

Financial Underwriting Guidelines

Income Replacement

Ages	\$25,000 or higher annual earned income
Under 30	40X
30-39	35X
40-49	30X
50-59	20X
60-64	10X
65+	7X*

Larger amounts may be considered on an individual case basis for special needs situations with supporting documentation of financial need. A spouse working full or part time to supplement their household income can qualify for a similar amount as a non-working spouse depending on the circumstances.

*Income replacement is generally not considered for those over age 66 unless an individual is actively at work or if the insured has a surviving spouse who may lose the benefit of a larger spousal Social Security or pension benefit.

Estate Conservation

The personal net worth of an individual or family is used as the basis for a calculation of an approximate estate federal tax liability and related expenses. Generally the net worth can be expected to increase over a period of years, so it is common practice to project that growth over a period of years at a selected rate of interest. A growth rate of 6 percent is most commonly recommended although different rates can occasionally be used if appropriate. At older ages or impaired risks, a lower rate is usually used.**

Ages	Years
Up to 55	20
56-70	15
71 Up	10

**Standard or better risk classes.

After applying a growth factor over a period of time, a simple method for calculating the approximate future estate tax need is as follows: Projected estate minus the estate tax exemption times 40% less any in force coverage.

While the changes in the federal estate tax laws have reduced the number of estates that have a need for tax avoidance for the wealthy, members of the middle class can suffer serious impacts to their assets and retirement planning due to the high cost of health care as they age. It's not unreasonable to consider these potential impacts to their financial well-being on a case by case basis. A number of states also have estate or inheritance tax laws which are not tied to federal estate tax laws.

Non-Working Spouse

Will generally consider for an amount equal to the amount in force and applied for on the breadwinner depending on the circumstances of the case up to a maximum of \$2,000,000 unless there is also an estate tax need. Additional insurance can be considered with cover memo or other documentation outlining any special needs.

Business Insurance

A business insurance questionnaire (BIQ) should be submitted on all business cases, and a well constructed cover letter explaining the purpose of coverage and how the face amount was determined is very helpful. Copies of company financial statements and buy/sell agreements may be necessary to help value a business to determine the appropriate amounts of coverage on each owner for business continuation cases.

Key Person

Generally 10-15X earned income plus bonuses if paid regularly as part of a company bonus plan up to age 70. If key person has an ownership interest in the company, the appropriate percentage of company net income can be added to his income. Some states have specific requirements to qualify as a key person.

The key person's value to the business can be established by a number of other factors including the amount of experience in the particular occupation or industry, unique or specialized talents, patent ownership rights, and client relationships. There should be a reasonable balance between business and personal insurance. The coverage applied for on the life of a sole proprietor or member of a family-owned corporation should be considered personal insurance and kept within personal insurance limits.

Creditor Insurance

Generally up to a maximum of 75 percent of a secured loan unless agreement has a loan provision calling the loan due upon the death of owner/key person.

Buy/Sell

Coverage should usually be applied for or in force on all major active partners. A business insurance questionnaire should be fully completed in all cases unless a detailed cover letter and company financial statements are submitted with the application. Each partner's ownership percentage should be included and coverage should be proportional to the ownership interest.

Company financial statements and copies of a buy/sell agreement are sometimes necessary to help establish a reasonable market valuation for the company and may be ordered at the underwriter's discretion.

Charitable Giving

Life insurance is purchased in favor of a charity or an institution to replace the potential value of future contributions by the donor or purely as a gift. Most situations are reasonable and financially acceptable, but the insurable risk of loss to the institution should be closely related to the potential loss suffered by the charity and the donor's personal insurance needs should be already taken care of.

In order to establish insurable interest the underwriter will request evidence of a past and present affiliation with the institution showing an established pattern of giving or a pledge of future donations which may be outlined in a letter of agreement between the donor and the charity. Our preference is that the insured is the owner of the contract unless it's a part of a tax advantaged planning situation and face amounts should normally be limited to around 10 times the annual contribution.

If the policy is to be owned by the foundation or charity, letter of agreement between the institution and the applicant must be provided outlining the terms of the arrangement and the tax status of the charity or foundation. We will not participate in any arrangements where the source of the premium is a third party with no real ties to the insured or owner.

Fully Underwritten Guidelines for Juvenile Life Insurance (Not available in Washington)

For life insurance purposes, applicants are considered to be juveniles between the ages of 15 days and 17 years old.

Life Insurance Face Amounts

- Generally, the maximum Face Amount is \$250,000. The Face Amount should not exceed 50 percent of the coverage carried on the parent with the least amount of life insurance in-force. Any amount exceeding 50 percent of the lesser insured parent must include a cover letter with an explanation of the need for Underwriting consideration of the higher amount.

Ownership/Beneficiary

- Owner and Beneficiary must be parent or grandparent. Other relatives and friends are considered to have no insurable interest. If a grandparent applies as owner and the child does not reside in the same household as the grandparent, a parent must sign the application on the “signature of parent” line authorizing the purchase and attesting to answers to the application questions.
- A legal guardian can be considered as owner and/or beneficiary. Details should be provided in a cover letter along with copies of guardianship documentation.

Household life insurance coverage

- All children should be equally insured, include a cover memo advising coverage amount on all family members
- The parent(s) must be insured

Risk class

- The Proposed Insured must be a Standard Risk (No Impaired Risk)

Face amounts greater than \$250,000

While we do not normally offer coverage over \$250,000 to juveniles, we will consider if the following criteria are met in addition to the above guidelines:

- APS is required in ALL cases
- A Cover Letter explaining the rationale of the need for \$250,000 or higher face amounts
- Maximum Face Amount \$500,000