charitable gifting history. A cover letter should be provided explaining the relationship between the applicant and the charity and confirm that the client understands that the coverage will be included in ultimate total line limits.
Asset Repositioning	Any assets or income being repositioned into life insurance to enhance or leverage a legacy for wealth transfer purposes should not cause future financial hardship for the client and family. Must qualify for death benefit using financial guidelines above.
Creditor (Personal)	A copy of the loan document should be submitted with the agent's cover letter outlining details of loan terms and status of loan. Personal home mortgages will be considered up to 100%; other personal loans up to 75% of loan amount. Use of collateral assignment for outstanding loan amount to lender is recommended.
IOLI/STOLI (Investor Owned Life Insurance/ Stranger Owned Life Insurance	It is the policy of National Life Group not to support any form of Investor Owned Life Insurance (IOLI), including "non-recourse premium financing", Stranger Owned Life Insurance (STOLI) or Charity Owned Life Insurance (CHOLI), where the intention of the proposed owner at the time of sale is to sell the policy to an investor, group of investors, life settlement company or charity. Applications for life insurance that involve such arrangements should not be submitted.
Bankruptcy	There are different types of bankruptcy filings but the most common are Chapters 7, 11 & 13. From an underwriting perspective, they can be viewed differently. We will not offer coverage to an individual with a history of Chapter 7 bankruptcy until the bankruptcy proceedings have been discharged, the client is working full time and demonstrates a financial need for a reasonable amount of coverage. We will consider coverage for applicants currently in Chapter 11 or 13 once the applicant is making regular debt payments and they are not subject to any court imposed restrictions. All applicants will be underwritten on their own merit, taking into consideration stable employment, annual income, net worth, purpose and need for coverage as well as any medical concerns.

Business Insurance

Insurance is frequently used to protect against financial loss in a business relationship. The most common are Key Person, Buy/Sell, and Deferred Compensation. The amount of death benefit must be suitable for the given business financial situation. Each business sale should include a detailed cover letter and Business Insurance Questionnaire (Form 20098). If the contract is employer owned, the employer consent form must be filled out and submitted (Form 8453) prior to issue.

Key Person	Individuals who make significant contributions to the profitability of a business and cannot readily be replaced may be considered Key Persons. Generally, a multiple of annual salary such as 5 times income would be considered; 10 times for well-established businesses. Stock options, bonuses and certain benefits such as housing and automobile allowance will also be factored into compensation. We may reduce the factor for key persons over age 60 based on the hours worked or number of years to retirement.
Buy-Sell Cross Purchase/ Stock Redemption	All owners should be proportionately insured based on their established business interest and the fair market value outlined in the buy-sell agreement. If there is no buy-sell agreement, a cover letter is needed with details on how fair market value was determined and the last two years of income statement & balance sheet information is needed or a third party business valuation.
Deferred Compensation	Deferred compensation can be divided into two broad categories: qualified plans and non-qualified plans. Qualified plans allow the employer to take a tax deduction (as a normal business expense) when contributions are made to the plan. These contributions are made on a before-tax basis and the employee is not subject to income taxes at the time of the contribution, but is instead allowed to defer taxes until benefits are distributed from the plan. Non-qualified plans do not receive this tax savings: the employer cannot take a deduction for contributions and the employee must pay income taxes on contributions in the year in which they are made. Since a key benefit of this concept is that the cash value build up of the policy grows income tax deferred and can potentially be accessed using policy loans or withdrawals* as a supplement to retirement benefits, a product with a lower face amount and maximum funding best meets the deferred compensation concept. The Underwriter will require salaries, benefit being refunded and amount of insurance being applied for. Long term financial outlook of the business is also a financial consideration.
Load Protection/Creditor (Business)	A maximum of 75% of the outstanding loan amount will be considered. Complete details regarding the purpose and terms of the loan must be provided. Collateral assignment of the death benefit for the loan balance should be used.
Executive Bonus	Employers may offer an executive bonus plan to provide additional incentives by paying life insurance premiums for the executive employee's personally owned policy. The amount may be defined in a deferred compensation agreement and should be justified by personal insurance needs. A copy of any deferred compensation agreement should be submitted as well as documentation of salary (including bonuses) for past two years.

* Policy loans and withdrawals reduce the policy's cash value and death benefit and may result in a taxable event. Surrender charges may reduce the policy's cash value in early years.