

Life Insurance Policy Reviews Managing a Precious Asset

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Life insurance policies provide tremendous value for clients – peace of mind, replacement of lost income, protection for a family-owned business, etc. In many cases, the policy may have substantial value in the form of death benefit and cash value. However, most life insurance policies are not properly serviced resulting in unmanaged expectations, unhappy clients and damaged relationships. Life insurance portfolios must be actively managed like any other investment portfolio to ensure expectations and planning objectives are met.

Why review a life insurance policy?

Many people dismiss the importance of a life insurance policy review for various reasons:

- The time horizon is typically 30+ years so it is a long way off and clients tend to focus on the short-term
- Clients may believe their policy is “guaranteed” so they have no risk
- Carriers routinely report policy values and provide invoices which may give a false sense of comfort – the reporting provides no indication of policy performance

Life insurance policies are complex financial products modeled based on assumptions about interest rates, mortality expectations and scheduled premium payments. If any of these assumptions change over time, the product could be in jeopardy of not meeting the client’s long-term goals.

Changes in Interest Rates

The low interest rate environment has resulted in significant reductions in life insurance interest rates – in some cases, reductions of more than 300 basis points. Compounded over decades, the interest rate reduction may result in policies that are significantly underfunded.

Changes in Product Expenses

The carrier may increase internal expenses resulting in less cash accumulation and an underfunded policy. Carriers have no obligation to notify clients that they are changing the internal expenses and the only way to identify the change is through a policy review.

Scheduled Premiums

Life insurance policies are funded based on a scheduled premium and illustrated values assume the premiums are applied on a specific day. Over time, a client may change the amount of the premium or the number of premium

payments. Even paying premiums on a different day can have an adverse impact on the long-term performance of the policy.

A regular review of the policy including an updated analysis of policy performance will help address changes in the assumptions used to model the original policy. If changes go unchecked, the result could be catastrophic – possibly resulting in poor policy performance and lapsing policies.

What problems do life insurance reviews identify?

A policy review will typically identify the following potential problems:

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| Lapsing Policies | Changes in interest rates or carrier expenses may result in lapsing policies (the coverage terminates at some point in the future). |
| Increased Premiums | The originally scheduled premiums may be insufficient to meet the client objectives. |
| Limited Policy Duration | Many policies issued prior to January 1, 2010 have maturity dates of age 100 or earlier. These policies often do not provide lifetime coverage and there could be adverse tax consequences if the insured lives beyond the maturity date. |
| Wrong Product Type | There are several product alternatives available in the current market and they all have features that may or may not be the right fit for the client. |

How do you initiate a policy review?

A properly prepared life insurance review includes a review of the features of the current policy, a summary of the performance of the policy, additional scenarios at different assumptions and potential alternatives for the client to consider given their goals. The typical steps involved in this process are:

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| Request Information from the Carrier | Every carrier is different and may have different rules regarding their ability to provide policy information. In any case, it is important to know which questions to ask and how to obtain the information from the carrier. |
| Confirm Information Accuracy | Regardless of how specific the request for information is, the carrier may provide information based on assumptions other than what was requested. In these cases, it is important to understand the specifics of the policy to determine if the carrier has accurately modeled the policy. |

Model Alternatives

Even if the in-force policy appears to be performing in line with the client's needs, alternatives should be considered to ensure the client has the appropriate product for their goals.

Prepare a Summary of the Analysis

The summary should provide an overview of the assumptions used as well as the results of the analysis. The summary should clearly identify any potential concerns and provide alternatives to address these concerns.

The primary purpose of the insurance review is to educate the policy owner so they have a better understanding of the product they purchased and alternatives available to them. Because of the complexities involved in analyzing life insurance policies, an experienced life insurance professional should be used to prepare the analysis and communicate the results.

To initiate a policy review, the insurance professional will need some basic information (at least the policy number and policy owner) and will typically ask for a signed authorization that will provide the carrier with instructions to provide any information needed to analyze the policy.

BCG Companies partners with Keiter to provide life insurance planning services to Keiter clients. As part of this relationship, BCG offers policy reviews with no fee. For additional information about the BCG/Keiter relationship or to discuss a policy review, please contact your Keiter representative or call Eric Hieber or Jeri Turley at BCG Companies at 804.648.0005.