Bill Boersma – Blog

Another Kind of Life Insurance Disaster?

While I have a file full of topics to write on, I tend to pay attention to issues I have been seeing or cases I've been engaged in recently.

The importance of insurance consulting continues to be meaningful to some and a mystery to others, although many people are now starting to understand that life insurance policies are not panning out as expected or illustrated at the time of sale. That's not to say that all policies are disasters or all policies are substantively underperforming relative to expectations, but it is hard for most consumers and advisors to understand it could be as bad as it really is.

Over the years I've been telling policy owners and advisors that two of the ways we bring value are by identifying rescue strategies for policies that are tanking and by improving the performance of policies which are doing okay. The latter is often difficult for some to get their arms around but I want to relate to the market that consulting doesn't always have to be an involved, complicated affair. Sometimes a ridiculously simply review can be quite meaningful.

As I've repeated ad nauseam, my main message to the market is about the importance of managing life insurance. This is often lost on people, especially business owners, when the insurance holdings are primarily term.

What I have clearly discovered over time with business owners is that they manage many aspects of the company very well. They either take it upon themselves or appoint appropriate people to keep an eye on various aspects of overhead, they are continually shopping P& C coverage and health insurance coverage, they negotiate lease terms, line of credit terms, etc. But when it comes to corporate owned life insurance, cash value policies or term policies, nary a moment is spent reviewing existing coverage, let alone managing it to optimize resources.

Three engagements I've been a part of in recent weeks help illustrate what I mean when I state that simple reviews may have significantly meaningful results;

Two brothers own a company and each has $500,000 of key man term coverage. The policies are annually renewable term contracts which have been in force for over a decade and premiums for one policy is $3,500 this year. The premium had been a fraction of that in years past and every year it is increasing and over the next decade it will increase to $8,500 a year. They have been blindly paying the premium but when I let them know a ten year level term policy was available for $1,600 a year and a twenty year level policy at $3,000 a year, they were quite disappointed that no one had ever let them know.

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In another instance a local business owner has a $1,000,000 10 year level term policy which was purchased in 1994. His agent has passed away and no one has been advising him. Currently he is paying $24,000 a year and it is increasing annually. To the extent he still needs the coverage; the market offers a 10 year level policy for $12,000 a year.

Most recently I was referred to a business owner by his accountant and within the corporate owned insurance portfolio was included a $200,000 term policy from 1991. His premium due this month is $25,000 and it has been and will continue to go up annually. The bookkeeper readily admitted that she simply cut a check every time the invoice arrived assuming that someone who was involved with the initial decisions was on top of it. If they still want coverage on the owner, the market cost at standard rates is less than $5,000 per year fixed for the next decade.

While many advisors may believe that these are simply unaware business owners who are not minding the store and their own clients are different, the fact of the matter is that these three examples are clichés. For whatever reason, life insurance is almost never managed like other aspects of business expenses and assets.

I am often asked what kind of value my clients see from my work or what kind of return they get on the fees they are paying me. It would be an exception for my work not to return to my client a multiple of the fees paid in the first year, let alone that the savings will be repeated annually and often salvage the actual death benefit.

So the moral of the stories in this entry is that even the most superficial review of term contracts can have a hugely meaningful impact on cash flow; who isn't looking for that today? In fact, it is not uncommon for the advisors annual fees to be entirely covered by the savings I bring to the table. Talk about value! As the advisor community understands this better and better, they will see the value in being proactive in bringing these issues to their clients' attention.

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