

# Your Financial Underwriting Guide



**PACIFIC LIFE**

At Pacific Life, we are committed to helping you with your case every step of the way. Use this guide<sup>1</sup> to help you and your clients sail through financial underwriting – a process intended to affirm that there is an insurable interest, an insurable economic loss, and an ultimate total line of insurance consistent with the needs of the proposed insured.

## PERSONAL LIFE INSURANCE<sup>2</sup>

| Purpose  | Parameters   |     |        |       |    |       |    |       |    |       |    |       |    |       |   |     |                          |
|--|--|-----|--------|-------|----|-------|----|-------|----|-------|----|-------|----|-------|---|-----|--------------------------|
| <p><b>Income Replacement</b></p>                       | <ul style="list-style-type: none"> <li>The allowable amount of life insurance is a function of earned income multiplied by an age-linked factor.</li> </ul> <table border="1" data-bbox="516 577 706 808"> <thead> <tr> <th>Age</th> <th>Factor</th> </tr> </thead> <tbody> <tr> <td>20-30</td> <td>30</td> </tr> <tr> <td>31-40</td> <td>25</td> </tr> <tr> <td>41-50</td> <td>20</td> </tr> <tr> <td>51-60</td> <td>15</td> </tr> <tr> <td>61-65</td> <td>10</td> </tr> <tr> <td>66-75</td> <td>5</td> </tr> <tr> <td>76+</td> <td>individual consideration</td> </tr> </tbody> </table> <div data-bbox="1104 499 1526 667" style="background-color: #e6f2e6; padding: 5px;"> <p><b>Example</b><br/>Your 60-year-old client earning \$100,000 per year may qualify for a \$1.5 million policy (15 x \$100,000 = \$1.5 million).</p> </div> | Age | Factor | 20-30 | 30 | 31-40 | 25 | 41-50 | 20 | 51-60 | 15 | 61-65 | 10 | 66-75 | 5 | 76+ | individual consideration |
| Age  | Factor   |     |        |       |    |       |    |       |    |       |    |       |    |       |   |     |                          |
| 20-30  | 30   |     |        |       |    |       |    |       |    |       |    |       |    |       |   |     |                          |
| 31-40  | 25   |     |        |       |    |       |    |       |    |       |    |       |    |       |   |     |                          |
| 41-50  | 20   |     |        |       |    |       |    |       |    |       |    |       |    |       |   |     |                          |
| 51-60  | 15   |     |        |       |    |       |    |       |    |       |    |       |    |       |   |     |                          |
| 61-65  | 10   |     |        |       |    |       |    |       |    |       |    |       |    |       |   |     |                          |
| 66-75  | 5  |     |        |       |    |       |    |       |    |       |    |       |    |       |   |     |                          |
| 76+  | individual consideration   |     |        |       |    |       |    |       |    |       |    |       |    |       |   |     |                          |
| <p><b>Estate Protection</b></p>                        | <ul style="list-style-type: none"> <li>The underwriter will consider the nature of the assets and how their value has changed over time. Additional factors include a reasonable rate of growth, compounded up to 20 years, depending on the clients' age and risk class, and offset by the expected tax rate.<sup>3</sup></li> </ul> <div data-bbox="1104 835 1526 1066" style="background-color: #e6f2e6; padding: 5px;"> <p><b>Example</b><br/>Your clients, a couple ages 60 and 56, with a current net worth of \$3 million growing at a 6% rate, may qualify for a maximum of \$5.8 million life insurance based on the factors described.<sup>4</sup></p> </div>  |     |        |       |    |       |    |       |    |       |    |       |    |       |   |     |                          |
| <p><b>Income Replacement and Estate Protection</b></p> | <ul style="list-style-type: none"> <li>The total amount of insurance cannot exceed the greater of amounts determined under Income Replacement or Estate Protection.</li> </ul> <div data-bbox="1104 1098 1526 1234" style="background-color: #e6f2e6; padding: 5px;"> <p><b>Example</b><br/>Using the two examples above, the maximum amount of personal insurance would be \$5.8 million.</p> </div>  |     |        |       |    |       |    |       |    |       |    |       |    |       |   |     |                          |
| <p><b>Charitable Coverage</b></p>                      | <ul style="list-style-type: none"> <li>The life insurance amount is based on the insured's ability to contribute and established record of giving.</li> <li>Personal insurance needs should already be met.</li> <li>Use the amount of annual giving, multiplied by the corresponding factor in the Income Replacement table above.</li> </ul> <div data-bbox="1104 1287 1526 1444" style="background-color: #e6f2e6; padding: 5px;"> <p><b>Example</b><br/>Your 55-year-old client who annually gives \$10,000 to a favorite charity may qualify for a 150,000 policy (15 x \$10,000 = \$150,000).</p> </div>   |     |        |       |    |       |    |       |    |       |    |       |    |       |   |     |                          |
| <p><b>Homemaker Spouse Coverage</b></p>                | <ul style="list-style-type: none"> <li>An unemployed spouse may qualify for coverage using the Income Replacement factors above, using his/her age, and 50% of the working spouse's income.</li> <li>Consideration is based on the couple's joint net worth, the insurance in place on the income-earning spouse, and the total life insurance on both.</li> </ul>   |     |        |       |    |       |    |       |    |       |    |       |    |       |   |     |                          |
| <p><b>Juvenile Coverage</b></p>                        | <ul style="list-style-type: none"> <li>All siblings are similarly insured.</li> <li>The parent should have a minimum of two times (and preferably four times) the life insurance as that proposed on the child.</li> <li>Consideration is given to the purpose of coverage and the family's net worth. Cover letters are strongly recommended when the amount of insurance is greater than \$50,000.</li> </ul> <div data-bbox="1104 1644 1526 1801" style="background-color: #e6f2e6; padding: 5px;"> <p><b>Example</b><br/>Your clients, a couple with a \$1 million policy each, may qualify for \$250,000 juvenile insurance for each of their children.</p> </div>  |     |        |       |    |       |    |       |    |       |    |       |    |       |   |     |                          |

## BUSINESS LIFE INSURANCE

| Purpose                          | Parameters  |
|----------------------------------|---|
| <b>Key Person</b>                | <ul style="list-style-type: none"> <li>Used to indemnify the company against the loss of an employee whose skills and contributions are critical to the firm.</li> <li>In most cases, use a factor of five to ten times the individual's annual income to determine the amount permitted. Age, level of managerial or technical experience, unique and special skills, and prior track record of success are considerations in determining the factor used.</li> </ul>  |
| <b>Buy-Sell/Stock Redemption</b> | <ul style="list-style-type: none"> <li>It is expected that all owners of the business should be covered, commensurate with their ownership percentages.</li> <li>Establish the value of the business using the net income of the business over the past two to three years. Multiply it by a factor between five and 10 (the viability of the business is used to determine the factor used). Then multiply by the percentage of the business owned by the individual.</li> </ul> <div style="border: 1px solid #ccc; padding: 5px; margin-top: 10px;"> <p><b>Example</b><br/>Your client, who owns 20% of a business, that has shown a steady growth over the past five years and has a net income of \$2 million, may qualify for a \$4 million policy (2 million x 10 x 20% = \$4 million).</p> </div> |
| <b>Debt Repayment</b>            | <ul style="list-style-type: none"> <li>The business usually owns the policy, and the death benefit is assigned to the lending institution.</li> <li>The sum of insurance should not exceed 80% of the loan value.</li> <li>The sum of the key person coverage plus business loan coverage cannot exceed 150% of the key person limits.</li> </ul>   |

*1 The information in this flyer is intended as a guideline only and is subject to individual financial review and assessment of each case.*

*2 Deferred compensation, split-dollar plans, and pension plans given by an employer are all considered "perks" and are all included in the personal insurance, subject to the Income Replacement and Estate Protection parameters.*

*3 Recent revisions to U.S. estate and gift tax rules, effective 1/1/2013, may limit the maximum amount available.*

*4 Seventy-five percent of 28 is 21, which is thus capped at 20. The amount of insurance justified is \$3 million x (1.06)<sup>20</sup> x 60% = \$3 million x 3.21 x 60% = \$5.8 million.*

### TIP:

Want to reduce the need for follow up questions during the underwriting process? Include these tools when submitting an application to provide an early "total picture" of your client:

- Cover Letter Template (15-30296)
- Financial Questionnaire (15-15518)

Go to [Lifeline.PacificLife.com](http://Lifeline.PacificLife.com) to access these time-saving tools.

## Financial Underwriting Requirements

| Issue Age            | Amount Underwritten  | Requirement  |
|----------------------|--|--|
| 0-17<br>18-69        | Consult Risk Selection<br>\$5,000,000-\$10,000,000               | <p><b>Express Report:</b> No contact with the proposed insured. Includes searches of four databases:</p> <ul style="list-style-type: none"> <li>• National Tips and Leads (criminal court records)</li> <li>• Social Security number verification (confirmation that the number belongs to the proposed insured and not someone deceased)</li> <li>• Credit check</li> <li>• Prescription database search</li> </ul> |
| 0-17<br>18-69<br>70+ | Consult Risk Selection<br>\$10,000,001 & Up*<br>\$3,000,000 & Up | <p><b>Inspection Report:</b> Includes interview with the proposed insured and others (CPA, attorney, banker, business associates, etc.), credit check, and search of court records. May be used to satisfy third-party financial statement requirement when CPA/accountant is interviewed. May verify the income and net worth, for amounts within our retention.</p>  |
| All ages             | \$10,000,000 & Up*   | <p><b>Third-Party Financial Statement:</b> CPA/accountant-signed statements that verify current net worth and income over the last three years (information provided by the CPA/accountant without supporting documents does not constitute a third-party financial statement). Tax returns may be required on a case-by-case basis.</p>   |

*\*Underwriting may require inspection reports, tax returns, and/or third-party financial statements, at or below these amounts, when circumstances warrant it.*



**Contact your Pacific Life representative today to discuss a case or to request an illustration.**



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Some selling entities, which may include bank affiliated entities, may limit availability of some optional riders based on their client's age and other factors. Your broker-dealer can help you determine which optional riders are available and appropriate for your clients.

|  |  |                |
|--|--|----------------|
| Investment and Insurance Products: Not a Deposit | Not Insured by any Federal Government Agency |                |
| Not FDIC Insured                                 | No Bank Guarantee                            | May Lose Value |