

Financial underwriting focus

Our financial underwriting philosophy is to provide you with the guidance and collaboration you require to meet the needs, and the best interests, of your client. Financial underwriting is an integral part of every application for insurance. Throughout the underwriting process, we consider all financial aspects of the risk presented including but not limited to the coverage amount in relation to the applicant's income and the applicant's ability to pay premiums.

Our focus is protecting your client's wealth, not creating it, while mitigating the mortality risk associated with overinsurance. Critical to the efficient processing of the application is providing answers to the following questions:

- Is there an insurable interest?
- Is there a definable economic loss?
- Is there a valid need and purpose for insurance?
- What's the total anticipated amount of life coverage intended with all carriers excluding the amount which is being replaced?
- Are there applications pending with other carriers?
- Is the product applied for appropriate in meeting the needs of your client?
- Does the amount of insurance applied for correlate with the amount of financial loss?
- Does the owner, beneficiary and/or premium payor have an interest in the continued life of the proposed insured?

Providing these answers and other salient points of information go a long way in setting the financial tone and tenor of the case. Financial underwriting guidelines and formulas provided in this brochure are intended to facilitate the underwriting process. The formulas represent only some of the factors considered in our rendering of any final decision. The guidelines are not intended to be a set of hard and fast rules. Flexibility is often determined by the high quality and completeness of the application, consistency of the information provided and a well written cover letter. Inconsistencies can result in adverse underwriting actions - including declination of coverage.

Personal insurance earned income multipliers and factors

Income Continuation and Protection is considered income that will cease upon the death of the insured. Coverage amounts applied for will typically be considered based on the following:

- age, marital status, number of dependents, income level and potential for future wage increases/decreases
- personal Insurance Earned Income Multipliers are considered in conjunction with the amount of insurance applied for, in force (including that which is intended to be replaced) and currently applied for/pending with other carriers
- premium to income ratio for those age 64 and younger up to 20 percent and those age 65 or older up to 15 percent
- household earned income will be considered for dependent spouse coverage. Household earned income is defined as the combined income of the proposed insured and their spouse or life partner
- minimum of \$25,000 household income would be needed to use the income factorial above
- household income of \$20,000 to \$24,999 would be limited to \$250,000*
- household income less than \$20,000 would be limited to \$100,000*
- earned income is defined as income earned in the U.S. We will not accept any earned income or net worth from any source outside of the US.

Personal insurance earned income factors:

Age	Multiply Earned Income by up to
Under 30	40x
30 - 39	35x
40 - 49	25x
50 - 59	20x
60 - 64	10x
65 - 70	5x
71+	3x

NOTE: The above are maximum income factors of which the underwriter may modify on a case-by-case basis, if the individual circumstances warrant such a change. For applicants age 71 or older who are still employed, we'll individually consider income replacement using small multipliers.

*other than special rules for students noted

Personal insurance concepts considered on an individual case basis

Adult Child as Owner / Bene / Payor for Parent: Limited consideration, only in situations where the parent's business is being transferred to the adult child. No personal coverage available. No consideration otherwise.

Charitable Beneficiary Coverage: Determined by multiplying the annual donation by the age specific earned income multiplier, or by multiplying the annual donation by the number of years pledged. Required information:

- contribution record (past history of giving to the institution)
- other insurance needs must be met

Dependent Spouses: A dependent or non-wage earning spouse is eligible for coverage generally up to amount of personal insurance in force (including group insurance) of the working spouse. Coverage amounts are considered on an individual basis and the following factors are considered when determining appropriate face amounts:

- wage earner's income and insurance in force (including group insurance)
- age and number of dependents
- special needs or disabilities of dependents
- proposed insured's prior work history and education

Disability or Retirement Income: Individual consideration. Required information:

- source of income
- amount of payment that continues to survivors after death
- total net worth and listing of non-liquid assets (real estate, business)
- spouse income and insurance coverage in force

Inheritance: We will not project personal life insurance needs on the basis of future inheritance.

Estate Liquidity: For large estates using conservation/liquidity as the basis for insurance, interest rates range from 5% to 10% and the duration of growth spans 7 to 20 years, depending on the applicant's age, to calculate future value. The exclusion amount is removed and a 40% tax rate is used. For estates under the exclusion amount of \$5 million, this method would not be appropriate, and income replacement would be suggested as the methodology to consider.

May be considered on an individual basis and may require the following documentation:

- third-party verified financial statements regarding all assets by CPA or tax attorney
- income statement
- balance sheet and/or cash flow statements from CPA or tax attorney, with special attention to assets and liabilities

Students: Students will no longer be required parents to be owner, payor, or beneficiary.

Undergraduate Students: Under age of 30, allow a maximum of \$250,000 if their personal income does not support the total line of insurance. Ages 30 and older, allow maximum of \$100,000 if their personal income does not support the total line of insurance to be placed.

Graduate Students: We will allow a maximum of \$500,000 on graduate students if their personal income does not support the total line of insurance going to be placed.

Law or Medical School Students, Medical Interns, Residents and / or Fellows: We will consider for face amounts up to \$2 million based upon financial justification and factors such as the medical school attending, year/field of medicine, type of residency program, the training hospital/clinic, and geographic location.

Trust certificate: Must be submitted prior to underwriting approval whenever a trust is the Policy Owner or Primary Beneficiary if:

- The proposed insured is over age 65 or the face amount is over \$1,000,000
- The agent is the trustee. A detailed explanation of the agent's relationship to proposed insured and beneficiaries in the trust must also be provided. A copy of the complete, executed trust may also be required
- There are multiple or third-party trustees

Business insurance

Business valuation methods

Providing favorable corporate financial justification may allow consideration beyond these multiples.

Typical business valuation multiples:

- 1 times sales
- 10-15 times net earnings
- 4 to 5 times EBITDA

Any type of business coverage being considered must be limited to business interests in the U.S.

Non-U.S. business interests will not be considered for any business related coverage.

Buy / sell, partnership, stock redemption coverage:

Coverage is determined by the percentage of ownership held by the applicant multiplied by the market value of the company. Section headed "Business Financial Information" must be completed, along with Section J for paper applications. In order to better understand the coverage, we may require additional business financial statements.

Business loans: We will consider coverage provided the term of the new loan is at least 10 years. We will generally consider up to 80% of the loan amount for uncollateralized loans and up to 100% of the loan if structured as a collateral assignment. Loan coverage on a sole proprietor is essentially the same as personal insurance for the same purpose. Required information:

- purpose, amount, date and loan duration
- the business or proposed insured should be the owner; a bank cannot be the owner or the bene
- a collateral assignment will be required

Business-owned policies must also have a completed LR-63 Employer Owned Life Insurance Acknowledgment and Consent form signed both by the proposed insured and the employer.

SBA Loans: For life insurance policies tied to a SBA 7(a) loan, we will forgo the need for business or personal financial statements supporting the financial justification. The reasoning behind this is due to due diligence that is put into the loan process. SBA 7(a) loans cap out at \$5 million.

A copy of the SBA 7(a) loan approval document is still required.

Key person insurance valuation multipliers:

Ages ≤ 64:	Up to 10 times the applicant's annual income (salary and bonus)
Ages 65 - 70:	Up to 5 times the applicant's annual income (salary and bonus)
Ages ≥ 71:	Individual consideration when facts and financial data demonstrate a significant loss to the company