Policy Review

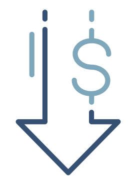
A 12 pack of soda at the supermarket is around $5. So a 6 pack should cost maybe $3, or $4 at the most right? You'll find that to be the case. Life insurance pricing doesn't work that way though. If you reduce a $1,000,000 guaranteed universal life in half, the premium could go up, or go to zero. We have seen both of those outcomes before. We have seen a policy run for less years because of paying early, or cost double going forward for paying 90 days late. As policies become more and more complex, unintended consequences occur inside them. These variations will not be so apparent on policy statements, so it is really more important than ever before to monitor policies and make adjustments. Slight adjustments or catching policies before they get too out of control can make a world of difference for the policy owner. Let's talk about some common issues that we see, and ways that we can resolve them together.

Cost of Insurance, expenses, and interest rates. These are the 3 main risks that have to be managed in an insurance policy. A properly designed policy can minimize these risks up front by having guarantees or being designed with an optimal death benefit to premium ratio. For as important as these 3 risks are, perhaps the biggest risk, and the one that a policy owner is most in control of, is often overlooked, and that is the funding of the policy. Often referred to as the 4th risk in an insurance contract, the simple idea of paying your premium, isn't so simple anymore. At least not in most contracts. This is not a huge risk in term contracts, because if you fail to make your payments, you'll know. The policy will just terminate, or you'll get grace notice and lapse notifications. Permanent contracts though, that is a different story. Early on, they will be as easy to manage as term policies, because with today's high minimum premium requirements, you have to make substantial contributions to permanent contracts. After the initial minimum premium period in contracts though, policy owners start to disregard the premiums due. Once adequate cash value is in the contracts, they miss payments, or have the policy cost on automatic premium loans. Worse yet, they start to take loans or withdraws prior than originally scheduled. Policy distributions, if structured properly, can be tax efficient and may not have to be repaid during an insured's lifetime. If taken in conjunction with missed payments, and accrued interest, they can be catastrophic risking not only losing the insurance policy altogether but creating a large tax liability upon lapse.

IRS hasn't changed their position on taxation of life insurance. What you've put in, minus what you took out, if that number is positive, you don't owe taxes. If you pass away, you don't owe taxes. If that number is negative, and you've taken out more than you put in, you owe taxes if that contract surrenders or if you access that money improperly. Interest that is accrued to loans count as phantom interest, so a simple set of automatic premium loans and years of non-funding, can eventually be a gigantic 1099. Internal policy management techniques exist to minimize the potential for this tax problem, and if a client is insurable, there may be value of a new policy, with better loan terms that can save the client from this outcome by way of a 1035 exchange with the loan.

Even the most guaranteed of contracts have variables to consider. Whole Life policies have dividends that vary from year to year. Guaranteed Universal Life has the timing of payment sensitivity, and the potential to trip and lose a no lapse rider. Tripping the guarantees of a universal life contract substantially changes the contract. This is why maintenance is required. Slight adjustments in the short term can get a policy back on track. If there is overperformance or positive anomalies, the policy owner can have savings. There was a great example of this recently in an older guaranteed universal life contract that was reviewed. The policy had a death benefit of $1,000,000 and was fully paid up, no further premiums running guaranteed for life. The policy had $150,000 of cash value and the policy owner was able to take a $100,000 withdraw from the contract, and the remaining $900,000 of coverage continued guaranteed for life. Point being, even the best policies, ones that should never be replaced, and are in great standing, can be reviewed for optimization.

External market conditions, most notably treasury interest rates and volatility in the equity markets can have very significant impacts on life insurance contracts as well. Interest rates effect a policy in direct and indirect ways. Crediting rates inside universal life contracts and dividend rates in whole life policies, are directly impacted by interest rate volatility. Interest rates also impact the reserves from insurance companies, as treasuries are a big part of the reserving of life insurance carriers. The low interest rate environment of the 2010s put strain on company's profitability which led to not only elimination of policies offered, but actually some movement of companies leaving the market entirely. While some carriers left the individual life insurance space, but stayed in same company structure, others sold to private equity. Not all policyowners are effected equally from insurance companies changing ownership, but it's a real concern, and something that is worth reviewing and discussing with clients. Carrier financial ratings are impacted, and generally speaking, when a company no longer offers new coverage, they tend to make harsher adjustments to the inforce portfolio, since there's no fear of pushback from the market affecting new sales. Some of my favorite companies, with great products are no longer in the business now. These contracts especially need to be reviewed and should be aggressively managed to ensure that any unexpected changes to the contracts are accounted for.



Equity markets also have direct and indirect impacts on life insurance policies. The most obvious impact is to variable universal life contracts whose separate accounts are comprised primarily of equity or bond funds. Index universal life, promoted as a lower risk policy than variable universal life, can in fact be that, but due to some of the aggressive assumptions allowed in illustrations, and the changes in the way the policies credit interest, they may be as risk, or even riskier than variable universal life in some scenarios. The industry has done a good job in the past 5 years regulating the illustrative assumptions and eliminating a lot of the really wild scenarios, but even a routine index universal life contract may be at risk if not monitored, even one that up until this point has performed well. Like all universal life contracts the internal expenses of a contract get higher as an insured gets older. In scenarios where a policy has outperformed expectations early, the contract has seen excess interest credited in years where insurance costs were not overly impactful. As IUL caps become lower though, when an inforce illustration is run today, using the new regulations that restrict the assumptions of multipliers, and also require a lower interest crediting rate going forward, due to both lower cap rates and different ways in which the maximum illustrative rate can be shown, the performance of the contracts going forward can be dramatically different. Like the other risks and review tactics discussed, it's not all bad either. Part of the most recent regulatory changes, some of which were retroactive in nature, allow for significantly higher funding. The additional funding allows for both corrective additional contributions to be made for policies that are underperforming or excess funding for well-performing contracts to be even better. We won't know until we look and stress test it.

We've discussed a lot of the issues that can arise in the life span of a policy, but there are policies that require little to no maintenance and have performed great, with no changes to payments or management required. A single pay 1035 into a guaranteed universal life contract, or a multi-year guarantee annuity crediting well over the current interest rates offered, could be two examples. Maybe it's a term policy that has many years remaining and the insured has had health changes. Even contracts like these do have at least one reason to review with clients, and it's a review type that I've seen open up so many new sales opportunities and helped a lot of clients avert a lot of potential problems, and that is doing ownership, beneficiary, and policy assignment reviews. Things changes in people's lives, they have more children, they leave their jobs, they draft a buy/sell agreement. As simple as it sounds, doing beneficiary checks with clients opens up insurance discussions, and while insurance companies do not pay commissions for managing policy changes like this, the act of staying on top of these non-revenue generating items for your clients is appreciated, and keeps life insurance top of mind, which may stoke interest in obtaining more coverage. It's an age-old strategy for creating same store sales that is just not practiced enough.

The average life insurance consumer buys 7 policies from 6 insurance agents. It's a transactional business. That transactional nature is on all levels of the industry as well. Insurance carriers will terminate contracts for lack of production sometimes within as little as 18 months of not submitting more business. At Life Brokerage we take this area very seriously. Internally in our agency and with the help of Kathy Esposito (If you haven't met her, reach out, **Kathy@lifebrokeragellc.com**, we have put a lot of systems in place to monitor policies proactively. If we catch things, we notify our advisors, and sometimes that generates new opportunities to improve coverage and to make a new sale. Technology has also advanced a lot, and there are third party vendors, some of which we have invested in and have available to our clients that can automate the policy service process.

Every discussion with your clients can create opportunity. Policy service has a 100% closing rate, if the goal is to help the client. Educate them on what they have, make modifications for their current lifestyle, lower their costs, get more income or benefits from their insurance policy. There are a lot of reasons to do this discussed above, and a number of resources available to you. The policies will not monitor themselves, and while some insurance companies are better than others with notifying clients and helping them through this process, the industry has a long way to go in that area, so the advisors that we see leading with this and making it a priority in their practice, happen to be the ones that end up doing the most new business and that is a philosophy that we take very seriously at Life Brokerage, and look forward to helping you implement some of the best practices we've used in your organization.