

***D*inamic 2000**



Easy Reference

# Underwriting Guidelines

As outlined in your complete  
Disability Income Agent's Guide

July 2004

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**UnionCentral**

## Medical Underwriting

Requirements listed below are necessary when the amounts applied for and in force with Union Central equal or exceed the amounts shown below. **To determine medical requirements add the base monthly income + Social Insurance Rider + one-half the Guaranteed Physical Insurability (DI) or Future Increase Rider (DOE).**

Ages	Blood/ HOS	Paramed	EKG
18-40	\$3,000*	\$5,001**	N/A
41-50	3,000*	4,001**	10,000
51 and over	3,000*	2,001	5,000

**When disability income and disability overhead expense coverages are applied for concurrently, the nonmedical and medical limits apply to the sum of the monthly benefits.**

\* This amount reduces to \$2,000 in Massachusetts, New Jersey, New York and Texas, and \$1,000 in California, Washington D.C. and Florida.

\*\* The amount reduces to \$2,001 in California, Florida, New York, and Washington D.C.

An exam completed by a medical doctor should be obtained if the applicant has a history of a heart murmur, rheumatic fever, diabetes, or any other medical problem which, in the judgment of the agent or manager, would require a physician's examination.

## Business Owner Matrix

- I. Business owners are eligible to upgrade one class from Occupation Classes 3A through 5A if the following criteria are met:
- ◆ Age 35 or older;
  - ◆ Documented adjusted gross earnings of at least \$50,000 for the last two years;
  - ◆ Owner must have been in business for at least five years;
  - ◆ At least 25% ownership of the business entity for the last two years;

- ◆ Two full-time employees other than immediate family members;
- ◆ Business not in the residence;
- ◆ No more than 20% physical or manual duties.

II. Certain occupations are excluded under the Business Owner Matrix:

- ◆ Automobile Industry
- ◆ Chiropractor
- ◆ Construction Industry
- ◆ Motion Picture/Theater/Entertainment Industry
- ◆ Florist
- ◆ Physician/Dentist/Osteopath/Podiatrist
- ◆ Real Estate
- ◆ Securities Industry
- ◆ Veterinarians.

If there are any unique situations, an inquiry either written or oral should be directed to the Home Office underwriter.

## **Financial Underwriting**

### **Individual Disability Applications**

The use of income documentation is required on all individually underwritten cases. Adequate financial underwriting is always essential, but can be especially critical when larger amounts are considered, where there is a substantial increase in the current income over previous years' incomes or where there are discrepancies as to earned income. Inadequate financial documentation can result in underwriting delays and/or reduction of benefits. In situations where discrepancies exist, larger amounts are involved or there is a substantial increase in the current year's earnings, verification of income figures may be required.

### **Annual Earned Income**

The Annual Earned Income section on every application must be completed, even if financial documentation is submitted.

- ◆ All applications, even if financial documentation is submitted, must include income for current year, last year, and two years ago.
- ◆ Union Central requires income documentation with all

disability income applications. Please refer to the **INCOME DOCUMENTATION SUMMARY** listed below for the types of income documentation required.

- ◆ Whenever a nonprofessional self-employed individual’s income has increased substantially in the past year (i.e., \$50,000 or more), we will need a detailed explanation. Unusual fluctuations may require us to average previous years’ income to determine an issue amount. Each application will receive individual consideration.

### **Income Documentation Summary**

The Income Documentation Summary identifies the documents (federal income tax and employer provided) that meet the definition of “income documentation.”

<b>Income Documentation Summary</b>					
<b>Amount*</b>	<b>Employee</b>	<b>Ownership</b>			
		<b>Sole Proprietor</b>	<b>Partnership</b>	<b>S-Corp</b>	<b>C-Corp</b>
Up to \$7,500	Paystub or W-2	Form 1040 and/or Sched. C	K-1 or Sched. E	W-2 and Sched. E or K-1	W-2 and 1120
\$7,501-\$14,999	Completed 1040 (All Schedules)	Completed 1040 (All Schedules)	Completed 1040 (All Schedules)	Completed 1040 (All Schedules)	Completed 1040 (All Schedules) and 1120
\$15,000 and up	2 yrs. 1040 (All Schedules)	2 yrs. 1040 (All Schedules)	2 yrs. 1040 (All Schedules)	2 yrs. 1040 (All Schedules)	2 yrs. personal returns and 1120

\*Applied for and in force with all companies

All joint returns require a copy of both W-2s, etc.

### **Professionals**

(Regardless of amount): for some individuals, particularly those in the medical field, a complete copy of an employment contract, including the signature page, may be substituted for other financial documentation. To qualify for this, the following conditions must be met:

- ◆ The professional must be in their first year of the employment.
- ◆ The contract should specify a start date.
- ◆ The contract should specify a minimum employment length of 2 years.
- ◆ The contract must specify a guaranteed salary or a guaranteed hourly wage for a specific period of time.

## **Earned Income**

### *All Policies – All Classes*

Issue and Participation Limits are based on net earned income. Such income is gross annual income (less any business expenses) or salaries, wages, fees, or commissions and can include pension and/or profit-sharing contributions.

## **Pension and Profit-Sharing Contribution Limits**

### *All Policies – All Classes*

In some cases contributions to pension and profit-sharing plans can be included as earned income when determining the maximum Issue and Participation Limit. Contributions in excess of 25% of annual salary must be substantiated with tax returns. This amount is added to the “Net Earned Income.”

## **Net Worth**

### *All Policies – All Classes*

As a person’s net worth approaches \$4,000,000, there may be less need for long-term disability income coverage. When a net worth exceeds \$4,000,000, sufficient financial information must be submitted so an accurate determination of the composition and liquidity of assets can be made. This analysis is then considered in relation to the applicant’s age, health, life-style, work habits and record.

## **Unearned Income**

### *All Policies – All Classes*

Income unaffected by disability can act as a source of disability income and must be taken into account when determining maximum issue and participation limits or overinsurance could result. Therefore, Issue and Participation Limits are reduced by one half of the average monthly unearned income in excess of \$20,000.

For example, if unearned income is \$29,600 per year, \$400 must be subtracted from the Issue and Participation Limits (based on earned income):  $\$29,600 - \$20,000 = \$9,600 \times 50\% = \$4,800 \div 12 \text{ (months)} = \$400$ .

This does not apply to policies issued as part of an Employer-Sponsored Plan that is approved for Guaranteed Issue.

**Professionals in Residence or Fellowship**

*NonCancellable Policy –  
Classes 4A – 3A*

Professionals still in residency can be considered for these amounts. These amounts are in addition to any group coverage in force.

Physicians and Osteopaths . . . . .	\$4,000
Dentists . . . . .	1,500
Podiatrists . . . . .	1,000

**Professionals Entering Practice**

*NonCancellable Policy*

For certain professionals just entering practice, we can consider the following amounts less any disability benefits the applicant is eligible for:

Physicians and Osteopath . . . . .	\$4,500
Dentists, Podiatrists and Veterinarians .	2,000
Attorneys, CPAs and Optometrists . . . .	1,500

**Students**

*NonCancellable Policy – Classes 4A – 3A*

Certain people, while still in school or post-graduate training, are eligible for disability income insurance even though their income is minimal at present.\* The limits to the right are applicable to students in the fields of medicine, osteopathy, dentistry, law, pharmacy, podiatry or veterinary medicine and are based on income potentials rather than current earnings. These figures represent maximum Issue and Participation Limits.

	Participation/ Issue Limit	Occupational Class
(1) Fourth-year medical or osteopathic students	\$2,000	*
(2) Third-year medical or osteopathic students	1,500	*
(3) Final-semester dental students	1,000	3A
(4) Senior podiatry students	1,000	3A
(5) Senior veterinary students	1,000	4A
(6) Senior law students	500	4A
(7) Pharmacy students	500	4A

*\* Medical speciality will dictate occupational classification. If there is no declared medical specialty, then 3A occupational class applies.*

## Maximum Issue and Participation Limits

### Non-Medical Market

All Benefit Periods	50 and Under		51 – 55		56 – 60	
	Issue	Participation	Issue	Participation	Issue	Participation
5AP, 5A	\$15,000	\$15,000*	\$15,000	\$15,000*	\$15,000	\$15,000*
4A, 3AP	\$15,000	\$15,000*	\$15,000	\$15,000*	\$15,000	\$15,000*
3A	\$10,000	\$12,000	\$10,000	\$12,000	\$10,000	\$12,000
2A	\$8,000	\$8,000	\$5,000	\$5,000	\$3,000	\$3,000
A, B	\$6,000	\$6,000	\$5,000	\$5,000	\$3,000	\$3,000

\* \$25,000 with employer-paid Group LTD  
 \$25,000 with employee-paid Group LTD

**California** and **Florida** residents have a maximum Issue and Participation Limit of \$10,000.

The addition of the Activities of Daily Living Rider (ADL) does not affect the maximum Issue and Participation Limits (see above).

<b>Medical Market</b>	50 and Under		51 – 55		56 – 60	
	Issue	Participation	Issue	Participation	Issue	Participation
4A	\$10,000	\$15,000	\$10,000	\$10,000	\$10,000	\$10,000
3A	\$10,000	\$10,000*	\$10,000	\$10,000	\$10,000	\$10,000

†\$15,000 with Group LTD

Dentist and dental hygienists are included in the 3A medical market

### Issue and Participation Limits

<b>Annual Earned Income</b>	<b>Issue/Participation Limits*</b>			<b>Group/Individual Issue/Participation Limits 5AP - 2A</b>	
	<b>All Classes**</b>			<b>Maximum Individual Pay (4)</b>	<b>Maximum Employer Pay (5)</b>
	<b>Individual Pay (1)</b>	<b>Employer Pay (2)</b>	<b>Social Insurance Rider (3)</b>		
\$ 18,000	\$ 300	\$ 350	\$ 800	\$ 300	\$ 350
21,000	500	550	800	500	550
24,000	500	550	1,000	500	550
27,000	600	800	1,000	600	800
30,000	700	900	1,100	700	900
33,000	850	1,100	1,100	850	1,100
36,000	900	1,200	1,200	900	1,200
39,000	1,000	1,400	1,200	1,000	1,400
40,000	1,000	1,400	1,300	1,000	1,400
42,000	1,050	1,400	1,400	1,050	1,400
45,000	1,150	1,500	1,500	1,150	1,500
48,000	1,300	1,700	1,500	1,300	1,700
51,000	1,300	1,800	1,600	1,450	1,900
54,000	1,350	1,900	1,700	1,500	1,900
57,000	1,500	2,100	1,700	1,600	2,100
60,000	1,500	2,200	1,800	1,600	2,200
63,000	1,600	2,200	1,800	1,800	2,400
65,000	1,600	2,400	1,900	1,800	2,400
70,000	1,800	2,700	1,900	2,000	2,750
75,000	1,900	2,800	2,000	2,100	3,000
80,000	2,100	3,000	2,000	2,200	3,350
85,000	2,300	3,300	2,000	2,500	3,600
90,000	2,500	3,550	2,000	2,750	3,850
95,000	2,650	3,750	2,000	3,000	4,050
100,000	2,800	3,950	2,000	3,200	4,450
105,000	2,900	4,100	2,000	3,500	4,750
110,000	3,000	4,300	2,000	3,800	5,050
115,000	3,100	4,500	2,000	4,100	5,400
120,000	3,350	4,700	2,000	4,400	5,800
130,000	3,650	5,000	2,000	4,800	6,400

Annual Earned Income	Issue/Participation Limits*			Group/Individual Issue/Participation Limits 5AP - 2A	
	All Classes**			Maximum Individual Pay (4)	Maximum Employer Pay (5)
	Individual Pay (1)	Employer Pay (2)	Social Insurance Rider (3)		
140,000	3,850	5,300	2,000	5,200	7,050
150,000	4,150	5,700	2,000	5,700	7,700
160,000	4,600	6,100	2,000	6,200	8,300
170,000	5,000	6,500	2,000	6,700	8,900
180,000	5,300	7,000	2,000	7,200	9,350
190,000	5,500	7,500	2,000	7,700	9,950
200,000	5,900	8,100	2,000	8,200	10,500
210,000	6,200	8,500	2,000	8,600	11,200
220,000	6,400	8,900	2,000	9,000	11,800
230,000	6,700	9,200	2,000	9,400	12,400
240,000	6,900	9,600	2,000	10,000	13,000
250,000	7,200	9,900	2,000	10,500	13,500
260,000	7,400	10,200	2,000	11,000	14,000
270,000	7,700	10,500	2,000	11,450	14,500
280,000	8,000	10,800	2,000	11,900	15,000
290,000	8,200	11,200	2,000	12,300	15,500
300,000	8,500	11,500	2,000	13,000	16,000
310,000	8,750	11,700	2,000	13,300	16,500
320,000	9,000	11,900	2,000	13,600	17,000
330,000	9,200	12,100	2,000	13,900	17,600
340,000	9,400	12,300	2,000	14,300	18,100
350,000	9,600	12,500	2,000	14,700	18,700
360,000	9,800	12,750	2,000	15,100	19,300
370,000	10,100	13,000	2,000	15,500	19,900
380,000	10,400	13,000	2,000	16,000	20,500
390,000	10,700	13,000	2,000	16,500	21,200
400,000	11,000	13,000	2,000	17,000	21,800
420,000	11,300	13,000	2,000	17,500	22,400
440,000	11,600	13,000	2,000	18,000	23,000
460,000	11,900	13,000	2,000	19,000	23,000
480,000	12,200	13,000	2,000	20,000	23,000
500,000	12,500	13,000	2,000	21,000	23,000
520,000	12,750	13,000	2,000	22,000	23,000
540,000	13,000	13,000	2,000	23,000	23,000
560,000	13,000	13,000	2,000	23,000	23,000
580,000	13,000	13,000	2,000	23,000	23,000
600,000	13,000	13,000	2,000	23,000	23,000
620,000	13,000	13,000	2,000	23,000	23,000
640,000	13,000	13,000	2,000	23,000	23,000
660,000	13,000	13,000	2,000	23,000	23,000

Annual Earned Income	Issue/Participation Limits*			Group/Individual Issue/Participation Limits 5AP - 2A	
	All Classes**			Maximum Individual Pay (4)	Maximum Employer Pay (5)
	Individual Pay (1)	Employer Pay (2)	Social Insurance Rider (3)		
680,000	13,000	13,000	2,000	23,000	23,000
700,000	13,000	13,000	2,000	23,000	23,000
720,000	13,000	13,000	2,000	23,000	23,000
740,000	13,000	13,000	2,000	23,000	23,000
760,000	13,000	13,000	2,000	23,000	23,000

\*These limits are based on gross annual earned income for federal tax purposes less business expenses, if any. Limits represent the maximum monthly indemnity, including any Social Insurance Substitute or short-term supplementary benefit in force or applied for.

\*\* For Classes 5AP through 3AP, and Medical Market Classes 4A and 3A, the amounts listed in columns 1 and 3 (or 2 and 3, if employer paid) can be combined into all base benefit or divided between base and the Social Insurance Rider. These amounts can never exceed the maximum Issue & Participation limits.

\*\* For Classes 3A, 2A, A, and B, the amounts listed in columns 1 and 3 (or 2 and 3, if employer paid) must never exceed those indicated in each column. These amounts can never exceed the maximum Issue and Participation limits.

**Business Owners may be eligible for an additional \$500 of monthly benefit above our stated Issue and Participation Limits (not to exceed overall maximum I&P limits) to cover the loss of company perks.**

**In combination, base benefit plus the Social Insurance Rider and the ADL Rider cannot exceed 100% of the insured's adjusted gross income. The ADL Rider maximum is \$8,000 and the minimum is \$200. The ratio of ADL to base can be up to 3 to 1 except in New Jersey where it is 1 to 1.**

## Group/Individual Combination Limits

### 5AP through 2A

The combo limits listed in columns 4 and 5 of the *Issue/Participation Limits* are applicable only when a client has in force group coverage. When using these limits, the amount of individual coverage can never exceed the limit in column 1 and 3 (or 2 and 3, if employer paid.)

**The following “discount” calculation approach is only applicable when the individual coverage is paid by the individual and the existing group coverage is 100% employer paid and integrated with Social Security benefits.**

**The discount does not apply to self-employed individuals in a Sole Proprietorship, Partnership, S Corporation, or most LLC business entities.**

**If the group coverage and the individual coverage are both employer paid, no “discount” calculation is permitted.** The calculation is made using the sum of the Social Insurance Rider column (3) and the Maximum Employer Pay column (5).

\*Example:

(Annual Earned Income = \$60,000)

LTD in force . . . . . \$ 1,500

20% Discount† . . . . . x .8

Adjusted LTD

Benefit . . . . . \$ 1,200

Individual Pay

Combo Limit . . . . . 3,400

(Add columns 3 & 4)

Subtract LTD . . . . . – 1,200

Monthly Benefit

Available . . . . . \$ 2,200

\* All figures based on Issue & Participation Limits Table.

† Use 25% discount for incomes of \$200,000 or greater where LTD booklet is available for underwriting review.

## **Employer Pay Credit**

### *Noncancellable Policy – All Classes*

The employer pay credit refers to an additional amount of monthly benefit available to certain applicants. The credit is allowed in those circumstances where an employer is paying the premiums for an individually owned disability income policy. Because the employer is paying the premium, benefits received in the event of disability are taxable as ordinary income to the insured and this taxation results in a decrease in benefit.

## Employer Pay Guidelines

*See column 2 or 5 of the Issue/Participation Limits.*

Disability income benefits are **taxable** to the insured when received.

Employer Pay Credit is available in the following situations to:

- ◆ Owners of “C” Corporations
- ◆ “S” Corporation shareholders with no more than a 2% ownership interest
- ◆ Nonowner employees
- ◆ Those individuals using pre-tax dollars to pay their disability income premiums.

Individual Pay limits apply in all other situations. Among those are: “S” Corporation shareholders with greater than a 2% ownership interest or owners whose businesses are set up as a sole proprietorship or partnership, along with individuals paying for their disability income premium using after-tax dollars, limited liability partnerships and most limited liability corporations.

## **Disability Overhead Expense (DOE) Underwriting**

Overhead expense coverage is intended for the professional or business owner who wants to keep the office open during a period of disability. An insurable need must exist. It must be demonstrated that the loss of the applicant, due to disability, will result in a loss of income to the business entity without any decrease in the business entity’s expenses. Certain businesses are not eligible for overhead expense, for example, retail operations, manufacturing operations or some sales organizations.

### Working In or From Residence

People working in or from their homes are **not** eligible for the disability overhead expense plan.

## Overhead Expenses

These are the expenses that are usual and customary in the operation of an applicant's office or business. An item of expense must be accepted by the United States Internal Revenue Service (IRS) as a tax-deductible business expense; however, not all accepted business expenses would qualify as business overhead expenses.

Examples of some covered overhead items include:

- ◆ rent or the greater of scheduled depreciation for tax purposes, or
- ◆ scheduled mortgage payments
- ◆ utilities
- ◆ employee's wages
- ◆ leasing costs
- ◆ depreciation
- ◆ interest payments on business debts
- ◆ business insurance premiums
- ◆ laundry
- ◆ association dues
- ◆ subscriptions; and
- ◆ janitorial and maintenance fees.

If the applicant shares expenses with someone else in the operation of an office or business, only the applicant's portion of the expenses can be included.

Expenses that are not covered include:

- ◆ salaries of like professionals
- ◆ fees
- ◆ drawing accounts
- ◆ profits or other remunerations for the applicant
- ◆ salaries for any member of the applicant's family
- ◆ salaries for anyone sharing business with the applicant

- ◆ the cost of equipment
- ◆ most supplies or inventory
- ◆ travel or entertainment costs
- ◆ any expense for which the applicant was not liable prior to disability; or
- ◆ any non recurring expense.

**The number of owners and/or employees will impact the need for DOE.** If there are sufficient owners, then the loss of one owner could possibly be absorbed by the other owners, and the business would continue to operate and generate income to cover its expenses. The same is true if there are sufficient numbers of employees, or there is an employee who can perform the applicant's duties. There would be sufficient expertise to maintain operations which in turn would generate revenue to cover expenses.

### **DOE Financial Documentation**

- ◆ A profit and loss statement will be required when the amount applied for and in force is \$5,000 or more.
- ◆ A profit and loss statement plus last year's business tax return will be necessary when the amount is \$15,000 or more.
- ◆ For nonprofessional business owners, we will need a listing of all employees, their salaries and duties whenever the amount applied for is \$3,000 or more.

**The expense section of each application for Disability Overhead Expense must be completed, even if financial documentation is submitted.**

## Disability Overhead Expense Issue and Participation Limits

(Personal disability income policies do not affect these limits.)

### Maximum Issue and Participation Limits\*

<u>Class</u>	<u>Issue</u>	<u>Participation**</u>
5AP	\$30,000	\$30,000
4A	15,000	15,000
3AP	10,000	10,000
3A	10,000	10,000

### \* California/Florida limits

<u>Class</u>	<u>Issue</u>	<u>Participation**</u>
5AP	\$20,000	\$25,000
4A	10,000	15,000
3AP, 3A	10,000	10,000

\*\* To participate beyond \$20,000, we need two years of financial documentation.

**Limits:** The monthly benefits available are limited to 100% of eligible overhead expenses.

- ◆ The addition of the Salary Substitute Expense Rider is not affected by the maximum Issue and Participation Limit.

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