Bill Boersma - Blog

In Your Clients' Best Interest

What is the best thing you can do for your clients regarding their life insurance? If you are an attorney, accountant, trust officer or other professional advisor, strongly urge them to have an independent audit of their life insurance policies. If you are the agent who wrote the business, even if you feel you have a good understanding of what is happening in your book of business, an in depth internal review is invaluable for your clients' well being. The process will undoubtedly will be in your best interest as well.

Here is a recent example. Working with a financial advisor in town who recently bought an older advisor's practice, we realized that as a part of this practice there were more than 400 life insurance policies in force. It turns out that the original agent wrote all of this business with the same company; a quality, well known carrier.

With the advisor's primary focus on investments, I proposed to the advisor that he let me and my staff independently audit this portfolio of policies as there was no reasonable likelihood he was going to do this himself. With proper authorization my staff began to systematically go through his database of clients.

> What we discovered was nothing short of amazing but not much different than we've been preaching to the market for many years.

At this point we haven't even made it through the first hundred policies, but what do you think the results are to date? I can count on one hand the number of policies which will pay a death benefit if the insured makes no changes and lives to actuarial life expectancy!

That's right; most every policy will end up falling off the books after years, even decades, of paying premiums. Due to a 25 year decline in the interest rate markets supporting these policies, a significant influx of cash is needed otherwise all of the cash value and death benefit will evaporate into nothingness and the physical policies will literally be thrown into the garbage.
Some of the policies are projected to last to the insured's seventies or eighties. We've found two so far which project to last to policy maturity, but many of them will be gone within the next five to ten years without a substantive increase in premiums. Some of the policies are doing so badly that they have lapsed before we could even get information on them or talk to the policy owners. Others will be gone by Christmas.

Remember, these are cash value life insurance policies which most of the policy owners fully expected to be in force for life and to pay a death benefit as long as they paid their premiums as explained to them at the point of sale. In fact, most of them believe the policies were contractually guaranteed to do so.

What do they do? Since life insurance is a "dollars in dollars out" financial transaction like every other financial transaction we all deal with, it needs to be managed the same way. This means recalculating the deposit needed to hit targets understanding that we are not and will not be getting the returns we were expecting. For each of these clients it is simply a matter of determining how much more to pay every year and then determining if this still fits the goals and resources of the policy owners.

Here is a typical example. The client is paying $3,000 a year for a $250,000 policy and it is falling apart and will be gone at age 72. The insured is now age 65 and certainly expects to be around longer than that. A re-calculation shows that at current crediting rates and charges, he should be paying $8,000 a year. He's quite unhappy to say the least. The next step is to put this into perspective and we do so by looking at some market benchmarks. If he wants the insurance coverage and a new policy in the market costs $10,000 a year, then even though he is perturbed, as long as he has the cash flow he can see that the $8,000 is a "good deal".

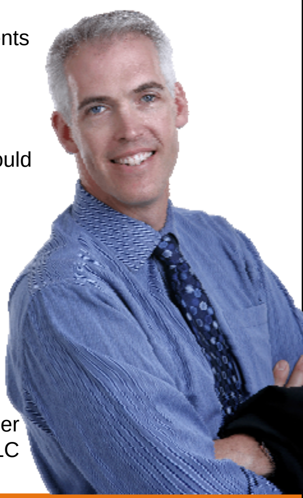
But, if he is in decent health and proves to be insurable and the market offers him a new policy for $5,000, he could take advantage of the new market offering and do a 1035 exchange of cash value from his foundering policy to a new policy.

Either way he's not going to be happy but at least he understands, he knows his alternatives and he can make informed decisions.

As a result of this analysis, I already know what will happen; many will simply bail on the policies and run with the remaining cash value, some will bury their head in the sand and hope for the best, some will pay more to make their policies last and some will qualify for more attractive market alternatives and take advantage of them. Regardless, they will all know what is happening and understand their policies more clearly as a result and they can make decisions accordingly.

I'm trying to work hard not to sound like I am criticizing the industry. I am simply trying to state as straight forward and empirically as possible what is happening out there and I am asking you to trust me, please. I can't make this stuff up and it is indicative of what is happening market wide. Sure, this book of business may be performing worse than others. Also, it is largely universal life policies and I'll be the first to say that whole life policies aren't doing this badly but whole life policies are starting to fail at an alarming rate as well, although I still hear traditionalists in the market state point blank that it isn't so. Trust me, it is. Please don't let your clients find out the hard way.

Ask yourself and your client this one question. What is the worst that could happen as a result of an objective, fee based, third party analysis?



Bill Boersma, Founder
Opportunity Concepts, LLC

OBJECTIVE INFORMATION DRIVES INFORMED DECISIONS

OPPORTUNITY CONCEPTS

MCKAY TOWER
146 MONROE CENTER, SUITE 710
GRAND RAPIDS, MI 49503
(616) 456-1000
OPPORTUNITYCONCEPTS.COM