

## Penn Mutual's Financial Underwriting Guidelines

Financial underwriting is necessary on all applications to screen for adverse selection and to determine if the amount of insurance is reasonable. The following guidelines are used by the underwriters to determine the maximum amount of coverage that is considered usual for the proposed insured's financial status. If the total face amount (all companies) falls outside of these guidelines, a brief letter from you explaining the purpose of the insurance and how you arrived at the face amount can help to expedite the underwriting process. If annual premium for personal insurance exceeds 25% of the applicant's total income, a cover letter is required explaining how the premium is being funded and why.

Below are listed the most common needs for life insurance and the appropriate guidelines for maximum face amount and necessary documentation. Unless indicated otherwise below, all cases require Penn Mutual's Confidential Financial Statement questionnaire (CFS) at \$2,500,001 and higher and supporting financial documentation for amounts of \$5,000,001 and higher. Supporting financial documents should include past two years tax forms, income statements and balance sheets, etc. The type of supporting documentation depends on the purpose of the insurance (see below). If these items are not available, please provide any available supporting documentation with an explanation. An inspection report (IR) will be requested above \$4,999,999. Be sure to prepare your client for the inspection report.

<b>Personal Coverage</b>															
<p><b>Income Replacement</b></p> <p>The following table represents the factor to be applied to applicant's annual earned income to determine the maximum amount insurable:</p> <table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: left;">Ages</th> <th style="text-align: left;">Factor</th> </tr> </thead> <tbody> <tr> <td>18-30</td> <td>30x</td> </tr> <tr> <td>31-40</td> <td>25x</td> </tr> <tr> <td>41-50</td> <td>20x</td> </tr> <tr> <td>51-60</td> <td>15x</td> </tr> <tr> <td>61-70</td> <td>10x</td> </tr> <tr> <td>71 up</td> <td>Individual consideration</td> </tr> </tbody> </table>	Ages	Factor	18-30	30x	31-40	25x	41-50	20x	51-60	15x	61-70	10x	71 up	Individual consideration	<p><b>Documentation</b></p> <ul style="list-style-type: none"> <li>• Cover Letter</li> <li>• CFS, past two years income tax forms or personal financial statements (for amounts indicated above)</li> </ul>
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<p><b>Estate Planning</b></p> <p>Formula: Net worth (x) Growth Factor (up to 7%) (-) Unified Credit(s) (x) tax rates (federal and state) (+) other final expenses. Higher growth rates are subject to individual consideration. See the table below for the maximum specified projection period. For survivorship cases, the age of younger life is used. Substandard lives will lower the projection period.</p> <table style="width: 100%; border-collapse: collapse;"> <tbody> <tr> <td>To age 55</td> <td>20 years</td> </tr> <tr> <td>56 – 65</td> <td>15 years</td> </tr> <tr> <td>66 – 75</td> <td>12 years</td> </tr> <tr> <td>76 – 80</td> <td>7 years</td> </tr> <tr> <td>Over age 80</td> <td>Individual consideration</td> </tr> </tbody> </table>	To age 55	20 years	56 – 65	15 years	66 – 75	12 years	76 – 80	7 years	Over age 80	Individual consideration	<p><b>Documentation</b></p> <ul style="list-style-type: none"> <li>• Cover Letter: explain how amount was determined and indicate if our Advanced Sales Department worked on the estate analysis. If projected growth rate is more than 7% or projection period exceeds the table, include explanation.</li> <li>• Copy of Estate Analysis</li> <li>• CFS or personal financial statement as indicated above</li> <li>• If the business is more than 25% of the estate, include business financial statement</li> <li>• If other assets such as real estate or collectables represent more than 25% of the estate, include supporting documents such as appraisals and/or tax assessments.</li> </ul>				
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<p><b>Creditor</b></p> <p>Maximum of 100% of the loan amount within the confines of the Income Replacement rules. Otherwise, 90% of the loan.</p>	<p><b>Documentation</b></p> <ul style="list-style-type: none"> <li>• Cover Letter : include details of loan to include amount, purpose, repayment schedule, etc.</li> <li>• CFS or personal Financial Statements as indicated above</li> </ul>
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<p><b>Retirement Funding</b></p> <p>Policies should be premium driven with minimum death benefit for premium paid. The following <i>percentages</i> of income should be used as premium guidelines. This is based on the fact that disposable income normally increases with age.</p> <table data-bbox="110 745 722 955"> <thead> <tr> <th>Age</th> <th>Maximum % of Net Earned Income as a Premium Guideline</th> </tr> </thead> <tbody> <tr> <td>20-30</td> <td>10%</td> </tr> <tr> <td>31-40</td> <td>15%</td> </tr> <tr> <td>41-50</td> <td>20%</td> </tr> <tr> <td>51 up</td> <td>25%</td> </tr> </tbody> </table>	Age	Maximum % of Net Earned Income as a Premium Guideline	20-30	10%	31-40	15%	41-50	20%	51 up	25%	<p><b>Documentation</b></p> <ul style="list-style-type: none"> <li>• Cover Letter</li> <li>• CFS, past two years tax forms or personal financial statements (for amounts indicated above)</li> </ul>
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51 up	25%										

<p><b>Split Dollar</b></p> <p>Split Dollar used to fund personal insurance needs, apply the appropriate guidelines above based on purpose.</p>	<p><b>Documentation</b></p> <ul style="list-style-type: none"> <li>• Cover Letter</li> <li>• Copy of Split Dollar agreement</li> <li>• CFS or personal Financial Statements as indicated above</li> </ul>
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<p><b>Charitable Giving</b></p> <p>If the insured is paying the premium (either directly or through donations) and has a meaningful relationship with the charity, the amount of insurance owned by the charitable entity should be reasonably in line with the relationship and past donations.</p> <p>For charitable cases with multiple lives, the program and the amounts of insurance will be reviewed by the Marketing Programs &amp; Policy Steering Committee. If the source of premiums is from borrowed funds rather than the entity's funds, the arrangement will be given heightened scrutiny.</p>	<p><b>Documentation</b></p> <ul style="list-style-type: none"> <li>• Cover letter</li> <li>• Contribution record to establish pattern of giving</li> <li>• Two years tax forms</li> <li>• For charitable cases with multiple lives, need to provide information on the charitable program in advance of submitting applications. The information should include details of the program and group being solicited, proposed face amounts, copies of solicitation materials, disclosures, etc.</li> </ul>
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<p><b>Juvenile</b>  Coverage must be consistent among all siblings. Parents should have more coverage in force than their children, and all coverage should be in line with family's financial situation. The death benefit is usually not the primary motivation for the policy; therefore, the death benefit should be set at the minimum for the premium paid. Certain states place specific restrictions on the maximum face amount allowed on juveniles.</p>	<p><b>Documentation</b></p> <ul style="list-style-type: none"> <li>- Cover letter explaining coverage on parents/siblings and how amount was determined</li> <li>- Documentation of parent's net worth</li> <li>- If gift, financial statements of person making gift</li> </ul>
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**BUSINESS COVERAGE**

<p><b>Replacement of Keyperson</b></p> <p>10x compensation (include salary, bonus, and fringe benefits).</p>	<p><b>Documentation</b></p> <ul style="list-style-type: none"> <li>- Cover letter - job duties / responsibilities, unique talent, other value added contributions</li> <li>- CFS Part 2</li> <li>- Tax forms to verify keyperson's income</li> </ul>
<p><b>Buy-Sell, Partnership, Stock Redemption</b></p> <p>% of ownership x market value + up to 7% growth factor for 5 years. Higher growth rates are subject to individual consideration. To determine market value, average net income for last 2 yrs. capitalized at 10%; OR, appropriate amount as evidenced by Buy-sell / Stock Redemption agreement; OR, by valuation completed by our Advanced Sales Department or other credible source.</p>	<p><b>Documentation</b></p> <ul style="list-style-type: none"> <li>- Cover letter - ownership details, how amount determined, support for valuation of business, explanation of growth factor if higher than 7%</li> <li>- CFS Part 2</li> <li>- Copy of buy-sell agreement</li> </ul>
<p><b>419 Business</b></p> <p>419 is a tax deductible plan which is based on normal insurance needs. Use the stated maximums for the particular need being covered (income replacement, estate tax, buy-sell, etc). Refer to Trust document for potential limitations.</p>	<p><b>Documentation</b></p> <ul style="list-style-type: none"> <li>- Cover Letter</li> <li>- Based on purpose, see documentation outlined above</li> </ul>

<p><b><u>COLI : deferred compensation and retirement benefits</u></b></p> <p>(401k Overlay Plan, S.E.R.P., Restricted Bonus Plan)</p> <p>Amount of coverage based on funding requirements of the plan. Emphasis is on benefit accumulation and retirement income. Generally death benefits are within personal guidelines. If not, death benefits must be minimized for the premium amount within plan objectives.</p>	<p><b><u>Documentation</u></b></p> <ul style="list-style-type: none"> <li>- Cover letter to include details of plan, benefit formula, company background, etc.</li> <li>- Census of group</li> <li>- CFS or business Financial Statements as indicated above</li> </ul>
<p><b><u>Creditor</u></b></p> <p>Within confines of Keyperson limits, up to 90% of loan amount.</p>	<p><b><u>Documentation</u></b></p> <ul style="list-style-type: none"> <li>- Cover letter to include loan details</li> <li>- Copy of Loan Agreement</li> <li>- CFS Part 2</li> </ul>