



Q&A WITH INDUSTRY EXPERT KEITH MAURER, CLU

With over 40 years in the insurance business, we asked Low Load Insurance Services consultant Keith Maurer to provide our financial planners with answers to some of today's most vital questions.

Q. *How is life insurance planning impacted by the recent market volatility and the fact that most people's assets have diminished?*

A. We've found that the amount of insurance needed has increased (at least in the short run) and the length of time the insurance is needed has been extended. There are two things planners should do to be sure their clients are protected.

First, planners should determine if their client's death benefit need is still the same. How much cash should be available for beneficiaries at death? From that gross amount we usually subtract other assets that could be used to provide part of that amount. What has happened is that those other assets have dropped in value, which means the amount needed via life insurance has increased.

Second, many plans were built on the premise that savings will eventually be sufficient and that life insurance is no longer needed at retirement. The existing plan may have assumed that a client would be able to retire at say age 60 or 62 or even 65. And the need for insurance to replace income would stop at that point as well. In most of these situations, the need for insurance (usually term insurance) has been extended. So what may have been a 10-year need may now be a 15-year or even 20-year need.

Q. *There has been media talk about financial institutions in trouble and a couple of insurance companies have been down graded. Should life insurance owners be worried?*

A. In my opinion, there are two reasons for less worry than with other financial institutions. First, the life insurance industry is more regulated. They have more restrictive investment constraints and must follow rules to maintain a set reserve in order to insure they can pay their claims. Many of the investments that are having problems aren't allowed in the insurance company's portfolio, or allowed only in very small amounts. And second, there is a system of reinsurance treaties and state guarantee funds that protect policy holders.

Still, policies based on projected future dividends or interest rates need attention. These policies may not perform as projected and therefore may need additional premium. But the guarantees behind these contracts still appear very strong.

While it is always sound to choose insurance carriers with good ratings, even many of the companies that have been downgraded are still some of the most sound and highly rated financial institutions in which to have your guaranteed values. LLIS maintains a standard much higher than most of the industry. We use a Comdex Score (a combination of all ratings) of 85 as our minimum score before we recommend a company. Most of the industry uses an 80 as the cut off for the "excellent" companies.

Q. *Is life insurance still a "good deal"?*

A. I believe so – especially with guarantees. For example, with the GUL individual and survivorship we can still guarantee a net after income tax rate of return at death in the 5% to 8% range at life expectancy. While a few months ago some people may have thought 5% income tax free was not a great deal, today the fact that it is guaranteed and income tax free is looking very smart.

Q. *What else have you seen from planners around the country? Any unique requests or solutions?*

A. Recently we have been requested to provide reviews of old in force policies (Whole Life, UL and VUL). Advisors tell us their clients (a) need more coverage in the short run, (b) want to lower the annual premium outlay for life insurance and (c) if possible want some money back income tax free in order to replenish savings (or take advantage of current lower market conditions).

In many cases we have been able to do that by taking a tax free policy loan out of the old policy (so tax free money to invest) and then doing a tax free 1035 with policy loan rescue into a guaranteed paid up death benefit policy with no additional premiums. This frees up annual whole life premiums and the client can then purchase term insurance for the immediate short-term need.

Q. *My clients already have insurance. How have their policies been affected?*

A. First, guaranteed products have not been affected at all. Those products would include term, guaranteed universal life (GUL), either individual or survivorship or fixed rate single premium immediate or deferred annuities (SPIA or SPDA).

Obviously, variable universal life (VUL) policies have been affected the most. The cash values have dropped while the projections signed at the time of purchase assumed a positive rate of return every year and the projected premium payments were based on higher assumptions. Not only has the cash value gone down, the net amount at risk has gone up. This is the difference between the death benefit and the cash value and is the net death benefit upon which costs of insurance are calculated. The drain on the policy is two-fold; you need to purchase more insurance because your cash values are lower and the cash values are “sold” at a loss to pay for the costs of insurance.

Particularly troubling are Equity Indexed Universal Life Policies (EIUL) or Equity Indexed Annuities (EIA) (see summer newsletter for LLIS position on these products). These plans have participation rates and annual caps on crediting amounts that are guaranteed for one year in most cases. After only one year, the insurance company is free to adjust what they credit and it's already started to happen.

Since November of 2007 (just one year ago) a carrier we know well has dropped the crediting cap from 11.5% to 10% and slashed the participation rate by 40%.

Fixed rate universal life and any dividend-paying policies didn't change immediately, but over time there will be changes from the original sales projections. Some insurance companies have not yet adjusted their future projections, so your clients need to insist on getting new in force illustrations using a lower rate of return than the “current” which was most likely set years ago.

Many people will need to pay more premiums than they had planned before the premiums “vanish”, many will have premiums re-appear even though they thought their policy was paid up, and some will not only need to pay longer but also pay more than planned. The sooner your clients look into their fixed contracts, the better.

Q. *What changes do you see on the horizon where trusts are used and estate planning requires life insurance?*

A. We're seeing four major concerns:

1. The grantors of the trust are now retired and the turmoil in the market has changed the funding plans. They don't want to continue to gift the premiums that are due.
2. The size of the grantor's estate has decreased (real estate and investments) so that the amount of insurance needed is less than was originally issued.
3. Some estate planning projections were based on the growth of the estate and new projections may show a reduced ultimate need.
4. Grantors want their insurance, but they'd like the peace of mind of guarantees.

In all of these situations, a Guaranteed Survivorship Universal Life policy may be a great solution. Using only the current cash values of an existing policy, we have been able to guarantee a death benefit for life with no additional (or much reduced) premium. In some cases the death benefit is reduced but that was a better solution for grantors who had policies with continuing premiums or who were notified that their policies needed new premiums when they thought they were paid up.

Q. *Any other final thoughts?*

A. Do it now. This is not the time for your clients to put off buying the insurance protection they need or let their current coverage lapse. There is probably never a good time not to own life insurance, but I know that the worst time not to have life insurance in force is when the other assets are down.

Perhaps life insurance isn't so important when the checking account and savings accounts are overflowing with cash, when the house could be sold for a huge profit, or when the business is making so much money that you can afford not to be in the office. But if something happened right now to one of your clients and you would be forced to sell some of their stocks or their company needed to borrow money, having the assurance that cash from the insurance policy would be there when needed most is not just something that should rank low on the list of planning priorities.



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