RIA™ Insurance Solutions

Powered By Financial Independence Group

CASE STUDY

As your client's life changes and accelerates towards retirement, it's possible their life insurance needs have changed as well. But, do they understand their options? Do they know there may potentially be a better policy for their present and their future? Do you know how to properly review current coverages and make proven, fully vetted replacement coverage recommendations?

Our Comprehensive Analysis and Review program, also known as "CAR", is a simple, easy to use tool every financial professional should have in their toolbox.

CAR was designed by insurance professionals for financial professionals; made flexible and customizable to meet the needs of any client's life insurance needs. In this eBook, we'll provide three examples of how our CAR program helped financial professionals change the lives of their clients and their heirs. Additionally, we review and explain general concepts of how CAR can help with policies that have whole life options and/or policies with loan balances.

Please note that this information is for financial professional use only. The "CAR" program is comprehensive life insurance policy analysis tool and not a replacement strategy.

CAR Case

Indexed Universal Life Alternative for Life Insurance Retirement Plan

A young professional has a variable universal life (VUL) policy with a current death benefit of $532,000 and cash value of $32,000. He's concerned with the potential losses in the VUL accounts and how to best use the policy in retirement to supplement income. An indexed universal life (IUL) policy is proposed with a cash value transfer and matching the premium and face amount. A plan is set to use an increasing benefit option until age 65 and then switch to a level benefit option as distributions begin.

The review includes consideration of the use of indexed loans in the IUL along with the option to use fixed loans. A loan protection rider is part of the IUL to protect the tax-free status of loan income. The VUL has less attractive loan options.

Projections are compared at the maximum illustrated rate of 6.86% along with projections at 6% and 5%. The 5% scenario for IUL is comparable in value to the 6% VUL scenario. The advisor notes that these projections cannot predict future performance and that the range of projections shows how the policy would work in different scenarios. The client recognizes the long-term nature of the plan and decides to go with the IUL policy.

CAR Case

Underfunded Universal Life with Guaranteed Benefit and Index Credit Alternatives

A 64-year-old client has a $435,000 universal life (UL) policy with $31,000 in cash value. Her current monthly premium projects coverage with current costs and interest to go 13 more years to age 77. She had originally intended for the policy to be permanent, but since it's underfunded it has become like term coverage. The CAR review looks at her options for either increasing the premium or reducing the benefit to extend the policy coverage. Due to guideline premium limits, adjustments could only extend projected coverage to age 87 with guarantees to age 80.

Options for lower cost term insurance for 10 to 15 years were considered. However, the preferred option became guaranteed indexed universal life (GIUL) that provides guarantees to age 100 for a monthly premium within her budget for a $266,000 face amount. With current costs and non-guaranteed index credits, the policy projects increasing cash value that eventually would increase the death benefit. Also, the GIUL allows much higher premium limits so that premium payments could be accelerated or increased to build additional values.

CAR Case

Portfolio of Term, IUL, and VUL Along with Managed Investment Assets

A top executive has a portfolio of $6,000,000 in term insurance coverage and $6,000,000 in IUL and VUL policies. The executive plans to retire in about 12 years. The CAR review found new term policies to replace those that had gone to increasing premiums and adjusted the overall portfolio for the amount and duration of coverage needed based on a transition into retirement.

The IUL and VUL policies were from strong companies and had performed reasonably well for the current goal of projected endowment at maturity. This goal will require regular reviews to see if projections are on track and whether premiums need to be adjusted. An alternative goal was reviewed to target the cash value being at least half the benefit by retirement. This target would require either additional premiums or gradual adjustment of the benefit. This strategy would improve the range of return for life expectancy. It would also give more liquidity options for using cash value and less risk of additional premiums being required later. Plans were made for regular reviews of these policies along with all assets under management. Family members would be included as appropriate.

Whole Life Options

Cases with whole life typically provide the opportunity for higher long-term cash value with accumulation IUL and a trade-off of lower guaranteed values. GIUL provides an option in between where the death benefit can be guaranteed, but not guaranteed cash value growth. Unless blended with term insurance to provide a level premium and benefit, whole life patterns of premiums, and benefits are difficult to compare particularly depending on dividend use and riders. The CAR review looks at trade-offs between guarantees and non-guarantees, projected rates of return, and how the need for a mix of cash value and net insurance benefit changes over time.

The CAR review may look at the option to convert a whole life policy to reduced paid-up (RPU) so that the policy guarantees no more premiums are needed and then increases the reduced benefit with future dividends. This strategy can then free up premium dollars for other life insurance, annuity, or investment options. Term life insurance is used to fill a temporary gap when needed with RPU. Premiums can also be focused on accumulation products with attractive upside potential.

Policies with Loan Balances

In some cases, options are found to transfer policy values with a loan balance to a new life policy. However, typically a better strategy is to work out a way to pay off the loan balance particularly if the loan charge rate is higher than the credit rate on values securing the loan. For example, some policies have 8% loan charge rates with credit rates of about 5% or less. These loans are very expensive. The CAR review will look at whether the loan can be paid off from policy values without a taxable gain. It also looks at RPU options and how much time there would need to be before a transfer of values before a surrender to pay off loans.