



Key Financial Underwriting Concepts

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Financial Underwriting – Why Important?

- The total amount at risk associated with a DI policy can be large.
- There is a relationship between income replacement ratio and claims experience.
- Key concept: need for financial incentive for insured to be motivated to return to work. Put another way, insured should not be better off disabled as compared to working.

Financial Underwriting Considerations

- Earned income
- Unearned income
- Eligible expenses (Business Overhead Expense (BOE) insurance)
- Net worth
- Bankruptcy
- Employee vs. self-employed
- Stability of earnings and business
- Sources of financial documentation

Financial Underwriting – Types of Income

Earned insurable income

- Derived from work activity
- Would cease in the event of a disability
- Forms the basis for a disability policy monthly benefit amount.

Financial Underwriting – Types of Income

Unearned income

- Income that generally continues even if insured is disabled
- Examples include interest, dividends, rental income
- Recurring capital gains (one-time gains usually excluded)

Financial Underwriting – Types of Income

Unearned income

- Can reduce monthly benefit available
- Concern is that significant unearned income may act as a sort of disability benefit
- Generally, not concerned until unearned income exceeds **50** percent of earned income; after that we will deduct $\frac{1}{2}$ of remaining monthly unearned income from monthly benefit amount

Financial Underwriting - BOE

- BOE financial underwriting is focused on determining eligible business expenses, but business must still be profitable, and applicant should have IDI coverage but not be over-insured for IDI
- Eligible expenses are typically “fixed” expenses and those that one may reasonably expect to continue in the event of an insured’s disability
- Limited to proportionate share based on ownership

Financial Underwriting - BOE

Examples of eligible overhead expenses:

- Rent
- Employee wages/payroll costs (most)
- Business insurance premiums
- Dues & subscriptions
- Professional fees (accounting, legal)
- Janitorial/maintenance fees

Financial Underwriting - BOE

Examples of ineligible overhead expenses:

- Wages paid to owners or employees in the insured's profession
- Variable expenses such as medical supplies in a medical or dental office

Financial Underwriting – Net Worth

Net worth

- Assets minus liabilities
- The need for disability insurance diminishes with high net worth:
 - Up to \$20,000,000 is acceptable without adverse action
 - More than \$20,000,000 is generally not insurable
- Applicants with high net worth frequently have significant unearned income
- Composition of net worth matters
- High net worth may result in limited benefit period or declination in extreme cases

Bankruptcy

Financial Underwriting – Employment Status

Employee vs. self-employed

- Both are eligible for IDI
- Financial documentation requirements are different
- Self-employed applicants/business owners must provide documentation not just of salary, but also business profit (or loss)
- Any business profit is added to the applicant's salary and any business loss is deducted to determine insurable income

Financial Underwriting – Business Characteristics

Stability of earnings and business

- In the case of employees, applicants that have variations in income from bonuses, commissions or other variable compensation require closer review; may need to use an average income.
- In the case of business owners, business must be established and demonstrate profitability before coverage can be issued.
- Acquisition of an existing business

Financial Underwriting - Documentation

Sources of financial documentation

- The amount applied for will determine the extent of documentation required to underwrite.
- Status as either employee or self-employed/business owner will affect the type of documentation
- Regardless of the type of documentation, it must verify current rate of pay.

Financial Underwriting - Documentation

All applicants

- First source of documentation is the application form which asks for several years worth of data regarding earned and unearned income, business income, and net worth

Employees

- Smaller amounts: paystub, W-2, employment contract
- Larger amounts: complete tax return with all schedules

Financial Underwriting - Documentation

Self-employed/business owners

- Need to document salary and business profit/loss
- Personal AND business tax returns therefore required
- How business is organized will determine tax form(s) needed

Financial Underwriting - Documentation

Self-employed/business owners.

- **Sole proprietor:** small business, income reported on schedule C.
- **S-corporation:** business profit/loss flows through to owner's personal tax return by way of schedule E.
- **Partnership:** business profit/loss flows through to owner's personal tax return by way of schedule E.
- **C-corporation:** business profit/loss is reported separately on a corporate tax return.

Key Financial Underwriting Concepts

- Financial underwriting is an important factor in quality underwriting.
- Financial underwriting encompasses many facets.
- Contact your DI underwriter with questions for specific clients/situations.

Questions?

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Upcoming DI Connect with Us Sessions

- **Tuesday, May 27, 2025 – No Training – Memorial Day Week**
- **Tuesday, June 3, 2025 – 11 a.m. ET – [DI Sales & Distribution Townhall](#)**
- **Tuesday, June 10, 2025 – 11 a.m. ET - [Understanding Financial Documentation for Individual DI and Business Overhead Expense \(BOE\) Insurance](#)**
- **Tuesday, June 17, 2025 – 11 a.m. ET – [Selling DI to Affluent Professionals](#)**
- **Tuesday, June 24, 2025 – 11 a.m. ET – [Submitting DI Applications using the eApply Online Application Tool](#)**

Key Contacts

- Your agency or brokerage manager.
- Your Ameritas[®] sales development team.
- The DI sales and distribution team.
- Your regional vice president.