



Financial Underwriting Guidelines

Financial Underwriting is a key part of the underwriting process, but often left until after the medical underwriting is complete. A good cover letter should help the underwriter understand the case, including:

- Reason for the insurance (purpose)
- How the amount applied for was determined
- Total amount of insurance on the insured's life with all companies
- Pending applications and life insurance to be replaced, if any

The information summarized below is general in nature based on composite data from several carriers. It is designed to provide general guidance, and specific carrier guidelines can vary on their overall financial outlook. If you have a case that falls outside these guidelines contact Terri Getman at ext. 15030.

Insurance Purpose	General Face Amount Guidelines	Policy Structure	Suggested Documentation																																
Income Replacement	<table border="1"> <thead> <tr> <th>Ages</th> <th>Income</th> <th>Factor</th> <th>Ins. Amount</th> </tr> </thead> <tbody> <tr> <td>Under 40</td> <td>\$ X</td> <td>30 =</td> <td>\$</td> </tr> <tr> <td>40 – 45</td> <td>\$ X</td> <td>25 =</td> <td>\$</td> </tr> <tr> <td>46 – 55</td> <td>\$ X</td> <td>20 =</td> <td>\$</td> </tr> <tr> <td>56 – 60</td> <td>\$ X</td> <td>15 =</td> <td>\$</td> </tr> <tr> <td>61 – 70</td> <td>\$ X</td> <td>10 =</td> <td>\$</td> </tr> <tr> <td>71 – 80</td> <td>\$ X</td> <td>5 =</td> <td>\$</td> </tr> <tr> <td>Over 80</td> <td>\$ X</td> <td>? =</td> <td>Individual Basis</td> </tr> </tbody> </table>	Ages	Income	Factor	Ins. Amount	Under 40	\$ X	30 =	\$	40 – 45	\$ X	25 =	\$	46 – 55	\$ X	20 =	\$	56 – 60	\$ X	15 =	\$	61 – 70	\$ X	10 =	\$	71 – 80	\$ X	5 =	\$	Over 80	\$ X	? =	Individual Basis	<ul style="list-style-type: none"> ▪ Typically the insured is the owner and spouse is the beneficiary ▪ Alternatively trust or spouse may be the owner ▪ CAUTION: insured, owner, beneficiary each different person/entity 	<ul style="list-style-type: none"> ▪ Documentation showing income ▪ If the face amount exceeds the guidelines information about the family such as number of children, age of children, any special circumstances (i.e., child with special needs)
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Under 40	\$ X	30 =	\$																																
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Spouse with No Earned Income not Estate (Use only if spouse is definitely not working outside the home)	<p>\$1 Million or Less face amounts Amount equal to income earning spouse</p> <p>\$1-\$5 Million, Under Age 70 Spouse The non-income earning spouse may qualify for greater of \$1 million or 50% of income earning spouse</p> <p>\$1-\$5 Million, Over Age 70 Spouse Individual basis is application is over \$1 million</p>	<ul style="list-style-type: none"> ▪ Typically the insured is the owner and spouse is the beneficiary ▪ Alternatively trust or spouse may be the owner ▪ CAUTION: insured, owner, beneficiary each different person/entity 	<ul style="list-style-type: none"> ▪ Documentation showing income of income earning spouse ▪ Insurance in force and pending on income earning spouse 																																
Juvenile Coverage	<ul style="list-style-type: none"> ▪ No more than 100% of parent, less coverage permitted at younger ages ▪ Special rules apply in NY 	<ul style="list-style-type: none"> ▪ Typically parent is owner 	<ul style="list-style-type: none"> ▪ Amount of coverage on children should be the same ▪ Insurance on parents/guardians must be greater 																																
Debt Repayment (Personal)	<ul style="list-style-type: none"> ▪ May qualify for 100% of mortgage balance ▪ Additional amounts to cover other personal debt may be possible 	<ul style="list-style-type: none"> ▪ Typically the insured is the owner and family is the beneficiary with collateral assignment to lender/bank 	<ul style="list-style-type: none"> ▪ Details of the loan(s) such as amount, term, interest rate 																																

Insurance Purpose	General Face Amount Guidelines	Policy Structure	Suggested Documentation
Estate Settlement Costs (State & Federal Death Taxes, Final Expenses)	<ul style="list-style-type: none"> Value of estate over \$5M net worth for single/ \$10M for couple times 50% = settlement cost Settlement costs projected 8 – 10 years at reasonable rate of growth (approx. 4% - 6%) Greater growth projections may be possible Expected inheritance can be included in value where it's likely to occur in near future 	<ul style="list-style-type: none"> Typically trust is owner and beneficiary Other structures possible - see Terri 	<ul style="list-style-type: none"> Net worth statement Estate calculation Description of plan
IRD Costs (Qualified Plans Annuities, Nonqualified Plans)	<ul style="list-style-type: none"> Income tax costs on IRD assets projected 8 – 10 years at reasonable rate of growth (IRD times 40% = face amount) These cases are generally sold as “leveraging or maximizing IRD asset” 	<ul style="list-style-type: none"> Can be structured a number of ways but must make sense 	<ul style="list-style-type: none"> Documentation showing value of IRD assets and sufficient other assets & income Difficult to max
Charitable Donation	<ul style="list-style-type: none"> Based on past giving times life expectancy Personal insurance needs have been satisfied Greater amounts may be possible on an individual basis 	<ul style="list-style-type: none"> Typical structure the charity is owner and beneficiary Can have insured as owner with charity as beneficiary 	<ul style="list-style-type: none"> Historic contribution information (services and money) Difficult
Charitable Remainder Trust	<ul style="list-style-type: none"> Fair market value of the contributed asset 	<ul style="list-style-type: none"> Typically owner and beneficiary is a trust Other structures are possible, but needs to make sense 	<ul style="list-style-type: none"> Details of the charitable trust Documentation showing value of contributed asset
Buy Sell Arrangement	<ul style="list-style-type: none"> Fair market value of the business with reasonable rate of growth times percentage of ownership (EBITA number X 10) X owners interest All owners should have coverage unless reasonable explanation for no coverage 	<ul style="list-style-type: none"> Cross-purchase structure – other business owner is owner and beneficiary Entity purchase structure – business is owner and beneficiary Other structures possible - see Terri 	<ul style="list-style-type: none"> New business < 3 yrs consider personal instead Business financial statement or appraisal Details of buy sell agreement
Debt Repayment (Business)	<ul style="list-style-type: none"> Generally not able to acquire 100% of loan Amount of coverage permitted often varies depending on a number of factors such as whether owner personally responsible. 	<ul style="list-style-type: none"> Typically business is owner and beneficiary with collateral assignment to lender/bank Can have insured owner with family as beneficiary with assignment 	<ul style="list-style-type: none"> Loan document/ details of the loan(s) such as amount, term, interest rate
Key Person Coverage	<ul style="list-style-type: none"> Five to ten times annual compensation including executive perks Large face amount can be considered based on documented impact to the business 	<ul style="list-style-type: none"> Business is owner and beneficiary Other structures are possible, but very unusual - contact Terri 	<ul style="list-style-type: none"> New business < 3 yrs consider personal instead Business > 3yrs documentation showing income & title of position/ description of position