

Formula and Guideline for Amounts of Insurance (Financial Underwriting)

Each carrier has its own specific guidelines. This information is meant to give you a general guideline to help you in the Financial Underwriting process. See specific carrier guidelines or check with your General Agency to determine if third-party financials are needed.

What Is Financial Underwriting?

Financial underwriting is the analysis of an individual's financial situation which takes place every time a life insurance case is underwritten. The purpose of this evaluation is to determine the need for insurance and to make sure the amount of insurance applied for is reasonable and in line with the insured's needs.

Purpose	Formulas and Guidelines	Pertinent information in a cover letter to accompany the application																		
Personal Insurance—Replacement of Income	<table border="1"> <thead> <tr> <th>Age</th> <th>Factor times income</th> </tr> </thead> <tbody> <tr> <td>20–35</td> <td>20 to 30</td> </tr> <tr> <td>36–40</td> <td>15 to 25</td> </tr> <tr> <td>41–45</td> <td>14 to 20</td> </tr> <tr> <td>46–50</td> <td>12 to 20</td> </tr> <tr> <td>51–59</td> <td>10 to 15</td> </tr> <tr> <td>60–64</td> <td>7 to 10</td> </tr> <tr> <td>65–70</td> <td>4 to 10</td> </tr> <tr> <td>70+</td> <td>4 to 5</td> </tr> </tbody> </table>	Age	Factor times income	20–35	20 to 30	36–40	15 to 25	41–45	14 to 20	46–50	12 to 20	51–59	10 to 15	60–64	7 to 10	65–70	4 to 10	70+	4 to 5	<p>A cover letter explaining:</p> <ul style="list-style-type: none"> • Purpose and need for coverage's • How amount was determined • Details on earned and unearned income
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Children's Coverage	<p>Up to 50% of parents' coverage</p> <p>*Some carriers only offer maximum of \$250,000. Check with your BGA for details.</p>	<ul style="list-style-type: none"> • Need for coverage <p>If there is more than one child in the family, they should all be insured for similar amounts. If not, an explanation should be given.</p>																		
Debt Protection (Personal)	<p>100% of home loan</p> <p>50% to 75% of loan balance for other types of loans</p>	<ul style="list-style-type: none"> • Reason for loan • Duration and amount of loan • Identity of lender • Status of loan (pending or approved) 																		
Debt Protection (Business)	<p>50% to 75% of loan balance</p>	<p>Same as personal loan with the addition of:</p> <ul style="list-style-type: none"> • Business financial statements • Explanation of why the proposed insured is key to the debt repayment 																		
Charitable Contributions	<p>Based on contribution history and personal needs having been met</p>	<ul style="list-style-type: none"> • Details of association with charity • Details of personal insurance • Details about organization if not well known • Organization's tax-exempt number • Reason for purchase 																		
Key Person	<p>Up to 10 times annual income</p>	<ul style="list-style-type: none"> • Description of why this is a key person • Details of coverage on other key staff <p>Other details:</p> <ul style="list-style-type: none"> • Proof of total compensation • Employment contract 																		

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Non-Working Spouse	Up to one-half of working spouse coverage with a maximum of \$1,000,000 in most cases.	<ul style="list-style-type: none"> • Working spouses annual income • Working spouse's total line of coverage <p>* If applying for more than \$1,000,000, include details as to why, number of children, etc.</p>
Buy/Sell	% of ownership times corporate value (fair market value)	<ul style="list-style-type: none"> • Details of ownership • Market value of business • Details of other owner's insurance • Status of Buy/Sell Agreement <p>Other details:</p> <ul style="list-style-type: none"> • Business Financial Statements (income statement and balance sheet) • Details of Buy/Sell Agreement
Estate Planning	Estate value appreciation at 6 percent for one-half the greatest life expectancy or 8 to 10 years	<ul style="list-style-type: none"> • Details of insurance in force and applied for • Financial advisors who have been consulted (names and phone numbers) <p>Other details:</p> <ul style="list-style-type: none"> • Personal balance sheet • Estate Planning Analysis <p>Each carrier has its own specific guidelines.</p>