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### How to Use Life Insurance Portfolio Analysis to Bring Value to the Sale

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Picture this: An individual, a family, a couple, or a business owner buys a life insurance policy, all to serve different needs. These policies are frequently purchased from different insurance advisors over the course of a few years. And then, these policies, which actually represent a life insurance portfolio, sit in a desk drawer for years, generally forgotten.

For those people who purchased life insurance even 10 or 15 years ago, a great deal has changed. And these changes mean you have an opportunity to provide an extremely valuable service by analyzing life insurance portfolios for your current clients and for prospective clients.

What's changed?

Clearly, the industry has responded to one of the most important changes: We are living longer. Today's products are designed around the 2001 mortality tables, which reflect these longer life spans. Just compare the 2001 tables with the 1980 mortality tables of 30 years ago – and the 1958 mortality tables before that. Using more current tables means lower premium costs to the consumer, which is a win-win for all involved.

In addition, ongoing product development and enhancements have led to better performing products or products with highly desirable new features and benefits. For example, hybrid products currently combine life insurance with long term care protection. We are also seeing a shift toward stronger guarantees, which makes such products as traditional whole life and guaranteed no-lapse universal life more popular.

These guaranteed permanent products offer fairly positive internal rates of return (IRR), even in later ages in life. For example, some guaranteed survivorship life contracts with guaranteed premium and death benefit can show an IRR of 4 or 5 percent up to age 100, making it an attractive wealth transfer and estate planning tool that is not subject to federal income or estate tax costs.

#### **The value of life insurance portfolio analysis**

There are many clients out there who haven't looked at their life insurance portfolios for years. Often, they don't have an actively involved insurance professional who they trust and feel comfortable with. The key to the analysis is similar to a physician's creed: First, do no harm. As you review these portfolios, focus on these questions:

- Why did the client purchase the life insurance in the first place?
- Do those reasons for purchasing the policy exist today, or has the situation changed?
- How is the product performing to meet the client's objective?
- Can the portfolio be structured to add benefits at a lower cost or at the same cost?

A few examples should help you understand life insurance portfolio management.

#### Case study #1: Survivorship life insurance

Recently, I met with a couple, now in their early 60s, who purchased eight annual renewal term insurance contracts more than 15 years ago. With all the advancements in guarantees and simplicity of design in term insurance, it made sense to exchange these old contracts for term insurance that could provide an improved death benefit and lower premium payments while locking in a guaranteed level premium for a certain period of time. This also led to a discussion for the use of survivorship life insurance as part of their overall estate plan

#### Case study #2: Changing life circumstances

In another situation, I met with a woman whose husband passed away about a year ago. When he was alive, they bought a survivorship life policy. This contract was about 14 years old and required \$45,000 in annual premium for the \$7 million death benefit. When they purchased the contract, it was projected to be paid up in 10 years – but it did not perform as projected. The policy required another four years of premium payments, which the couple had already paid.

To learn more, I went back to the existing carrier for multiple in-force illustrations. This policy had accumulated about \$850,000 in cash value and was projected to require another 10 years of premium payments, or an additional \$450,000 in out-of-pocket expense. With a 15-year age difference between the wife and her deceased husband, on top of her good health, my recommendation was to use the \$850,000 of cash value to exchange the old policy for a single premium life policy, which would maintain the \$7 million in death benefit to age 121, not require any additional premium payments, and guarantee the policy for life. The wife was relieved of her concerns about the annual outflow of cash premium payments, and continued to have death benefit coverage for the remainder of her life, estate-tax-free, as it remained in her irrevocable trust for estate planning purposes.

#### Case study #3: Reducing premium while maintaining benefits

This next example relates to a relatively healthy couple in their early 70s with more than 10 different life policies. They were spending approximately \$400,000 each year in premiums, and because the husband recently retired as a chairman of a successful company, were concerned about their annual cash outlay. As I reviewed their life insurance portfolio and multiple in-force illustrations, I recommended keeping a majority of the policies as they were, with a few tweaks, and looked toward improving the coverage for four of the remaining contracts. I asked the couple to go through the underwriting process so that I could see their health results and make more specific recommendations. Using no-lapse universal life contracts with a guaranteed death benefit, I was able to reduce their annual premium payment outlay to just under \$100,000 per year while maintaining the total death benefit. This significantly reduced their cash flow outlay on their new retirement income budget.

#### Case study #4: Equity to policy

In a more complicated scenario, a husband and wife purchased four survivorship life policies a number of years ago. After their divorce, they were splitting the premium payments, but were looking for a way to cut costs without jeopardizing the insurance coverage. In this case, we decided to keep one traditional survivorship contract as it was. Two of the remaining three contracts were policies in danger of lapsing, which had been purchased through a split-dollar arrangement with an employer. The last policy was a survivorship variable life contract that took significant losses because of the market performance of the underlying investments, and would require significant additional premium payments to keep it viable.

As we worked through the restructuring, we decided to use the equity in the three remaining contracts to purchase a single premium survivorship policy on both the husband and wife, with a similar death benefit and no additional premium outlay. This would free the wife of her portion of the premium payments. This action also freed up the husband's portion of premium payments to allow him to purchase his own individual life insurance policies, resulting in a win-win for the couple.

This evaluation service can be valuable to clients, making a big difference for a range of people in varying circumstances and financial positions. By evaluating portfolios, you

expand your business by working with new people who no longer have insurance advisors they trust and work with regularly, as well as with clients of centers of influence and other advisors who do not have the insurance knowledge and expertise to personally help their clients with life insurance portfolio analysis. It is also a strong reminder to visit with your current clients annually to review their insurance coverage, their changing circumstances, and their needs. «

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#### Case study # 2

Don't quite get the math are you saying that \$850,000 is going to purchase \$7 million in death benefit?

