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Life Insurance Professional Analysis and Review

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1 Hour of Self-Study CE

Course Reading Assignment

I. INTRODUCTION

Technically speaking, life insurance is a contract between an insurance policy holder and an insurer, where the insurer promises to pay a designated beneficiary a sum of money (the "benefits") upon the death of the insured person. Depending on the contract, other events such as terminal illness or critical illness may also trigger payment. The policy holder typically pays a premium, either regularly or as a lump sum. Other expenses (such as funeral expenses) are also sometimes included in the premium.

That's the technical definition. Another definition is life insurance protects loved ones from financial burdens when the primary breadwinner is no longer with them. This allows them to grieve and attend to more important things in the short term and be secure financially in the long term. The advantage for the policy owner is "peace of mind", in knowing that the death of the insured person will not result in financial hardship for loved ones.

That said, first and foremost as life insurance professionals we must always place the needs of the client first. To that aim, it is incumbent upon insurance professionals to always adhere to the highest ethical standards, using the "Golden Rule" as a standard.

The following sections will review and discuss the purpose of life insurance reviews and the steps involved in doing so.

II. PURPOSE OF LIFE INSURANCE REVIEW

The reasons to conduct a life insurance policy review are many:

- A. Assuring that insurance needs have not changed – has there been a recent life event such as marriage, birth of child or grandchild, change of job, etc.
- B. Assess any changes that may affect underwriting either positively or negatively, such as quitting smoking, weight loss, or medical conditions that were evident originally now more under control (i.e. blood pressure, cholesterol, etc.).
- C. Changes in conditions and related underwriting practices, such as cancer, heart disease and diabetes.
- D. To analyze policy performance. Has the policy lived up to the original projections of values? Was the original policy issued in a higher interest rate environment, or when the equity markets seem to have nowhere to go but up? In the late 1980's when interest rates were considerably higher than today it was not uncommon to see policy illustrations assuming 8, 10 even 12 interest rate assumptions. Since those assumptions have not sustained themselves it is extremely important to assess policy performance against assumptions.
- E. Are there any policy provisions or riders that can be exercised or have expired? Are conversion periods expired or about to expire? Are or family benefits about to lapse?

- F. Are the named beneficiaries still the people the policy owner wishes to receive the death benefit – or is it more appropriate now to consider using a Trust as beneficiary? There have been cases where the no contingent beneficiary has been selected and the primary beneficiary pre-deceased the insured. This can cause chaos since now determining who the recipient of the life insurance will be left to legal parties.
- G. Have there been any loans taken against cash value and what effect will this have on the policy? If the insured decides to either surrender the policy or exchange it are there any income tax consequences that you need to be aware of? Policies with loans need to be treated very carefully. If those policies have any gains and the policy is permitted to lapse then the gains will be taxed in that year. If a policy with loans is involved in a 1035 exchange the loan needs to be transferred as well to avoid any tax consequence. Many carriers have limits of the loan to cash value ratio that they will permit to be transferred.

All of these issues need to be addressed in the Life Insurance policy review process, and they may either individually or collectively have an impact on your policy (ies), and your overall financial planning.

SECTION REVIEW - QUESTION 1 (check answer at end of reading assignment)

(Ref: Section II, Page 1, Para 1-8)

Which of the following statements is **NOT** a purpose for conducting a life insurance review?

- a. To analyze policy performance
- b. To assure an insured's needs haven't changed and now may not be covered by the policy
- c. **To protect a new home purchase or other large asset purchase**
- d. To assess policy terms or underwriting criteria that may affect policy performance

III. ISSUES AN AGENT MAY DISCOVER

In the process of performing the life insurance analysis and review an agent may learn there are issues affecting the protection an insurance policy(s) would normally provide. For example, the amount of existing coverage is no longer appropriate – either too much or an insufficient amount is in force. The insured's family, business and/or total financial situation needs to be evaluated, on a regular basis, to determine if the amount presently in place is adequate. Some examples of other issues an agent may discover in the review process:

- A. Birth of a child
- B. Death of a spouse or business partner
- C. Inheritance of large sums of money or property
- D. Buying a new home or other real estate
- E. Changes in tax laws – estate or otherwise
- F. Income tax consequences of retirement plan assets

As you can see an agent may well find a number of issues requiring attention. But it doesn't end there. There is so much more that may be discovered that saying a professional analysis and review is necessary is a major understatement! In addition to what was described above, another issue that may be discovered in the review process is that the type of policy(s) in place no longer meets the insured's financial goals, or that one or more policies may or may not be needed.

An insured may find that in their earlier years it was important to have as great a death benefit as possible to protect their family, but now that they've matured the reason for having life insurance has changed. The original large amount of death benefit is no longer as important as being assured that they won't outlive the death benefits required.

Perhaps the primary beneficiary has pre-deceased the insured and no contingent beneficiaries have been named.

If your client has multiple policies issued at different times you may find that consolidating them may be an economically efficient tool to consider. Many times policies have been acquired at different times and arranged in different ways without considering a cohesive plan for them all. Often we find that consolidating several policies can have a beneficial effect. It may permit reduced premiums or increased death benefits. Take the time though to examine each policy individually and then all combined. Cases have been seen where it makes sense to combine only one or two of the policies and have the balance remain as they are. Reasons may include some policies have loans or of have underperformed so added premium may be required.

Perhaps the policy has not performed to original estimates and additional premium funding is needed to keep the policy in force. In-force policy illustrations are always a good tool to gather in your analysis.

It always is a good practice to request in force policy information to understand where the policy stands today and to see what the projected and guaranteed performance is scheduled to be. Many insured's do not recognize the elements that a life insurance policy contains.

Existing policies may not contain the feature and added benefits that many of the contracts issued today contain, such as Extended Maturity or Secondary Guarantees.

Extended Maturity and Secondary Guarantees are recent benefits; however, older policies may in fact have features and riders that are NO longer available. Some may include Life Multiplier Riders where you could insure several people on one policy or perhaps the addition of Disability Income Benefits.

SECTION REVIEW - QUESTION 2 (check answer at end of reading assignment)

(Ref: Section III, Page 4, Para 5)

Which of the following statements is **CORRECT**?

- a. In-force policy illustrations have no value in a policy analysis process
- b. Consolidating several policies can reduce premiums or increase death benefits**
- c. Existing policies are routinely updated by carriers to automatically add new benefits
- d. Requesting in-force policy information before conducting a review of a policy isn't necessary

IV. CASE EXAMPLES

- A. Male 76 Preferred Non Smoker took out a Universal Life Policy in the 1980's and it assumed that in time the need to pay premiums would vanish. The insured stopped paying premiums several years ago and now finds that the policy may lapse based on current assumptions in 11 years. Upon review it was found that by conducting a 1035 exchange of existing cash values a larger death benefit could be maintained guaranteed to remain in force for the insured's lifetime. This of course required medical testing. Remember NEVER to allow any policy terminate until new coverage is in place.
- B. Female age 54 was issued \$500,000 Preferred Smoker 5 years ago. Three years ago she stopped smoking. She was unaware that she could request a rate change from her company. After assessing the premiums of her company as a Preferred Non Smoker, and researching what other carriers could offer with full underwriting it was decided to remain with the existing carrier and have the rates amended to reflect he now Non-Smoking status. Result – premium dollars saved.

- C. A couple with a Second to Die Policy for \$2,500,000 is paying a \$50,000 annual premium. The Cash Surrender Value of the policy is \$150,000. When the policy was issued the couple was mildly rated. In examining the policy and in discussions with the existing carrier we found that they DO NOT modify rating classes with their Second to Die Policies. We discussed the potential advantages they may experience if their health has improved. They were willing to be examined and to have medical records obtained. The result was that by executing a 1035 exchange of the cash surrender value, and paying the same \$50,000 annual premium we were able to increase the death benefit by nearly \$500,000 (they were still mildly rated).
- D. A male has a policy that contained a specified maturity age – age 90. At his age he received a check in the mail for the cash value of his policy (\$140,000). In addition to the check was an explanation that this was the end to the Life Insurance Company’s obligation and that based on their calculations his cost basis in the policy was \$90,000 so he has a \$50,000 taxable gain to contend with. His family was expecting to receive an income tax free death benefit of \$300,000 when the insured passed on; he instead received a check for \$140,000 of which \$50,000 was income taxable. The Life insurance industry recognized this issue and the Extended Maturity Option was designed. It allows for a policy to survive as life insurance for long as the insured. Questions arise about whether or not an insured can get to that cash value. The answer is that this feature permits the insured to assess the cash if they want to, or if they desire to assure the life insurance will be passed along as life insurance it will be. This newer feature provides much greater choice and flexibility to today’s products.

SECTION REVIEW - QUESTION 3 (check answer at end of reading assignment)

(Ref: Section IV, Page 6, Para 4)

Which of the following describes an Extended Maturity Option?

- a. **It allows for a policy to survive as life insurance for long as the insured does**
- b. It allows an insured to purchase additional coverage past age 100
- c. It allows the insured to renew the policy indefinitely
- d. It extends the amount of time the insurance company has to pay benefits

V. KEY STEPS IN THE ANALYSIS AND REVIEW PROCESS

- A. **Who Should Receive a Review?** All policy holders need to have their Life Insurance policies evaluated on a regular basis. It is unheard of that a person’s investment account is not

analyzed and reviewed. It is very common to hear that a person's life insurance has NOT been evaluated in many, many, years.

- B. **Send out Pre Approach Letters.** Introducing to clients and prospects the benefits of have life insurance policies reviewed is a responsibility that we as professional Life Insurance Advisors have. Make them aware of potential changes that may have occurred and follow up with them to assure they are receiving the best value for their insurance dollar.
- C. **Perform a Thorough Analysis of Financial Goals.** Use data gathering questionnaires to gather all needed information to assess both current and potential future needs. Gather all pertinent documents and enlist the aid of other professional advisors – attorneys, CPA's when needed. These people can become a very valuable resource to you in helping these and other clients.
- D. **Request a Variety of In-Force illustrations from the existing carrier.** The more information gathered the better. A variety of scenarios can help you to uncover potential benefits and problems with existing life policies. It may also present your client with the needed information to determine accurately what his/her goals are.
- E. **Compare the Options.** What is the best strategy for your client? Should they consider replacing their policies with new ones? Should they consider increasing premiums so the policy will not die before they do? Should they reduce the death benefits to correspond to the existing premium payments? Should they do nothing? Yes there are many policies that are in very condition that require no fine tuning. Assessing the options will provide you with a professional approach in helping you help achieve their financial goals.
- F. **Advise your Clients.** After gathering all the data, assessing the options you are placed in the position to advise your clients and assist them in making the proper choices. Often clients need to be directed to the best solution and with all the facts you have gathered you are prepared to show your recommendations.
- G. **If a New Policy Is Recommended.** If this is the best solution be sure to complete all necessary paperwork, applications and state replacement papers and analyses. Complying with these requirements assists in a smooth transaction.

SECTION REVIEW - QUESTION 4 (check answer at end of reading assignment)

(Ref: Section V, Page 7, Para 3-5)

Which of the following is **NOT** a key step in the life insurance Review and Analysis process?

- a. Request a variety of in-force illustrations from the existing carrier
- b. Request a copy of all health and property insurance policies for review**
- c. Perform a thorough analysis of financial goals
- d. Compare available options

VI. IMPORTANT POINTS TO REMEMBER

In some respects, life insurance is like a home mortgage. Policies need to be reviewed periodically. In the 1980's when interest rates were very high people still had mortgages. During the extended period of low and declining interest rates many people took advantage and refinanced their loans. This could mean a lower payment for the same loan amount, or perhaps keep the payment the same and borrow a greater sum of money. The same philosophy may apply in the life insurance review process – you may be able to have the same benefit for a lower premium or perhaps you prefer having the same premium with greater death benefits.

Inaction by an agent to recommend to their clients and prospects to undergo the life insurance review process may in fact cost them thousands of dollars annually and jeopardize other financial goals they have.

With such factors as changes in interest rates in fixed life insurance products or market volatility in sub-accounts of variable life insurance products frequent examination is very important to determine if the policy is performing to the illustrated standards. If not then a discussion regarding what the alternatives are needs to occur. Be it increasing premium or reducing benefits, a complete evaluation and analysis is often the best choice. We generally want to be certain that the policy will not die before the client does.

It cannot be stressed enough to never have a client surrender or put in jeopardy existing life insurance policies until new policies are in force and be certain to inform your clients of any applicable surrender charges and contestable periods!

Life insurance reviews are a vital component in the Financial Planning Process. Remember to take pride in what you do and be a professional in all ways. Act with integrity and act ethically. Make this the WIN - WIN - WIN value proposition it is intended to be.

Life insurance Reviews are **NOT** an excuse to replace policies.

SECTION REVIEW - QUESTION 5 (check answer at end of reading assignment)

(Ref: Section VI, Page 8, Para 1-5)

Which of the following factors is **NOT** a reason for a review and/or analysis of a life insurance policy?

- a. Interest rate changes
- b. Market volatility affecting sub-accounts
- c. Policy performance compared to in-force illustrations
- d. Change in other insurance carriers such as health or LTC**

VII. UNAUTHORIZED ENTITIES

An entity that is required to be licensed or registered with the Florida Office of Insurance Regulation but is operating without the proper authorization is identified as an unauthorized insurer. All persons have the responsibility of conducting reasonable research to ensure they are not writing policies or placing business with an unauthorized insurer. Any person who, directly or indirectly, aid or represent an unauthorized insurer can lose their licenses or face other disciplinary sanctions. Please see section 626.901, Florida Statutes, to read the laws.

Lack of careful screening can result in significant financial loss to Florida consumers due to unpaid claims and/or theft of premiums. Under Florida law, a person can be charged with a third-degree felony and also held liable for any unpaid claims and refund of premiums when representing an unauthorized insurer. It is the person's responsibility to give fair and accurate information regarding the companies they represent.

We recommend the following procedures when researching whether an insurer is properly licensed to transact insurance in Florida. The simple procedures outlined below will easily identify those insurance companies presently authorized to conduct insurance business in Florida.

- A. Make sure you have the complete and correct name of the insurance company. Many insurance company names are very similar.

B. Go to <http://www.floir.com/CompanySearch>.

C. Enter the insurance company's name and click on the "Search" button.

D. Confirm that the insurance company as identified in step 1 is listed and authorized to conduct the line of business contemplated. Depending on the line of business, the following Authorization Types confer authority:

1. Certificate of Authority
2. Information Only
3. Letter of Approval
4. Letter of Eligibility
5. Letter of Registration
6. License
7. Provisional Certificate of Authority
8. Residual Market

Insurance companies shown with an Authorization Status as "Active" and Authorization Type as "Permit" have only begun the authorization process, and are **NOT** authorized to conduct insurance business.

If the insurance company is not listed on the web site or the insurance company is shown with an Authorization Type not listed above, the agent should not place insurance business with that company. Also, be aware that just because an insurance company is authorized today does not mean it will necessarily remain authorized in the future. Always check.

To alert us of possible unauthorized insurance being sold please notify us at askDFS@MyFloridaCFO.com.

Don't be fooled by phony products that sound too good to be true! Investigate before you sell or buy these plans. Check to see if an entity or plan is an authorized insurer by calling the Department of Financial Services at 877-693-5236 or 850-413-3089.

SECTION REVIEW - QUESTION 6 (check answer at end of reading assignment)

(Ref: Section VI, Page 9, Para 2)

The problem of unauthorized entities selling unauthorized products originated in which product area?

- a. Workers Compensation insurance
- b. Life insurance
- c. Personal and business insurance
- d. Health insurance**

ANSWER KEY

1. **C**
2. **B**
3. **A**
4. **B**
5. **D**
6. **D**