



Key Financial Underwriting Concepts

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: Often not required (up to age 50).
- Larger amounts: paystub, W-2, employment contract, 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, June 9, 2026 – 11 a.m. ET –**
[Understanding Financial Documentation for Individual DI and Business Overhead Expense \(BOE\) Insurance](#)
- **Tuesday, June 16, 2026 – 11 a.m. ET –** [Marketing DI Insurance to Affluent Professionals](#)
- **Tuesday, June 23, 2026 – 11 a.m. ET -** [Producer Workbench Dashboard Navigation Demo](#)
- **Tuesday, June 30, 2026 – NO TRAINING –**
4th of July Holiday Week

Key Contacts

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

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