

Is your client's life insurance policy headed for disaster?

If you ask your clients whether or not they have life insurance, they would probably reply yes. If you ask them, do they understand the mechanics of how their policy works, they would most likely state they have no idea.

What most people are unaware of is how long-term low interest rates have significantly reduced the values and performance of insurance policies. Policies where the client thought they had a "paid-up" policy found under audit their cash values were unable to support the policy. The options are, pay additional premiums, roll the contract to an annuity to salvage something, or rescue the contracts with guaranteed products.

Carriers are often earning less than their guaranteed rates; therefore they increase costs, i.e. mortality, to offset the low earnings. The results reduce the cash value. Variable products have seen huge downturns in the market. A 35% loss requires a 54% gain to recover. The lower cash value means more insurance risk, which translates to more mortality expense and more gains necessary to recover. What looked good 5 or 6 years ago may now have only a few years left.

We have a fiduciary responsibility to keep up with the contracts we sold and/or recommended. We have found that all permanent policies 5 years or older are underperforming based on their original projections.

Life policies should be audited often and include in-force ledgers that provide a clear picture of how the policy is running, both under guarantees and current assumptions. It is also recommended that you get a health audit on the client. Your client's life expectancy may be only 6 or 7 years, and policy cash values are more than sufficient and premiums can be stopped. Furthermore the health audit can open the door to determine if the client's position can be improved.

Clients appreciate the reviews and see them as a value-added service. They rely on our professional advice. There is no reason to let underperforming insurance contracts become a liability for you or your clients.



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