

## Financial underwriting

The purpose of financial underwriting is to ensure that the amount of life insurance applied for is consistent with the economic loss due to the premature death of the insured. It is also used to determine that an insurable interest exists and that a reasonable level of persistency can be expected. This section is intended to provide a general overview for the more common types of financial underwriting and to illustrate the methods used to calculate and justify an appropriate amount of coverage. These sections are intended to be used as a guideline only and are subject to individual underwriter discretion.

## Personal insurance

### Income replacement

Age factor times multiple of earned income

Age	Multiple of Earned Income
18-40	25
41-50	20
51-60	15
61-65	10
66-70	5
>70	Individual Consideration

Supporting financial documents are required on face amounts over \$5 million or when otherwise requested by underwriting. Depending on the purpose of the insurance, we may request documents such as third party verified financial statements, federal income tax returns, personal financial statements, balance sheets and income statements, copy of estate analysis, etc. A 4506-T may be requested in order to obtain federal income tax returns.

### Non-working spouse

Amounts up to an equal amount of coverage on the working spouse will be considered. If the working spouse is medically uninsurable, the benefit on the amount of coverage will be based on the working spouses' financial eligibility.

### Estate preservation

Projected estate tax liability is difficult to determine given changing estate tax laws and estate planning practices. The agent must secure appropriate documentation illustrating the value of the estate and how the estate tax liability was calculated. Accompanying documents from attorneys, financial planners, CPA's etc. should be included. In general the expected mortality of the insured is multiplied by the expected growth of the estate. Depending on the assets in the estate a maximum 6% growth rate will be allowed. The expected value of the estate will be limited to twice the current market value.

### Mortgage protection

The agent cover letter should include details of the mortgage, including amount, repayment schedule and interest rate. The policy should be assigned to the lender with any remaining proceeds going to the estate of the insured. A copy of the mortgage agreement may be required.

## **Bequest to charity/charitable remainder trust**

Pattern of gifting must be firmly established for a minimum three-year period. Agent must secure documentation from the insured indicating contribution records as well as anticipated future contributions. The level of involvement and participation in the charity should also be detailed as well as any other supporting information to assist in justifying the coverage. Individual underwriter discretion will apply and case should be discussed with underwriter prior to submission.

## **Business insurance**

### **Key person**

This type of coverage is often requested when a business is trying to guard against the untimely loss of an employee who is considered “key” to the ongoing success and profitability of the organization. In general we will consider amounts between five and ten times annual salary. Bonuses may be included if they are received on a consistent basis. When determining an appropriate factor the underwriter will look at the overall skill-set of the occupation and make a determination of how difficult it will be to replace this individual. A cover letter should be submitted with the application detailing why they are key to the business and how the face amount was determined. To comply with state regulations, underwriting needs to be satisfied the applicant is a “key employee.”

### **Buy-sell**

Life insurance can be used as a vehicle to fund a buy-sell agreement. The value of the business should be outlined in the buy-sell agreement as well as which valuation method was used to determine the value. The underwriter will generally multiply the percentage of ownership by the fair market value of the business to arrive at an appropriate amount of coverage. In addition to a copy of the buy-sell agreement the agent should submit a cover letter detailing the purpose of coverage and how the face amount was determined. The agent should also indicate a reason if the other partner(s) or business co-owners are not submitting an application for their partnership or corporate share.

### **Stock redemption**

The allowable amount of insurance is determined by multiplying the number of shares owned by the value of each share.

### **Deferred compensation and executive benefits**

The agent must obtain the eligibility rules for participation from the business as well as the formula used to determine the death benefit. Financial statements of the business may also be required at the time of underwriting.

### **Loan**

The amount applied for should not exceed 100% of the loan amount and should be prorated based on each owner's percent share in the business. The duration of the loan should be at least five years and the application must be recent. A copy of the proposed terms of the loan agreement may be required.

## Owners or employees of a marijuana-related business

Due to the conflict between states that allow marijuana to be sold legally and federal laws that classify marijuana as a “Schedule 1 Illegal Controlled Substance,” and the many federal regulations and guidelines that Ameritas is obligated to follow as a financial services institution, at this time, we cannot allow the sales of our life or disability income insurance products to clients involved with a marijuana related business that may be viewed as a violation of current federal legislation.

## Bankruptcy

### Chapter 7

To be considered for coverage, the bankruptcy must be fully discharged and the applicant must be employed on a full-time basis. A discharge statement may be required. Recurrent bankruptcies will not be considered.

### Chapter 11, 12 and 13

An applicant who is currently in Chapter 11, 12 or 13 may be considered for life insurance only if they are making regularly scheduled debt payments. Earned income will be reduced proportionately by the amount of payment made against the debt. Recurrent bankruptcies will not be considered. Business bankruptcies may not impact financial underwriting for a personal insurance policy.

## Juvenile coverage

1. Amounts applied for should be for a similar face or premium amount on all children.
2. Guideline maximum coverage is 50% of the total in force on the parent who has the highest amount of coverage.
3. Maximum coverage available is \$2 million. Additional amounts up to a maximum of \$5 million may be considered on a case by case basis. Discuss in advance with your underwriter.
4. APS will be required for all amounts over \$300,000.
5. For any amount of coverage, the signature of one of the parents is required in order to verify the medical history and to acknowledge that insurance is being applied for on their child. Signature of a parent is required in cases where a relative, such as a grandparent wishes to help the parent(s) start an insurance program for the child.

### (New York)

1. Less than or equal to 4½ years old can consider up to 25% of either parent's/legal guardian's total applied for or in force amounts or a max of \$50,000 if parents/legal guardians have no or limited coverage.
2. Over 4½ years old can consider up to 50% of either parent's/legal guardian's total applied for or in force amounts or a max of \$50,000 if parents/legal guardian have no or limited coverage. Note for both of the above limitations: Can combine both parent's/legal guardian's coverage to determine allowable amount only if both parents or legal guardian are to own the applied for policy.
3. Grandparents or others providing financial support may apply for coverage for various reasons including financial planning, tax avoidance through gifting strategies, etc. The 25/50% rule does not apply in these situations however the terms of the arrangement must be fully considered by underwriting.