



Life Insurance Policy Reviews To Better Serve You and Your Clients

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Life insurance is a complex and highly flexible financial instrument. Too often, it is purchased for a very specific purpose and forgotten about. Just as you and your clients would regularly review your investment portfolios, you need to ensure that existing life insurance needs are objectively evaluated on a periodic basis.

Life insurance is usually acquired as part of an estate plan, a business buy-sell agreement, key man protection or simply to provide an income benefit for heirs. Chances are, many things have changed since the last time you or your clients purchased life insurance. Needs might have changed, current coverage could be insufficient or existing policies might have underperformed, leaving a significant risk for unexpected premiums or taxable events. The reality is that many existing life insurance policies have unseen problems. Identifying and solving those problems is a necessity for you and your clients.



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* The Unseen Problems

Because of recent developments in the life insurance market, you and your clients may be paying much more than necessary for insurance regardless of age. You may have the completely wrong type or amount of insurance, or your insurance may be in danger of lapsing at some point in the future. The reality is that many permanent "in-force" policies are not performing as well in cash value accumulation as was estimated when they were purchased. Cash value accumulation is important because it subsidizes the premiums in the later stages of a policy, when the mortality charges rise dramatically. Also, people are living longer than projected in the initial life expectancy tables, and may be without coverage when they need it most.

These problems may not become apparent until the insured's death, or receipt of a letter from the insurance company notifying the client of a reduction in coverage, or in the case of paying too much, may never be detected.

What types of policies have the most risk? While any policy can benefit from a review, older policies are probably most at risk and very likely could be performing less efficiently than newer issued policies with guarantees. For example, older universal and whole life policies could be performing drastically differently than initially illustrated due to internal performance and should be audited. Another prime example would be term policies that should be audited for price, since these policies have become a commodity with continually declining premiums.

* The Solution

Every year it is a good idea to take a step back to examine the big picture of your own and your clients' financial situations including your life insurance, which is one of the most valuable assets you own. The policy review process is actually a financial planning tool that will give you another way to make strategic use of your life insurance

policies. A policy review focuses on the current status of your and your clients' life insurance coverage relative to existing, identifiable needs.

A life insurance policy review examines how the policies have performed, and how they are projected to perform going forward. It also helps to determine whether changes in current life insurance policies or carriers could enhance your or your clients' future risk management planning. The policy review process is not a replacement program. Instead, it is part of an ongoing assessment of ever-changing needs. The unique process offers the following:

- * An excellent opportunity to ensure that current insurance coverage fits current needs based on a comprehensive review of the current situation;
- * A review of owner and beneficiary designations for accuracy;
- * An analysis of whether existing policies funding should be adjusted;
- * A solution seeking possible improvements regarding medical underwriting classes based on current health and recent medical underwriting reclassifications, ensuring proper policy expense management;
- * An analysis of the policy's performance compared to illustrations provided at the time of purchase, helping to clarify the provisions and benefits within the existing policy;
- * An assessment of the current insurance company's financial stability; and
- * A review of new, available products with riders that may enhance coverage with extended maturity options, better loan provisions, lower policy charges and less expensive mortality charges.

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★ What You Should Be Looking For

Look for the same type of things that might precipitate the purchase of additional coverage: a change in the need or financial situation of the policy owner. While a positive change might indicate a need for more coverage, a negative change could indicate a reduced need or ability to pay for coverage.

Change Indicator	More Insurance	Less Insurance
Estate Size	An increased need for estate liquidity due to higher estate taxes or growth of the estate could point toward the need for more coverage.	Reduced need for estate liquidity due to lower estate taxes or a decline in estate value could suggest that less coverage is appropriate.
Business	Starting, acquiring or expanding a business will often signify the need for additional coverage for buy-sell or key person purposes.	Retirement, selling or terminating a business could mean that business insurance policies or fringe benefit policies paid for by the business may no longer be needed or affordable.
Family	A change in family situation like marriage or children might indicate the need for more coverage.	Divorce or the death of a spouse or other beneficiary might be a sign that some existing coverage is no longer needed.
Assets	Acquiring a house, business or other major illiquid assets could produce a need for creditor protection insurance.	Sale of illiquid assets could reduce the need for policies purchased for estate liquidity or creditor protection.
Overall Finances	Improved finances from a new job, business growth or an inheritance could provide the means to afford more coverage as well as an increased need.	Declining finances like business or investment setbacks or the loss of a job could make some policies unneeded and unaffordable.
Policy Performance	Policies not performing as planned might signify that new, replacement coverage should be considered.	Policies not performing as planned might imply that they are no longer affordable or desirable.
Term Insurance	Term insurance reaching the end of its conversion period or level premium guarantee period signifies it's time to consider conversion or acquiring new coverage.	Term insurance reaching the end of the premium guarantee period may mean the policy has reached the end of its intended purpose, or that continuing or converting the coverage may no longer be affordable.

★ Call to Action

Unfortunately, the need for, and techniques of, managing your and your clients' life insurance policies are misunderstood by most financial professionals. The insurance audit is both a process and a tool which should be employed at regular intervals to ensure that your and your clients' needs are being met and that there is real value for insurance expenditures, as these products are constantly changing.

Life insurance should be viewed as an asset class now more than ever, due to a continued low interest rate environment coupled with policies that have older, more expensive mortality rates. You owe it to yourself to either confirm or redefine the appropriateness of coverage given ever changing needs, goals and objectives. Our policy review process generates a comprehensive report that provides educational material and accurate commentary regarding product and policy design, pricing and carrier information, as well as ongoing policy management. You may be able to increase coverage, add new features, and at the same time, reduce premiums. ■

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