



## Full Disclosure Isn't Really New

Low Load Insurance Services, Inc. has long been an advocate of full disclosure of compensation and full disclosure of insurance costs to policy holders. We've built a business on trust. Fee-only advisors who use our services trust us to find the best product for their client at the lowest cost and with the best values available. What's been second nature for us recently became national news.

When Eliot Spitzer, New York Attorney General, started his probe into the sales practices of insurance companies, he began a chain reaction that prompted twenty more states to begin their own investigations. The brokerage company involved just announced it will pay \$850 million in restitution to end the investigation into bid-rigging and price-fixing in a settlement the company involved hopes will end other states' probes and private lawsuits.

Both the insurance industry and state lawmakers have begun to address the issues of producer compensation disclosure and existing producer licensing regulations—actions we feel are overdue. The challenges are in finding rules that everyone in the industry can live with in two major areas of concern:

1. Providing the "best available pro-

posal from the best insurer".

2. Disclosing costs of insurance and compensation.

While the insurance industry and state legislatures are discussing changes, Low Load Insurance Services would like to clarify for our customers—fee-only financial advisors—our position on these important issues.

### BEST PROPOSAL FROM THE BEST INSURER

The state of California defines "the best proposal from the best insurer" as the "most suitable insurer for the client based on coverage, service, financial security, and price that is willing to provide the requested coverage through the broker." LLIS has always followed this guideline.

When providing advisors with term insurance quotes, LLIS pledges the following:

- To quote only companies with at least an A+ rating from A.M. Best and at least an 85 Comdex-VitalSigns Composite Index. The Comdex gives the average percentile ranking of a company in relation to all other companies that have been rated by the rating services.
- To show only premiums that are

guaranteed for the full term coverage period, and

- To show only the underwriting classes based on the health and medical history that is provided.

If there is a reason for an exception to these standards, we identify and explain the exception. An exception might be made if a proposed insured has a certain medical condition only a specific company will insure with a lower guaranteed premium. If your client has been declined by a highly rated carrier, one of our specialty underwriting carriers might be willing to accept that risk. Or an advisor could specifically request a certain carrier. Or an advisor could request a different standard for all their clients.

LLIS believes in exceeding the standards today that may become best practices for others in the future. We set high standards for company quality and then quote the best guaranteed rate for which the client can qualify. It must be said that there are sometimes surprises; but rates quoted are based on the information provided by the proposed insured.

For non-term and/or non-guaranteed premiums, such as Universal Life and

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## Insurance Priorities in a Financial Plan

Insurance is part of a comprehensive financial plan, right? Your clients probably have already purchased home, auto and liability insurance; but what next? It's easy! Just ask your clients to tell you the **worst thing that could happen to them!** And then you offer suggestions to protect against that risk. Here are the fear factors of most clients!

- I'm afraid I'll be hurt in an accident and won't be able to work.

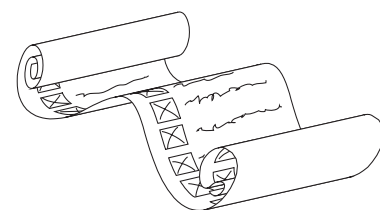
*Consider disability insurance to protect against the loss of income. Between the ages of 35 and 65, your clients have a 30% chance of becoming disabled and unable to*

*work for 90 days or longer. And once a person has been disabled for 90 days, the average length of disability is 2.5 years.*

- I'm afraid that I might die unexpectedly and leave my family with no or much less income.

*Consider term insurance that would cover the time your client's working years. Premiums can be guaranteed for 10, 15, 20, 25 or 30 years.*

- I'm afraid I might outlive my money. *Consider a lifetime income annuity to supplement your client's other sources of income like Social Security or pensions used to cover*

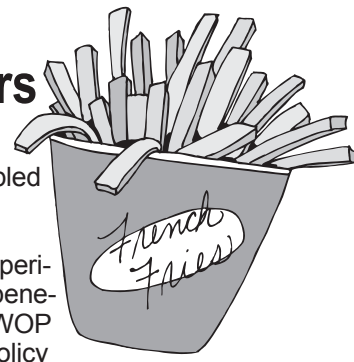


*their primary expenses in retirement. This is insurance that provides a guaranteed income for life.*

- I'm afraid that Uncle Sam will get all that I've worked for and saved. *Consider a survivorship or second-to-die policy that will pay estate taxes.*

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# You Want Fries With That? — Waiver of Premium Riders



How often do we get asked for the “second sale”? Do we want fries, under-coating or a super-size at the last minute? Chances are that’s how your clients got the Waiver of Premium (WOP) rider on their life insurance policies.

As many of you know, we rarely recommend the Waiver of Premium rider, because it can be the *most expensive disability policy your client can own*. Instead, LLIS believes that your client should have a comprehensive disability program.

To illustrate this fact, let’s use a 35 year old male actuary, applying for \$2,000,000 of 30 year guaranteed level premium term life insurance. The annual premium is \$2,300. The cost to add the Waiver of Premium rider to the term policy is \$280 annually. The actuary could purchase a comprehensive disability policy for the same annual premium.

## COVERAGE BENEFIT COMPARISON:

The WOP rider will only cover the cost of the insurance premium – a \$2,300 annual benefit. By comparison, the

same \$280 will purchase \$830 of monthly Disability Insurance benefits or \$9,960 annually. This is over 4 times the annual benefit of the WOP and it can be used for any purpose, including paying the life insurance premium (the Disability Insurance premiums stop when client goes on claim).

## DEFINITION OF DISABILITY COMPARISON:

WOP riders generally require the client to be **totally** disabled as defined in the rider before any benefits are paid. The DI policy requires a much less stringent definition; the insured be unable to perform the substantial and material duties of his *own occupation* and not be working. The DI also includes residual disability coverage, which covers a percentage of losses if the insured is working but in a reduced capacity — the WOP rider has no similar benefit.

## WAITING PERIOD COMPARISON:

WOP riders generally require 6 months of total, continuous disability before applying for benefits. If the client returns to work after 5 months of dis-

ability, and becomes disabled again 1 month later, a new 6 month waiting period begins for benefits under the WOP rider. The DI policy has only a 90 day waiting period and can be adjusted to fit the client’s needs. The DI policy also considers recurrent periods of disability from the same cause as continuous if less than 12 months have passed since recovery.

## LENGTH OF COVERAGE COMPARISON:

The WOP riders usually expire at the insured’s age 60. The DI is a non-cancelable policy; the premiums can’t be changed and the coverage can’t be altered to the insured’s age 67.

The limitations of definitions and hefty expenses make the Waiver of Premium rider a poor financial choice for your client. Please contact Mark at [MarkMaurer@llis.com](mailto:MarkMaurer@llis.com) for comprehensive disability coverage quotes for your clients. ♦

## FULL DISCLOSURE, CONTINUED FROM P. 1

Survivorship UL, LLIS uses No Load or Low Load products if they’re available. If not available, we structure the policy with the lowest premiums and highest immediate and long term values possible. We can usually accomplish this by “blending” low commissioned riders to the full extent allowed by the insurer.

## FULL DISCLOSURE

For products that are not guaranteed, LLIS will provide you and your client with all the charges and credits that make up the policy values each and every year. We always do this with our current No Load/Low Load products because disclosure pages are part of the illustration systems. We can also provide it with some of the non-Low

Load products. What this means is that you can see the exact dollars paid into the policy, each year’s charges coming out and each year’s credits back into the policy.

Full disclosure may also mean disclosing compensation under the assumption that a higher commission may influence the agent’s recommendation as well as increase the price to the policyholder. All employees at LLIS are salaried and do not receive any form of compensation or bonus based on the product sold.

LLIS is paid a marketing allowance from the Low Load insurance company home offices. This is different from a commission in that does not go to the

agent and is for the marketing and not the sales. “So what’s the difference?” you might ask. A marketing allowance is paid to a marketing organization that finds and informs advisors, supports them with individual insurance solutions, provides the illustrations, and processes the paperwork and follow-up necessary to obtain the policy. There is no cost difference to your client if their policy comes through a marketing organization like LLIS or if it comes through a home office direct channel.

On any proposal provided from this office, feel free to ask questions about how we select a product or choose a company or how we get paid. We work for you, the advisor, with you client’s best interest in mind. ♦

## INSURANCE PRIORITIES, CONTINUED FROM P. 1

- I’m afraid I’ll spend my assets and will need to rely on my family or the government for my care.  
*Consider Long Term Care insurance to cover the nursing home care that one out of two people will need at some point in their life. LTC can be considered extra insurance that picks up where*

*health insurance leaves off.*

- I’m afraid my assets will be spent by the time I die and there won’t be a legacy left for my heirs.

*Consider a Guaranteed Premium Universal Life or Survivorship Life policy. If your clients plan to fund their own long term care from their pool of assets and retirement*

*income, they can guarantee a death benefit for heirs. A single premium of about \$19,000 will **guarantee** a death benefit of \$50,000 for a 65 year old or a single premium of about \$29,500 will **guarantee** a death benefit of \$100,000. ♦*

# Financial Underwriting is a Mathematical Formula

When an insurance company underwriter takes a first look at an application for insurance, she considers not only health, family history and avocation, but financial information as well. Probably no underwriting area has undergone more drastic changes than financial underwriting. Since guidelines were first developed in the mid-1700's, insurers have learned a great deal about insurable interest, insurable value, and anti-selection. But the basic rules remain the same.

Why are financial guidelines needed? In order to remain profitable and stable, insurance companies have to write profitable, stable business. This means they are looking for life insurance business that is written to cover the financial loss that would be incurred at the death of a proposed insured. And the application and/or the cover letter needs to explain the reasons for that protection.

When your clients apply for insurance, they need to be prepared to supply details regarding their income, their assets, liabilities and net worth. Proposed insureds often ask us to obtain these details from you as their financial advisor since they believe your documentation is more up to date.

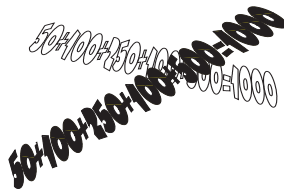
There are many financial reasons for life insurance, but the most common are Income Replacement, Debt Protection, Estate Planning, Key Executive and Buy/Sell Funding. Underwriters have developed the following formulas and guidelines that help them assess each of these financial risks.

**INCOME REPLACEMENT.** Young families with young children can buy up to 20 times their annual income in insurance. But don't forget to factor in group coverage as part of that total. The amount goes down as the age goes up. A non-working person with no income *can* buy insurance if they are taking care of young children. A suggested amount of coverage in this case is \$250,000 but we can justify higher amounts for special situations.

Ages	Factor times income
20-35	20
36-40	17
41-45	14
46-50	12
51-59	10
60-64	7
65 and over	4

**DEBT PROTECTION.** The policy limit for this type of coverage is usually 50 to 75% of the outstanding loan balance. In addition to the application, the proposed insured must provide details regarding the purpose and duration of the loan and any collateral pledged. In addition, some companies require that the loan have a minimum five-year repayment period.

**ESTATE PLANNING.** For any life insurance case involving an estate plan, we need to supply the insurance company with an estate analysis that includes a personal balance sheet. This includes details regarding your client's income, assets, liabilities and net worth. The estate appreciation formula is currently at 6% for one-half the greatest life expectancy times the appropriate tax rate.



**KEY EXECUTIVE.** If your client is a corporation and the insurance is to protect the company from the loss of a key executive, then we can insure each executive for up to 10 times their annual income. We also will ask you to provide a list of other key people in the company and their coverage. Further, the underwriters will want complete business financial data to include income, assets and liabilities. Many small businesses have an un-audited financial statement that will suffice.

An insurance company would not look favorably at an application on one person who is applying for coverage if none of the other key executives are to be insured or if the financials show that the company is insolvent. They consider the "Guido factor" when one person is singled out for insurance without regard to all key executives or when the business is failing.

**BUY/SELL AND STOCK REDEMPTION.** The formula for buy/sell insurance is the percentage of ownership times the value of the business. In addition to personal financial information, the proposed insured or proposed owner will need to provide:

- Corporate financial statements,
- Details regarding the percents of ownership in the company for each proposed insured (and if an owner is not covered, details about why not),
- Details regarding the buy/sell agreement (some companies are requesting copies of the agreement), and
- Details about the fair market value of the business.

In addition to these insurance needs, there are also guidelines for the amount of coverage allowed on the life of a child and for charitable uses of insurance.

Rules are made to be broken and these guidelines can be adjusted if requests for exceptions are well-documented and thoroughly explained. As an example, we recently obtained large 10-year term policies for the four key executives of a relatively new company. Working with the advisor, we were able to supply a well written cover letter to the underwriters documenting the projected company growth. Even though our coverage request was outside the guidelines, we were able to get the larger amounts approved.

If you're thinking of recommending a specific amount of insurance for a client and would like further financial guideline information, don't hesitate to contact us by phone or email [JudithMaurer@LLIS.com](mailto:JudithMaurer@LLIS.com). ♦

For more information:



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