Allianz Life Insurance Company of North America

LIFE INSURANCE

Financial and affordability underwriting guidelines

All cases are subject to an underwriter's discretion and affordability review.

PERSONAL FINANCIAL STATEMENT (NB2012P) REQUIREMENTS

Ages 0-64[1]	$3,000,001 and greater
Ages 65 and up	All face amounts

BUSINESS FINANCIAL STATEMENT (NB2012B) REQUIREMENTS

- Required for any type of business insurance at $3,000,001 and greater.
- May be requested by underwriter for smaller face amounts.

THIRD-PARTY FINANCIAL VALIDATION REQUIREMENTS

Ages 0-64[1]	$10,000,001 and greater
Ages 65 and up	$5,000,001 and greater

Supporting documentation will differ depending on the asset and should be based on the primary source of the client's wealth. See chart below. This list is not all-inclusive, but does provide examples of the types of proofs that will be required.

Type of asset	Examples of supporting third-party documentation
Earned income	Copies of tax returns, W-2s, 1099s
Cash and CDs	Current bank/CD statements, tax returns
Equities (stocks and bonds, 401(k)s, IRAs, or other qualified monies)	Current brokerage/account statements, tax returns
Real estate – provide listing of properties held including addresses and percentage of ownership	Current property tax statements/assessments, appraisals, title to property for proof of ownership if not on property tax statement, tax returns
Rare/valuable collection(s)	Copy of insurance policy identifying the collection and covering same, or independent formal appraisal proving ownership and value
Business interests	Copies of tax returns along with audited corporate financials, e.g., balance sheet and income statements, 10-Ks, articles of organization/ incorporation proving ownership
Liquid assets	Cash, stocks, bonds, securities, life insurance cash value, 401(k), IRA or SEP, annuities

[1] For ages 0-17, this requirement would be for the premium payor.

Product and feature availability may vary by state and broker/dealer.

Affordability guidelines

All cases are reviewed for a needs-based selling approach, and premiums should be within our affordability guidelines. The company's premium affordability guidelines are intended to ensure that the premium payments are consistent with the client's financial circumstances, taking into account the client's income, net worth, and liquidity. For individuals with higher levels of income or net worth, a larger percentage is generally allowed to be used for life insurance premium than for those at the lower end of the income/net worth scale. As a general guideline, we use the following parameters:

For premium payments from income:	
Income	**Maximum annual planned premium allowed**
Up to $499,999	20% of earned annual income
$500,000+	30% of earned annual income

This will be allowed on an annual basis. For example, a client with an annual earned income of $100,000 will qualify for an ANNUAL $20,000 premium. This can be combined with the funds allowed from liquid assets.

For premium payments from liquid assets:	
Age	**Percentage of liquid assets allowed for total planned premium**
Under age 59½	40% of liquid assets, excluding qualified funds
59½ through 69	30% of liquid assets. Qualified funds allowed.
70+	20% of liquid assets. Qualified funds allowed.

Qualified monies are excluded from liquid assets due to the 10% early withdrawal penalty that generally applies. This will be allowed as a cumulative premium funding. For example, a client who is 55 years old with a liquid nonqualified net worth (no qualified funds allowed at this age) of $1,000,000 is allowed to fund by using up to $400,000 of liquid assets as cumulative premium over the life of the contract.

Example: 65-year-old with an annual earned income of $200,000 and liquid net worth of $5,000,000 (qualified funds are acceptable at this age) who wishes to fund as a 10 annual pay.

They can fund the policy with an annual premium of $190,000.

$200,000 X 20% = $40,000 (this is OK annually)

$5,000,000 X 30% = $1,500,000 (this is OK cumulative): $1,500,000 / 10 years = $150,000 per year

$40,000 (from income) + $150,000 (from liquid net worth) = $190,000 (the acceptable annual premium)

Underwriting best practices

To expedite the underwriting process, we require sales illustrations to be included with each new application submission. These are required for all ages and death benefit amounts. When the sole purpose of insurance is retirement planning, the illustration must include future distributions.

These premium percentages are guidelines, and there is some degree of interrelatedness between income and net worth. A detailed cover letter is always appreciated, and including one makes the underwriting process go smoother. Items that are helpful to include on a cover letter include the following:

- What was the need and purpose for the life insurance?
- How was face amount determined?
- What is the source of the premium and funding pattern? (An illustration can help here.)
- How is this sale in the client's best interest (i.e., how does it meet their financial objectives)?
- Is a third-party advisor other than yourself involved?
- Providing verification in the following instances may be prudent:
  - This sale has been discussed in detail with the client
  - The client supports this higher premium and desires to move forward with the purchase of this life insurance
  - The client acknowledges that they have sufficient resources available for their other expenses and/or emergencies in addition to the premium

Death benefit guidelines

Purpose	Amount guidelines	Additional information
Income replacement	Age bracket: Earned income factor: • 18-35 40x • 36-60 Subtract current age from 70 for your multiplier, minimum of 12x • 61-65 10x • 66-70 5x • 71 and up Individual consideration	• Average annual bonuses and average share of business dividends may be included in the income replacement multiplier. • Generally, passive income (such as pension dividends, interest royalties, lottery winnings, capital gains, and rental income) should not be considered in the multiplier. • They may, however, be considered with other assets to assess total needs.
	Annual income multiplied by earned income factor = personal needs	
Estate preservation	For estates valued at less than $5 million • For estates valued $3 million up to $5 million, allow 50% of the estate value as an acceptable face amount. • For estates with values less than or equal to $3 million, allow 30% of the estate value as an acceptable face amount. For estates valued at $5 million or over • Grow the current estate value at 6% using 75% of their life expectancy, rounding the year up, to a maximum of 25 years. • Multiply the result x 55% to arrive at an acceptable death benefit for estate planning purposes.	• If owner is a trust, a Trust Certification form (NB2290) is required. • A copy of the signed, dated, and notarized trust agreement may be requested depending on individual circumstances. • Additional third-party requirements from trusts, such as supporting documentation for trust assets.
Secondary wage-earner/ unemployed spouse	Unemployed Spouse Coverage Including Section 162 Plans • Policies with a death benefit of $3 million and under we can allow equal amounts to the employee/working spouse. • Policies with a death benefit above $3 million should be a 2 to 1 inforce ratio, meaning the employed spouse must have at least twice the coverage as the nonworking spouse. This is assuming that the estate need and other financial attributes cover the amount needed for the nonworking spouse.	• The face amount on an unemployed/underemployed spouse should not exceed the amount of insurance on employed/primary wage-earning spouse. Group term insurance should not be included when considering inforce coverage on the working spouse. • If the primary wage-earner is uninsurable or highly ratable, it may be appropriate to allow more insurance on the unemployed/under-employed spouse. • A cover letter and executed Section 162 Agreement must be submitted on all 162 submissions. • An illustration showing distribution amounts is needed if "Retirement Planning" is noted as the Purpose of Insurance and on ALL Section 162 Bonus plan submissions.
Wealth transfer	• Allow a specific portion (based on affordability) of the client's assets to be repositioned to purchase life insurance at a minimum face/maximum accumulation.	• Provide a cover letter outlining how the death benefit amount was determined, including details of how the income and/or assets will be used to fund the life insurance purchase. • Clearly explain any tax implications of implementing (or not implementing) this insurance recommendation.

Purpose	Amount guidelines	Additional guidelines
Charitable giving	• Determine average annual charitable giving contribution over past 3 years. Multiply the average amount of giving by their income replacement factor.	• Must have an established pattern of giving; records of past contributions may be requested. • Personal needs should be met by other assets. • Provide a cover letter explaining the relationship between the applicant and the charity.
Juvenile coverage	• Ages 0-17: allow up to half of the parent's combined death benefit up to $1,000,000 on a child. • For face amounts greater than $1,000,000, both parents should be insured and the need for this coverage on their child(ren) should be explained in a detailed cover letter and based on household financials. • Amounts may be limited based on state insurance legislation guidelines. • Parents should typically have 2-4 times the amount of coverage of the juvenile.	• Provide a cover letter outlining amount of coverage inforce or applied for on each parent, even when this coverage is being purchased by grandparents. • Include amounts applied for and inforce on all siblings. All siblings should be insured for equitable amounts (defined as same or similar death benefits or same premium amount). • Agent must see each child personally. • Secure the payor's income and net worth. • Proposed insureds under age 15 – parent or guardian signs application for minor children. • Proposed insureds ages 15–17 signature needs: – Application – proposed insured juvenile signs as insured; parent or owner (if not parent) signs as owner – HIPAA – parent signs
Creditor/personal	• Up to 80% of the loan amount. • Minimum term should be five years.	• Loan documents may be required. • Provide a cover letter with details as to the amount and terms of the loan. • Is the loan pending or approved? • May require third-party validation of business financials.
Retirement planning	• Up to the personal needs multiplier or wealth transfer depending on the individual's circumstances.	• Total death benefit amount will be determined under our normal financial guidelines in determining death benefit. • To expedite the affordability review, we require an illustration when the client is 65 or older. When the sole purpose is retirement planning, this illustration must include distributions. • Refer to Affordability Guidelines above.
Executive bonus or nonqualified deferred compensation (NQDC)	• Based on personal needs. See personal needs multiplier.	• Secure the salary average (including bonus if paid annually) for the last two years. • Requires a copy of the deferred compensation agreement or executive bonus plan.
Key person	• Typically 5-10x income. Greater or smaller death benefit amounts may be warranted, based on the case details.	• A cover letter should accompany all cases, especially new corporations, highlighting the individual's talents, education, and experience. • Identify what losses the company will experience without this key individual. • Over age 65, death benefit will require individual consideration.

Purpose	Amount guidelines	Additional guidelines
Business continuation/ buy-sell	• Death benefits should be calculated by percent of ownership multiplied by fair market value.	• May require third-party validation of business financials and, depending on payor, may require validation of personal earned income. • List names of all owners and their positions in the company; for each, provide amount of insurance inforce (and applied for) with all insurance companies. • May require a copy of the business's operating agreement or other supporting documentation.
Creditor/ business loan	• Up to 80% of loan amount. • Minimum loan term should be five years.	• May require third-party validation of business financials. • A copy of the loan agreement is required. • Provide a cover letter with details as to the amount and terms of the loan.
Trust	• Personal needs guidelines apply.	• If owner is a trust, a Trust Certification form (NB2290) is required. • A copy of the signed, dated, and notarized trust agreement may be requested depending on individual circumstances. • Additional third-party requirements from trusts, such as supporting documentation for trust assets.

Some cases may fall outside of our guidelines and merit special consideration. If you have a case you would like to discuss, please call the **Life Case Design Team at 800.950.7372**.

Guarantees are backed solely by the financial strength and claims-paying ability of Allianz Life Insurance Company of North America.

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