



THE CHANGING LANDSCAPE

A NEW DIMENSION TO LIFE INSURANCE

While most people understand that refinancing their mortgage makes sense in the current economic climate, few people apply the same principles of proactive capital management to their life insurance policies.

Life insurance used to be the one financial product you could buy and forget about. However, products purchased over the past decade are considerably more advanced and most are interest or market sensitive.

The most recent enhancements in the efficiency and control of cash accumulation (the “equity” in a policy) and new optional benefits have turned life insurance into a remarkably sophisticated and flexible financial instrument. Some of the most attractive features now offered simply were not available in previous product designs.

On the other hand, lower interest rates and a bear market have decreased cash value growth in whole life, universal life and variable life products. Premiums rise or even reappear in order to maintain these policies.

These and many other factors have created a compelling reason to reevaluate life insurance holdings.

HOW HAS LIFE INSURANCE CHANGED?

- Mutual insurance companies have converted to stock. Ownership has shifted and policy dividends have taken a backseat to stock dividends.
- Existing policies can be renegotiated. Older policies that carry a higher premium cost (“rated”) due to medical history or other factors can be renegotiated. This may reduce or even eliminate the increased cost.
- More cost-efficient products with better guarantees have emerged. New features such as guaranteed death benefit or return of premium may be more appropriate and effective.
- Increased longevity has lowered the cost of insurance. Emerging products generally have reduced pricing structures.
- Extended maturity riders prevent the risk of policies ending during an insured’s lifetime, thereby subjecting the policy’s cash value, in excess of basis, to income tax.
- Term insurance rates have fallen. Prudent advisors recommend using only those carriers offering high quality products that allow for later conversion to permanent instruments.

ALTERNATIVE CAPITAL MANAGEMENT SOLUTIONS

In addition to modifying life insurance policies to better manage capital, other options now exist to recapture assets or resolve cash flow issues.

- **Life Insurance Settlements** offer a way to reclaim the capital tied up in under-performing policies. A licensed third-party provider (a life settlement company) may purchase the policy, providing the owner with a cash settlement.
- **Single Premium Immediate Annuity Arbitrage** allows the use of cash (possibly from a life insurance settlement) to purchase single-premium immediate annuities. These provide cash flow that can be allocated as needed, possibly to pay the premiums on a new, more efficient policy.
- **Long-Term Care Insurance** has matured. Estate plans, retirement accounts and other assets can be more adequately protected while meeting the health-care needs of the insured.
- **Private Placement Life Insurance** offers an alternative to retail life insurance for more affluent individuals. Existing investment accounts can be wrapped with private placement life insurance, providing access to professional investment managers on a tax efficient basis and creating large amounts of insurance capital in the process. Benefits include tax deferral on cash values, lowered expenses and the ability to access hedge funds and other private managers.

WHEN TO REVIEW

- Were the policies you now own purchased using projected interest/dividend rates of 8, 10 or even 12%?
- Has the insurance carrier you originally purchased the policies from reorganized from a mutual to a stock-owned company, merged or been acquired?
- Have your permanent or term life insurance policies passed the three-year mark?
- Have the needs that prompted your purchase of existing life policies changed?
- Has your business experienced material changes in the form of ownership, management, expansion or succession planning?
- Have family assets changed significantly in value, structure or ownership?
- Do current economic circumstances dictate a change in charitable activity or planning?

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