Policy Reviews of Your Clients' Life Insurance

Why you should make it part of your standard estate planning process

This article explores many of the common misconceptions about life insurance and introduces a way for you to add significant value for your clients by incorporating objective policy reviews of their life insurance into your planning process.

Although life insurance, especially trust owned life insurance (TOLI), is a common planning vehicle for high net worth individuals and families, relatively few life insurance policies ever meet their initial projections. Industry studies reveal that institutional TOLI portfolios rarely receive the required vigilant fiduciary oversight routinely associated with other assets held in trust, such as equities, real estate, etc.

Seven Common Client Misconceptions - and Facts - about Life Insurance

Misconception #1: Unlike other assets, life insurance policies do not need management and regular review to avoid risk and optimize performance.
Fact: Policy performance can change dramatically over time. Without regular review by an insurance expert, policies - especially older ones - can pose very significant risk or not achieve their original goals.

Misconception #2: If the client pays premiums according to the schedule in the original insurance illustration, the policy will pay at death.
Fact: Even with regular payment of premiums projected from the original policy illustration, policies can fail if not monitored properly.

Misconception #3: If the policy was in jeopardy, the carrier would notify the client in advance.
Fact: Carriers will not necessarily provide advance notice of policy problems to trustee owners of TOLI policies.

Misconception #4: If one carrier has turned down the client for insurance, it is not possible to get adequate coverage from another carrier.
Fact: The competitive nature of the insurance industry means that it is often possible to secure appropriate coverage from a highly rated carrier even if another carrier has already rejected the client.

Misconception #5: Premiums will remain level for the life of the policy regardless of economic conditions or interest rates.
Fact: Premiums are always a reflection of the insurance carrier's cost of providing coverage, current interest rates, and other economic conditions. Any of these changing factors can cause the premium rates to change.

Misconception #6: Policies purchased many years ago are cheaper than current policies because the insured is older.
Fact: Improved mortality rates as well as better underwriting and policy features created by industry competition often produce less expensive coverage on new policies (or increased coverage for the same premium).

Misconception #7: If the client no longer needs the insurance coverage provided by a policy, the only option is to surrender it to the carrier for relatively little value.
Fact: A variety of alternatives, including improved life settlement opportunities, make it possible to gain substantially greater value than that provided by cash surrender to the carrier.

What is a Life Insurance Review?

A policy review is an objective review of the policies owned by a trust to ensure that those policies perform as the client intended. A comprehensive review also examines options for reducing premiums or selling policies that the client may no longer need because of changed circumstances, increased exemptions, etc.

Why should advisors tell their clients about life insurance policy review?
Recommending that your clients request a policy review will give immediate value during your interview. Few clients get excited about spending time or money on estate planning. By incorporating a Life Insurance Policy Review, the estate planning advisor can now create opportunities for immediate cash savings or profits for clients in addition to the standard planning and "projected estate tax savings at death."

Planning Tip: A policy review not only benefits the client, it also makes good business sense for the advisor. Such a review generates good will, gives the client a real appreciation of the advisor's concern for the client, and frequently generates more than enough savings to pay for the advisor's fees.

Why do the clients like the idea of a Life Insurance Policy Review?
Nobody likes paying premiums and very few clients understand life insurance. When their advisor suggests an objective "audit" of insurance policies to determine if they could reduce their premiums, clients are receptive. They appreciate that you are trying to help them and that you are not selling them anything.

Why are trust companies rushing to implement TOLI Reviews?
Since the late 1990’s banking journals have been publishing articles on the fiduciary issues related to Trust Owned Life Insurance as institutional trust companies develop "best practices" to manage and monitor trust owned policies. Over 40% of institutionally managed policies reviewed have serious deficiencies or problems. Few institutional trustees have the necessary level of insurance expertise or resources for proper policy review. Trust companies fear a lawsuit for improper management of their trust owned insurance policies.

Planning Tip: Your clients need their advisors' guidance to better understand both the risks and the improved opportunities from TOLI. The potential risk for your clients is substantial. Policy grantors and trustees need to recognize that life insurance is an asset that must be periodically reviewed by an independent expert to avoid risk and to optimize asset performance.

What are the results of reviewing Trust Owned Life Insurance policies?

Facts about TOLI policy reviews - there is a high likelihood that:

1. The TOLI policy represents a considerable percentage of the client's total estate.
2. The TOLI policy has not been reviewed or managed since purchase.
3. The TOLI policy is not performing as originally projected.
4. The client must pay additional (unexpected) premiums before death.
5. The client can get more insurance coverage for the same premium (despite being older).
6. The client can get the same insurance coverage for less premium outlay.
7. The trustee has never reviewed the policy.
8. The agent who sold the policy is no longer in touch with the client.
9. The insurance coverage is no longer appropriate for the client.
10. The policy provisions and guarantees are obsolete.
11. The client and the trustee do not really understand the impact of falling interest rates since policy inception.

Planning Tip: The average non-institutional trustee (for example, brother-in-law, friend, etc.) is even less informed than is an institutional trustee - and even less likely to audit policy performance. Therefore, the insurance risk is even greater with non-institutional trustees, but they may be less apt to act upon that risk. Additionally, your clients’ life insurance policies not held in trusts almost certainly face the same level of risk as trust owned policies.

What features are important in a reliable provider of TOLI review service?

- Insurance expertise
- Independence
- Objective advice
- Ability to offer cost-effective solutions to policy problems

Planning Tip: Look for a turnkey TOLI review service that can offer not only an expert policy review and a clear comparison of all policy solutions, but also a cost-effective, comprehensive program to implement those solutions. Additionally, the program should offer a system to manage client policies.

Conclusion

Offering your clients an objective policy review provides them with significant value added and peace of mind as to their wealth planning: it increases the likelihood that your planning will achieve its stated objectives. Consider working with an advisor who can perform an objective policy review to accomplish this much needed - and often overlooked - service.

For more information, contact:

Outsource Insurance Services, Inc.
269 S. Lorraine Blvd.
Los Angeles, CA 90004
(323) 908-7726
www.outsourceins.com

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