

Bill Boersma – Blog



Observations on Fee-Based Life Insurance Consulting

As the founder and principal of Opportunity Concepts, LLC, a life insurance consulting and management practice, my days are filled working with policy owners and their advisors regarding many aspects of life insurance, from simple front-end, second opinions to in-depth, actuarially defensible analysis of portfolios of policies. This is the story of a “typical” engagement.

Clients and advisors seek me out for my fee-based approach to life insurance consulting. While there are great life insurance professionals who do a good job and bring tremendous value on a commission basis, some policy owners and advisors in the market have had experiences which leave them cynical. One answer is to pay a consultant for analysis and advice.

Not long ago I was brought into a situation by a respected estate planning attorney who was acting as the trustee for his business owner client. He told me that after years of hearing me preach the importance of policy analysis and management, he realized that as trustee he had a fiduciary duty to fulfill and he couldn't lean solely on the work and advice of the agents involved, regardless of how well intended they were and how much he trusted them.

As always, we first had to introduce the fee-based concept to the client. The idea of paying for something which has historically been “free” sometimes takes a little getting used to. A little reflection produces the realization that this practice would be normal in many other consultations and the magnitude of the investment into the insurance portfolio at hand warrants such an expenditure.

The client's existing portfolio consisted of roughly twenty policies from a handful of carriers sold by as many agents over the years. After spending time with the stakeholders to understand the nature and the goals of the planning, we reviewed the performance of the existing policies relative to earlier projections and relative to each other and we put this into perspective by exploring market alternatives. Diversification by carrier and by policy type was deemed important with the ultimate goal to maximize death benefit for estate planning purposes with cash value accumulation a secondary consideration.

At the end of the day, a relatively simplistic

analysis determined that despite a multi-year drop in crediting rates across the board which resulted in more out of pocket premiums than originally anticipated, most of the policies were sound. A few of the policies would need some sort of remediation strategy in order to have any faith they would persist until policy maturity or even actuarial life expectancy and some of the policies simply didn't fit the estate plan moving forward.

It became apparent that for this client in this situation, maintaining each of the existing contracts was not optimizing resources. Alternate policies available in the market offered greater death benefits both today and beyond life expectancy, granted more assurance that the death benefit would be there when needed and guaranteed that there would be no additional outlay of cash.

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Given these benefits which aligned with stated client goals, a decision was made to replace some of the existing policies with new contracts to significantly leverage existing cash values for greater death benefit. Ultimately, about half of the portfolio was consolidated and rolled into new contracts and the new portfolio would consist of some single life coverage on each spouse, some survivor life insurance, some whole life, some traditional universal life, some guaranteed universal life and even some term. Given uncertain estate tax law and that different types of policies performed better at different durations, a diversified portfolio of products and carriers provided peace of mind while accomplishing objectives.

During this process the attorney/trustee met with three existing agents to explain the situation, make some requests and to solicit their opinion and advice. All three agents were agents who worked predominately for a given insurance company and they had each sold only their company to this client in the past. Two of the

agents were cooperative and willing to bring alternatives to the table.

Because of the meaningfully greater cumulative death benefit in the trust as a result of the restructuring, a decision was made to terminate one of the newer existing policies which required ongoing premiums for many more years (policy of the third agent). This policy was one of the few policies in the portfolio requiring ongoing premiums and though it was a sound policy from a fine insurance carrier, it simply was not competitive in this situation under the given parameters.

Now we come to the next normal part of my process; the part where an agent holds me responsible for the decisions of the client, advisors and other agents. Whether a change is obvious and inevitable or it is a result of an agent shooting himself in the foot by not cooperating or by neglecting management and service responsibilities or even recommending inappropriate transactions, ultimately it seems to be my fault. In addition, this thought is often loudly proclaimed to the market.

A number of months later, after meeting with this agent, it was confirmed he felt I had done something wrong and that I had a reputation in the community as a change agent or a replacement artist or something to this effect. This is something on which I want to focus; that an agent who is not a part of the discussion and decisions is upset with the results and accuses me of inappropriate behavior.

I find it amusing that the appropriateness of a replacement is amazingly dependent on which side of a transaction one is on. I have a feeling that any agent recommending a change would consider it a good old fashioned example of bringing value to the client while an agent on the losing end is sure the change is not in the client's best interest. It is obvious that most agents in the market try to convince prospects that his or her product offerings, pricing, service and/or planning strategies are better than whatever the client is currently experiencing. Without replacements, most agents would not be in business. Is this different than most any other industry?

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A part of what I try to accomplish in my work is to help the consuming public and the advisor community understand how and why the life insurance market works as it does. Everyone has prejudices and I would be fooling myself and no one else if I said that I didn't. But being independent and fee-based brings a certain amount of objectivity. It is perfectly fine for agents who are housed by and work primarily for a given insurance carrier to predominately sell their proprietary products. This is no different than a Ford sales person selling Fords. But I find it interesting how they can consistently convince the market, and themselves, that their products are consistently the best and are the most appropriate products for the given client scenario. Too often an agent who primarily works for a carrier which specializes in variable life convinces the world that variable life is the best product and sells predominately variable life. An agent who works for a company which specializes in whole life does the same. An agent who has a marketing strategy built around buying term and investing the difference has a way of making anyone who is considering a cash value policy feel silly for even considering it. Marketing material from each type of company "proves" this.

Let's talk about change. Things change. Personal situations change. Products change. Financial markets change. Our minds change. Change is a primary message in many political campaigns. A new CEO coming into a struggling corporation does so on the promise of change. When someone else is eating your lunch, though, change isn't so great. Neither the car nor the coffee maker I bought twenty years ago bears much resemblance to the one I would buy today. But most products are subject to quantitative and qualitative analysis.

Is change always the best? Of course not! We all have something at home which we hope never breaks or wears out because we know "they just don't make them like they used to". But we all have things we replace regularly, even if the old one is functional. It is clearly possible that the new one is better quality, offers more attractive features or may be better priced.

Why would life insurance be any different? Some seem to think that any policy procured at any point in time will be the best thing going forever, regardless of alternatives available. Others think

that most every old policy should be replaced with newer modern products. Both mentalities can be very dangerous and harmful to clients.

Performance and purpose are all important. How is the existing policy performing relative to original projections and relative to market alternatives? And is the reason you originally bought it still valid or has your situation changed? Interestingly, as a result of my Second Opinion work, I just about equally close down inappropriate replacements as I support proposed changes. But make no mistake... we do advocate the replacement of a lot of life insurance. And clients and advisors thank us for it.

The problem as I see it is that many of these decisions are made with little or no meaningful support. They are not made based on empirical data with all options brought to the table. These decisions are too often built on emotion and consumers are amazingly willing to engage in significant insurance transactions on very little information relative to other financial and business decisions where they would mandate much more analysis and proof.

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The changes sometime required in life insurance portfolios aren't much different than in many other aspects of life. Maybe I need to trade in my sports car for a minivan or SUV when I have a growing family. You may move your offices based on the size of your workforce or the prevailing rent. Some people like back country camping and another's idea of roughing it is staying at the Hyatt instead of the Ritz.

It is also important to remember "better" is often subjective. It is not uncommon to see a client considering a change being reminded of a given benefit of an existing policy (which may be absolutely true) when goals at hand are entirely different. I can be shown all day long that a Prius has good gas mileage and will save the earth, but if I need to haul ten yards of topsoil or a 25 foot boat, it doesn't really matter. Of course there are seasoned policies which can not be improved

upon, relative to performance or purpose, and should not be replaced. However, it is not always easy to get objective information to make informed decisions.

It is understandable that consumers and advisors are often cynical when it comes to the driving motives of recommendations which include replacements; assuming new commissions are a central tenant of the advice. History has taught us that the cynicism is well deserved at times but it is ironic that my experience has taught me to be even more concerned with those who do not regularly evaluate market alternatives and periodically recommend changes when appropriate. The market has evolved so dramatically that there are many scenarios where, even if the plans have not changed, the product certainly should. There was a time when a consumer could replace some types of insurance every year or two for less money and a better benefit if he or she was willing to go through the process. Is this churning? Absolutely not. It's bringing value. In fact, NOT doing it could be "wrong". As long as the result benefits the client, does it even matter if the driving reason for picking up the phone is for the sake of compensation?

I am not naive to the fact that the "system" drives agents to behave in particular ways but most consumers are. In my opinion, the compensation system is behind some of the problems in the industry and that could mean incentives for placing new business or incentives for retaining existing business, either which may be right or wrong for a given client in a given situation. The point is, the system is not set up for the consumer. It is clearly set up for the benefit of the insurance carriers and the agents are sometimes pawns in the game. Understanding everything that plays into the process is important in order to make the best decisions.

The agent market seems to be divided regarding its opinion of me and my work. One side thinks what I do is revolutionary and they work with me to bring it to their clients. The other side thinks I am wrong and disingenuous and is going to fight me at every turn to protect the status quo. My attitude? It would be surprising if it was any other way and if I'm not periodically upsetting someone, I'm probably not doing the job I am hired to do.

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