

THE TOP TEN MISTAKES PEOPLE MAKE WITH THEIR LIFE INSURANCE

1 *They accept a standard policy.*

Underwriters at different carriers make different offers. Always have your insurance advisor obtain offers from 3 or more carriers, even if initially “standard”; “preferred” is often the result. The very best results are obtained through negotiation.

2 *They own Universal Life without a no-lapse, death benefit guarantee.*

- Guarantees are now available for lifetime, or for some shorter period. Investigate and understand the differences.
- Premiums paid after the due date but within the grace period will “shorten” the guarantee for most products. Pay before the due date.

3 *They delay purchasing coverage they believe they may want later, and don't stockpile.*

- **Little known fact: The industry is re-pricing right now.** Insurance is getting more expensive — the trend to lower costs is reversing.
- The reinsurance market has contracted — 20 carriers have reduced to 6. It is harder to secure favorable offers on large face amounts.
- Everything changes, especially health... healthy individuals should consider loading up on term for later conversion as needs increase. The ability to purchase could disappear or become prohibitively expensive.

4 *They limit coverage to the amount available through annual gifts or unified credit.*

- **Insurance can be purchased without regard to gifting limits.** Creative strategies including GRATS, sales to defective trusts, and utilization of charitable lead trusts can provide premium funding.
- New, very sophisticated contracts that are actually “back-funded” now allow for large face amounts at lower early premiums.

5 *They surrender, or lapse, coverage they no longer want.*

“Life Settlement” refers to a secondary market that now exists for in-force policies on older insureds. Insurance can be sold to institutional buyers for amounts far in excess of cash values, providing a means to recapture premiums, even with policies that are failing due to poor performance.

6 *They allow their trustees to ignore their insurance as an asset.*

- The Prudent Investor Act demands that a trustee must exercise reasonable care, skill and caution while acting as a prudent investor would with respect to the investment and management of all trust assets. The trustee's decisions must be evaluated in the context of the trust portfolio as part of an investment strategy having risk and return objectives reasonably suited to the trust.
- Trust policy statements need to be drafted, then supported, with active review and analysis, to provide a defensible position that fulfills fiduciary responsibility. Insurance owned in trust is needed to guarantee completion of the grantor's most important planning goals — performance is critical.

7 *They just don't know: a pricing anomaly exists between annuities and insurance that offers significant improvement over returns offered by fixed instruments.*

Annuity Arbitrage, the name given to a strategy in which cash in fixed instruments is placed in a single premium immediate annuity, can as much as double the current rate of return, even after funding an insurance policy to guarantee capital back to the family.

8 *They mistake premium-financed insurance for "free insurance".*

Premium financing through outside lenders has become popular. Like split dollar, exit strategies must be provided and interest rate risk and evergreen loan provisions must be considered. There is no free lunch here.

9 *They don't refinance older insurance policies.*

People have been refinancing real estate regularly over the last five to ten years.

- Carriers have become corporations that cater to their shareholders, not the policyholders.
- Carrier expenses have also decreased, and older policies will give way to sophisticated new issues designed to attract new money. Not understanding that change can cost policyholders money.
- Mortality costs have decreased as life expectancies have increased.

10 *They have not heard of "Insurance Portfolio Management."*

Life insurance is a new asset class. It requires ongoing monitoring and retesting. The industry is fluid and the products require stewardship. Every other investment gets constant attention; life insurance policies now demand the same.

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500 Lake Cook Rd.
Suite 270
Deerfield, IL 60015
Tel: 847 943 0800
Fax: 847 943 0801
www.idc-llc.com