Bill Boersma - Blog

Life Insurance Pricing...Where is it going?

It's been widely understood that life insurance rates have been coming down since, well, forever. There was a point not too long ago where if an insured individual with a term insurance policy was willing to take an insurance physical and complete new paperwork every year, he could reduce his premium annually even though he was a year older and the new policy would last a year longer. In fact it was common for policy owners and agents who were on top of things to do this every once in a while and it was clearly in the best interest of everyone involved. On the flip side, those who didn't pay attention or have agents or advisors who were not paying attention for them, often discovered the hard way that they were grossly overpaying for their coverage.

> This was not really any different than having a 10% mortgage on your home and not realizing that everyone else on the street had refinanced for 6% and you were needlessly overpaying.

Why the reductions? Without getting technical it includes the fact that mortality pricing has consistently come down through the ages (we're living longer), the reinsurance industry, whose pricing backs retail numbers, has become much more aggressive, the consolidation and aggregation of the carriers in the market has created efficiencies, the internet and the life insurance multi-company brokerage industry has brought a more free flow of information to consumers and their agents and the commoditization of the industry has driven a spreadsheet market where low prices win business.

Can this go on forever? Unfortunately no. As with all things there has to be a bottom and I'm here to tell you we're there.

In fact, it's probably already passed for most carriers and products but today is still pretty good. It had to stop some time because it has gotten to a point where term insurance on young healthy people was so cheap that agents couldn't even process paperwork and make any money on it.

It used to be that when we got a heads up on product re-pricing we would put off a case in order to take advantage of lower premiums. Today when we get notice of re-pricing we hurry to push a case through to take advantage of the low rates which will inevitably slip away. We don't see prices jump dramatically in most instances but it is clearly on an upward trend across the board and we don't want our relationships and their clients looking back and saying "If we only knew then…".

These increases are not limited to term insurance either. Permanent product pricing is being affected by changes in the reinsurance markets, carrier investment performance, industry regulatory changes, etc. In short, market changes are having an effect across the board and we're even seeing some products being pulled from carrier offerings.

This isn't all doom and gloom though. Even with an up tick in pricing, mortality charges and overhead expenses are so much lower than in the past, opportunities abound for those willing to pay attention. Policy audits are an excellent way to evaluate existing policies and market alternatives and are particularly important given the multi decade slide in insurance crediting rates which has caused most in-force policies to significantly under perform the projections on which they were sold. Sometimes an independent audit shows that what the client has is clearly something to be retained and sometimes an audit shows that even though an insured is much older than when the original policy was procured, it is clearly in their best interest to make a change and take advantage of market and product evolutions.

The bottom line is management. Policy owners and their advisors need to manage life insurance holdings as they would manage any other financial transaction in their lives, personal or business. Investments, mortgages, health insurance, P&C coverage, bank lines, etc. And if there is a lack of knowledge to do so Internally, and there usually is, expert resources need to be brought to bear.

Please, pay attention.

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