

Financial Underwriting Guidelines and Tips

The purpose of financial underwriting is to determine whether the amount of coverage applied for and in-force bears a reasonable relationship to an untimely loss.

Simply put, the amount of insurance applied for and in-force should be compatible with the established needs.

Of course, clients' needs often change as they age. That's why we recommend a **detailed cover letter**, providing information on:

- The sales design, source of premium and ultimate total line of coverage your client plans to have with all carriers
- This will help expedite the underwriting process

The Financial Application Supplement (AM-26.1) is **included in the application package** and should be completed on applications in excess of \$2,000,000 (Applied for and In-Force).

Preparing your clients at the time of sale with relevant financial questions to anticipate will help us secure the information to provide the quickest assessment possible.

Our underwriting team makes every effort to obtain the necessary information with the published age/amount requirements.

Third-party financial documentation (tax returns, itemized and signed financial statements from a CPA or attorney on letterhead, brokerage statements, etc.) may be required when we cannot adequately develop the necessary information with routine requirements.

Speeding up the process

You can help make the underwriting process go faster by:

1. Providing a detailed cover letter
2. Preparing your clients for the type of financial questions to anticipate at the time of sale



Financial Underwriting Guidelines and Tips

Income Replacement

Income replacement coverage establishes security against loss by providing funds to repay personal debt and continue an income stream for dependent family members.

Traditionally, this value is calculated using a multiple of earned income approach. Income includes:

- Salaries
- Wages
- Bonuses

Up to half of unearned income (investment income) can be considered, in addition to earned income in certain circumstances.

Lower multiplier formulas should be considered when: reported income figures may be difficult to verify, sources may not be knowledgeable, the applicant is new to the occupation, makes frequent occupational changes or the occupation has little potential for growth.

AGES	MULTIPLE OF INCOME
To age 30	30
31–40	25
41–50	20
51–60	15
61–65	10
66–70	7
71 & over	IC



Supporting You Every Step of the Way

Throughout the entire process, we're committed to helping you provide clients with the right amount of life insurance to maintain their existing lifestyles.

Homemakers: coverage up to \$2,000,000 if spouse has similar coverage. Higher amounts considered based on overall household financial profile/net worth.

Financial Underwriting Guidelines and Tips

Estate Conservation

Life insurance proceeds are used to satisfy potentially significant costs associated with estate transfer, thereby avoiding a forced sale of assets at death.

In some instances, income replacement and estate conservation needs may be considered at the same time.

Estate growth is not always justified

SBLI will use the lesser of Life Expectancy or the chart below to calculate the projected future value of a client’s current net worth.

AGES	40% (TAX RATE) OF PROJECTED NET WORTH
To age 60	6% for lesser of 10 years or LE (multiply by 1.8)
61–65	6% for lesser of 8 years or LE (multiply by 1.6)
66–70	6% for lesser of 6 years or LE (multiply by 1.4)
71 & over	IC

ADDRESSING INCOME REPLACEMENT AND ESTATE CONSERVATION NEEDS CONCURRENTLY



65-year-old female with \$7,000,000 current net worth



$\$7,000,000 \times 1.6 = \$11,200,000$
 (projected future value net worth at 6%)
 $-\$5,000,000$ (approx. estate tax exemption) =



$\$6,200,000 \times 40%$ (tax rate) =
\$2,480,000 of life insurance



ESTATE PROTECTION NEED

Estate conservation

is often the key financial goal for clients seeking asset protection and estate tax planning. We are committed to helping your clients reach this goal.

Financial Underwriting Guidelines and Tips

Personal Creditor Insurance/ Loan Protection

- Provide the amount, purpose and terms of loan (should be a minimum of 7 years)
- Generally, we will insure 80% of the loan
- Collateral assignment form is required

Personal Bankruptcy (Chapter 13 or Chapter 7)

- Generally, cases involving bankruptcies will not be considered until the bankruptcy has been resolved/discharged for at least 2 years
- Underwriting may ask for copies of the bankruptcy petition and/or final discharge papers
- Clients with recent or multiple bankruptcy filings are generally not ideal candidates for our Accelerated Underwriting process

Juvenile Insurance

- We advocate a relationship between the amount applied for and the parent's insurance program
- Limit this amount to the lesser of 50% of the breadwinner's insurance amount; individual consideration for higher amounts
- Insurable interest is generally limited to parents and grandparents
- All juvenile siblings should have similar amounts of coverage

Charitable Giving

- Most often, the goal of using life insurance in charitable giving is to provide an uninterrupted continuation of an existing pattern of giving
- Generally, an average of the most recent 3 years of gifts to the charity, annual contribution x 10 years (or remaining life expectancy) = charitable amount of life insurance



Your SBLI Advantage

Our underwriting staff is readily available to help you understand and evaluate products and options so you can present the appropriate solution to clients.

Financial Underwriting Guidelines and Tips

Business Continuity

Among the forms business insurance covers, the more common are:

- Buy/Sell: Designed to indemnify surviving owners against financial loss due to the shifting of control at the time of an owner's death
- Key Employee (a.k.a. Key Man): Designed to indemnify the business against loss of particular employees who make significant contributions to the profitability of a business and cannot be easily replaced; provides capital and/or cash flow in the event of a premature death; there is no benefit to the insured's heirs with this design
- Business loan (creditor) insurance

Business continuity

is designed to help maintain a client's financial position that existed prior to the loss and not enhance the organization's financial position.

We're committed to helping you reach these critical goals for your clients.



Financial Underwriting Guidelines and Tips

Buy/Sell

- Business partners or owners may be insured in proportion to their percentage ownership
- Identification of major owners and their respective ownership positions are required
- Valuation of the company generally equals 5–15 times of net earnings, depending on the industry
- If a valuation other than a multiple of net earnings or ownership percentage of the value of the business was used, please provide details of the formula used in the needs analysis

Key Employee (Key Man)

- To determine a suitable value, we generally use a multiple of salary (5–10 times) based on skill, industry, experience and other relevant criteria
- The Key Employee should possess a special skill, serve as a source of business for the firm or hold a patent in his/her name
- The Key Employee's name and industry reputation should be of value to the company
- The Key Employee should hold partial ownership in the business and be highly paid
- Business Loan (Creditor) insurance must be in place
- Lenders may insist on coverage of owners to pay outstanding principle balance due to an owner's premature death
- Underwriting may ask for documentation of the loan (should be a minimum of 7 years)
- Collateral assignment form is required

Your SBLI Advantage

Your dedicated relationship team is committed to understanding your business, helping it succeed and enriching your entire experience.