

LIFE INSURANCE
BASICS

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SECTION 2

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I. Understanding Life Insurance

Along with the NFP Insurance Services website (<http://internal.nfp.com/insurance>), the American Council of Life Insurers (ACLI) website (www.acli.com),* the National Association of Independent Life Brokerage Agencies website (www.nailba.org)* and individual carrier websites are all great resources for additional information on life insurance products and sales, and the industry as a whole.

In addition, ACLI developed “What You Should Know About Buying Life Insurance,” a concise and easy-to-understand overview of life insurance. Although the brochure is client-facing, the information is useful as an introduction to life insurance for staff and new producers. (See Appendix D)

II. Product and Case Design Basics

Carriers offer many products to fit what they perceive to be the demands of the market. In most cases, one of the hundreds of products offered by various carriers will fit a client’s needs as is, without a lot of manipulation or additional design. However, this is not always the case.

Sometimes a client will require strategic design and layering of policies to meet specific goals. Other times trusts and other financial instruments will need to be used to accomplish a financial plan. These processes are called “product design” and “case design.” Some firms have spent years specializing in product and case design, while others are just beginning to explore what is possible in these areas.

Product Design

Life insurance products can do much more than one might imagine. Products can stretch and bend to fit your clients’ needs in a variety of ways. When illustrating life insurance, think beyond the traditional advertised use of the product: Can we adjust the premium in the early years? Can we shorten the guarantee period? Can the client skip some premiums when his kids are headed to college? What about the face amount? Should it increase, decrease or stay the same?

Information Gathering

When designing products to fit a client’s needs, consider the following:

The Client’s Goals

- What the client is most interested in: cash value, death benefit, internal rate of return, distributions, etc.

Premiums

- Amount able to pay now
- Amount able to pay in the future
- Other places that money could be going

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Death Benefit Need

- › Current need
- › Future events that may impact the death benefit need
- › Business needs
- › Estate tax needs
- › Legacy planning
- › Charitable giving continuation

Insurability

- › Medical underwriting and financial underwriting
- › Financial qualifications/justification

Many firms develop a client fact-gathering sheet or questionnaire they give to all of their clients so that the information above, and other information that helps in the life insurance transaction, can be gathered. For assistance in developing a fact-gathering sheet, contact your NFP liaison.*

Selecting a Product

Once you have the information you need, it's time to look at products in the market. Which ones would work best for your client's scenario? The NFP Product Management team (information located under the Product Resources section of the NFP Insurance Services website (<http://internal.nfp.com/insurance>) and the Advanced Sales team (information located under the Advanced Sales Resources section of the NFP Insurance Services website) can help you determine which products might work or help you design the products to fit a client's needs.

Some questions to consider when choosing a product:

- › What kind of product works best for this scenario? Term, permanent, single life, second to die, etc.?
- › Will one product work or will more than one be necessary to meet the client's needs?
- › Which carriers might work best?
- › Management of future premium: carrier, firm, advisor or client?
- › What is the client's risk tolerance and understanding of the proposal?
- › Is the client adequately diversified?***

Remember that products and pricing are ever-changing. Check for updates and current product offerings frequently on the NFP Insurance Services website (<http://internal.nfp.com/insurance>) under "Announcements" or "Product Management."

* If used by a registered representative, sheet subject to review and approved by their analyst.

** Diversification does not guarantee against loss of principal.

Case Design

When we talk about case design, we are venturing past making a product work for the life insurance needs of the client. Now we're talking about how life insurance fits into the overall financial plan of the client and what goals life insurance could accomplish within the client's overall plan. We want to think about the client portfolio and tax, income and legal considerations as a whole, and how life insurance may fit into the picture.

Consider the client's:

- > Net worth
- > Current balance sheet (assessing liquidity in assets)
- > Current life insurance coverage
- > Investments
- > Real estate and other asset holdings
- > Expenses
- > Business obligations
- > Estate considerations/tax
- > Gifting – current and future
- > Financing of premiums
- > Future expectations in personal and professional life
- > Future expectations of investments, liquidity and holdings
- > Current taxes/future expectations of taxes
- > General risk tolerance
- > Trusts – current and future use
- > Existing advisors, attorneys and other planning professionals

For more information on case design, visit the NFP Insurance Services website at <http://internal.nfp.com/insurance>.

If life insurance makes sense for your client, the NFP Advanced Sales Resources team can help you determine how to accomplish the client's goal by evaluating potential legal, regulatory and future implications of your proposed plan. Call 1-800-880-0080 or e-mail lifesolutionssupport@nfp.com.

III. Underwriting Basics

Life insurance underwriting is the gathering and evaluating of medical and non-medical information for the purpose of pricing life insurance.

Each life insurance company has its own extensive policy and procedure manuals used to determine whether or not to issue a life insurance policy and how to price that policy. An insurer's underwriters typically use a combination of factors that experience shows correlates with the risk of death (and premature death) known as "mortality experience." Carriers use questionnaires, medical records, general information searches and the Medical Information Bureau to assess an applicant's insurability or expected mortality.

Underwriting requirements vary by carrier, client age, amount of death benefit applied for, term vs. permanent coverage, and an array of other factors. Consult the Underwriting/New Business section of the NFP Insurance Services website (<http://internal.nfp.com/insurance>) or review carrier documents for an itemized list of all requirements for underwriting per case profile.

Underwriting is broken into medical and non-medical underwriting. Medical underwriting looks at the family and personal health history of your client. Non-medical underwriting examines occupation, financial need and other non-medical factors of the underwriting process.

Information Gathering: Medical and Non-medical

Your client may be asked for the following general information, in addition to questions specific to an individual carrier, during the underwriting process:

- > Age
- > Sex (except in several states that require unisex rates, even though actuarial data shows women live longer than men)
- > Height and weight
- > Health history (and often family health history, e.g., parents and siblings)
- > Purpose of the insurance (e.g., estate planning, business, family protection)
- > Marital status and number of children
- > Amount of insurance the applicant already has and any additional insurance the applicant proposes to buy (as people with far more life insurance than they need tend to be poor insurance risks)
- > Occupation (some are hazardous and increase the risk of death)
- > Income (to help determine suitability)
- > Smoking or tobacco use (an important factor as, on average, smokers have shorter lives)
- > Alcohol (excessive drinking seriously impacts life expectancy)
- > Certain hobbies (e.g., race car driving, hang gliding, piloting non-commercial aircraft)
- > Foreign travel (amount of travel, time in foreign country and purpose of trip)

In addition to these basic questions, your client will be asked about the doctors that they visit, any hospital stays and weight gain/loss. Each of these questions may lead to additional inquiries and will give the underwriter a better understanding of the health of your client.

See Appendix E for a helpful glossary of medical abbreviations.

Non-medical Underwriting: Financial Consideration

Part of non-medical underwriting, financial underwriting is the process of evaluating the finances of a case and determining why the client has applied for the amount requested. Is it justifiable given the stated purpose of the insurance and the insurable interest of the policy owner to the insured?

When considering financial underwriting, your client may be asked to provide any or all of the following:

- > Bank statements
- > Balance sheets
- > Tax returns
- > Brokerage account statements
- > Estate or property value statements
- > Trust documents
- > Corporate or entity agreements
- > Letter of credit

Underwriting Requirements

Each life insurance company requires certain documentation for the underwriting process. NFP has gathered the life insurance requirements for underwriting from each of our carriers. This information can be found on the Life Carriers section of the NFP Insurance Services website (<http://internal.nfp.com/insurance>). Information about the use of the Life Insurance Requirements for Underwriting tool, an NFP Insurance Marketing Services tool for identifying carrier specific underwriting requirements, can be found in the “Tools and Resources” area in Section 3 of this manual.

Each carrier has its own requirements for underwriting based on age of the applicant and the face amount of coverage the client is applying for. Some common underwriting requirements include:

Attending Physician Statement

This is the primary underwriting tool used by life insurance carriers. With a client release or authorization, you, or a company on your behalf, can contact the client’s primary care physician or specialist for these records. Please note that you must have a signed client release form before any physician will release these records.

Paramedical Exam

This is a medical exam performed for the purpose of securing life insurance. This must be done by an approved vendor or, in some instances, can be done by the client’s personal physician. Your client should be prepared for the exam. Visit the Underwriting/New Business section of the NFP Insurance Services website (<http://internal.nfp.com/insurance>) to get exam preparation tips.

Inspection Report

This is a telephone interview the carrier gives to the client. The client will be asked an array of questions confirming the information found on the application, exam and the other supporting documents submitted. This interview can take anywhere from 10 minutes to 45 minutes.

Older Age Mini-medical Exam

Clients over the age of 70 may be asked to take an extended exam to determine more about their health, memory and mobility.

Offers

Based on all of the information collected and evaluated by a professional underwriter, the carrier will make an offer on the case. Each insurer sets its own underwriting standards of what it considers to be acceptable, insurable risks. Then each application for insurance is reviewed to determine if the individual meets those standards. Here are six common categories or risk classifications:

- **Preferred:** Better than average risk (i.e., in good health with no dangerous hobbies or history of health problems).
- **Standard:** Considered an average or typical risk.
- **Substandard Rated:** Above-average risk (perhaps the client has high blood pressure, smokes cigarettes or engages in skydiving every weekend). Classified as an increased risk and charged a higher premium.
- **Declined:** Rated as uninsurable (perhaps due to a serious illness). May be denied coverage entirely.
- **Postpone:** If the underwriter cannot properly assess mortality today based on a recent medical condition or anomaly, the offering on the case may be postponed for a set period of time.
- **Flat Extra:** An additional amount charged for a set period in addition to the rate offered (e.g., \$2.50 per \$1,000 of coverage applied for the next 10 years). This is typically used for high risk occupations, hobbies or medical conditions that only add additional mortality risk for a limited amount of time.

Substandard Underwriting Offer

You can receive a substandard offer back in a variety of different formats. The below chart can help you translate the offers and translate them back to an alpha numeric table.

Substandard Underwriting Offer Conversion Grid*

Table	Mortality Debits	Total Mortality
A or 1	+25	125%
B or 2	+50	150%
C or 3	+75	175%
D or 4	+100	200%
E or 5	+125	225%
F or 6	+150	250%
G or 7	+175	275%
H or 8	+200	300%
I or 9	+225	325%
J or 10	+250	350%

*Please note that some carriers work with a range and this chart may be slightly modified by a carrier at any point in the future. Please confirm your conversion with the carrier before illustrating and issuing the policy.

Uninsurable/Declination

The following is a list of examples of conditions or events that will typically yield an underwriting offer of uninsurable or declination of coverage for life insurance.

- › Acquired immune deficiency syndrome (AIDS)
- › Alzheimer's disease
- › Amyotrophic lateral sclerosis (ALS) (also known as Lou Gehrig's Disease)
- › Cystic fibrosis
- › Dementia, senile
- › Dialysis, currently
- › Huntington's disease (personal history or current)
- › Muscular dystrophy
- › Implantable defibrillator
- › Currently imprisoned
- › Bankruptcy or criminal felony charges within one year

If you notice any of the above in a client's file, please take note of the possibility of uninsurable status and reach out to NFP or your field underwriter for additional support.

For More Information

For more information on the underwriting process, please visit the Underwriting/New Business section of the NFP Insurance Services website (<http://internal.nfp.com/insurance>) or contact an NFP underwriter by calling 800-880-0080.

IV. New Business Processing

When processing life insurance applications for coverage you can either do so formally or informally. In this section we'll discuss the steps required to process a case from start to finish both in an informal situation for "shopping" purposes or formally for securing coverage.

Note: Producer must be appointed prior to submitting an application. In addition to the procedures outlined below, registered representatives should follow their broker-dealer's guidelines for submission, review and approval of all variable life insurance business.

Informal Case Submission

Informal case submission is used for the purpose of securing an informal medical and financial underwriting offer from one or more carriers prior to formal case submission. This process removes the risk of reporting declination and table rating details to the Medical Information Bureau and allows the client to choose from a variety of life carriers based on product performance, potential offer and price.

Informal Submission Process

1. **Authorization** — Begin by completing an Informal Inquiry Application (which gives you access to pertinent client information), the NFP Authorization and/or a carrier specific HIPAA Compliant Authorization. Authorization forms allow carriers, NFP and our brokerage general agencies to review client medical and financial information.

A copy of the NFP Authorization can be found on the NFP Insurance services website (<http://internal.nfp.com/insurance>) under the Underwriting/New Business section, under “Forms and Helpful Links.” Carrier HIPAA and authorization forms can be found on the carrier’s website or under the Life Carriers section on the NFP Insurance Services website. Simply select the carrier and then the “Forms” section.

Tip: Make sure forms are fully complete, signed and dated prior to submission.

2. **Necessary Requirements** — Obtain the necessary requirements to accompany the informal application and authorizations. This includes, but is not limited to, Attending Physician Statements, a paramedical or medical exam, lab results (if available), EKG (if applicable), financial documentation (third-party financials from CPA or inspection company, or a completed financial questionnaire).

To find out which requirements need to be gathered for your case, see the Underwriting/New Business section of the NFP Insurance Services website. Select “Life Insurance Requirements for Underwriting” under the “Tools (UW/NB)” section. Carriers also provide this information on their websites and in their field underwriting guides.

3. **Cover Letter** — Prepare a cover letter to explain the purpose of insurance and provide any pertinent client lifestyle information (activities, hobbies, exercise routine details, etc.). This helps to paint a clear picture of the client and his or her needs.

NFP offers examples of cover letters on the NFP Insurance Services website under the “Reference Library” in the Underwriting/New Business section.

Tip: Remember, underwriters will not have an opportunity to meet the client. They rely on the information you provide. Try to answer any questions they may have in your cover letter.

4. **UConnect** — Create a file in UConnect, NFP’s proprietary case submission system, by entering client information into the specified fields. UConnect will allow you to electronically submit business to NFP Life carriers or NFP BGAs.

Next, scan obtained medical and financial documents. Attach these documents to the client file in UConnect.

*Note: For more information on UConnect, visit the Underwriting and New Business Tools area in Section 3, of this manual.**

5. **Submission** — Submit only fully packaged cases to the carriers of your choice using UConnect or by mailing the documents to the carrier.
6. **Follow Up** — Follow up with carriers three to seven days after submission for a client assessment and underwriting offer.

* Submission to UConnect alone does not satisfy the supervisory review submission guidelines for the approval of variable life business for registered representatives of NFP Securities, Inc. Please consult your sales supervisor for more information.

Formal Case Submission

Formal case submission is used for the purpose of applying for a life insurance policy. Before you begin:

Proactive Case Management — Build a client file by attaching examination paperwork, medical records, necessary financial information and a detailed cover letter whenever possible. Submitting a complete package ensures faster processing and decreased cycle times.

Prior to submission — All application questions should be answered correctly and thoroughly. Details to any questions answered “yes” should be provided. Application and forms must be signed and dated. We do not recommend submitting incomplete or incorrect information with the intent to correct or complete it later. This will cause processing delays and may cause the carrier to request additional information that would not have initially been needed.

Formal Submission Process

1. Provide carrier-specific HIPAA or NFP authorization forms, and a full application. A copy of the NFP Authorization can be found on the NFP Insurance Services website (<http://internal.nfp.com/insurance>) under the “Forms and Helpful Links” area of the Underwriting/New Business section. All carrier forms can be found on the carrier’s website or under the Life Carriers section on the NFP Insurance Services website. Simply select the carrier and then the “Forms” section.
2. Include a signed illustration for all permanent products. Carriers require the signed illustration for placement of coverage. This will become part of the contract. Illustrations can be obtained from the carrier, from NFP or you can run them yourself either on the carrier stand-alone software or in WinFlex Web, an online system that allows you to run permanent life insurance illustrations for multiple carriers.
3. Include a cover sheet referencing the informal file number, informal offer and the name of the underwriter who reviewed the original file.

NFP offers examples of cover letters on the NFP Insurance Services website under the “Reference Library” in the Underwriting/New Business section.
4. If applicable, payment and/or transfer instructions should be submitted with the application.
5. Have the client retain a copy of the completed application packet for his or her file. In addition to the copy for your file, make sure the client retains a copy of the final illustration and application as well.
6. Order examination requirements if these have not already been completed. Notify the client that an examiner will be contacting them to schedule completion.

Informal to Formal Submission Process

If you have begun the case informally and have underwriting offers, follow the below steps to complete the formal process to secure coverage.

1. Have the client complete and sign the final formal application for life insurance based upon the informal results from the carriers.
2. All carrier forms can be found on the carrier's website or under the Life Carriers section of the NFP Insurance Services website (<http://internal.nfp.com/insurance>). Simply select the carrier and then the "Forms" section.

Tip: Packets should consist of Application Part I and Part II, and any state required documents.

3. Review the underwriter's offer and note any missing requirements for underwriting and begin gathering these.

Tip: Prepare client for an inspection report, motor vehicle report and other carrier requirements.

4. Change the status of the case from "informal" to "formal" in UConnect. Scan the formal application and requirements and submit to the carrier(s).
5. Submit formal application for approval via UConnect.
6. At this point the carrier will issue the policy to your office or to the client for final approval.
7. Collect any delivery requirements and final signatures to put the coverage in force.

If you have any questions regarding new business submission and processing, please contact your NFP liaison for assistance.



NATIONAL FINANCIAL PARTNERS

National Financial Partners (NFP)

1250 Capital of Texas Hwy. S., Building 2, Suite 125 | Austin, TX 78746 | 512-697-6000 | www.nfp.com

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