



HOW TO PROPERLY MAINTAIN AND FUND LIFE INSURANCE POLICIES

By:

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Presentation Overview

What is Life Insurance?

Various Types of Life Insurance Policies

Maintaining a Life Insurance Policy

Carrier Options and Ratings

Main Takeaways to Protect Your Client

What is Life Insurance?

- Life Insurance is commonly known to provide financial protection to those who depend the insured after their death
- Besides a Death Benefit, Life Insurance can also offer...
 - Estate Tax Relief
 - Non- Profit Donations
 - Help increase retention of Key Employees (Split Dollar or Non-Qualified Deferred Comp)
 - Protect Business from loss of owner or key persons (Key Person Insurance; Buy-Sell)

Why This Matters for CPA Firms

Best serve your clients' needs by asking what their needs are

Attract and retain high net-worth clients

Lawsuits and legal pitfalls

Understand Taxable Events

Guinness Book of World Records

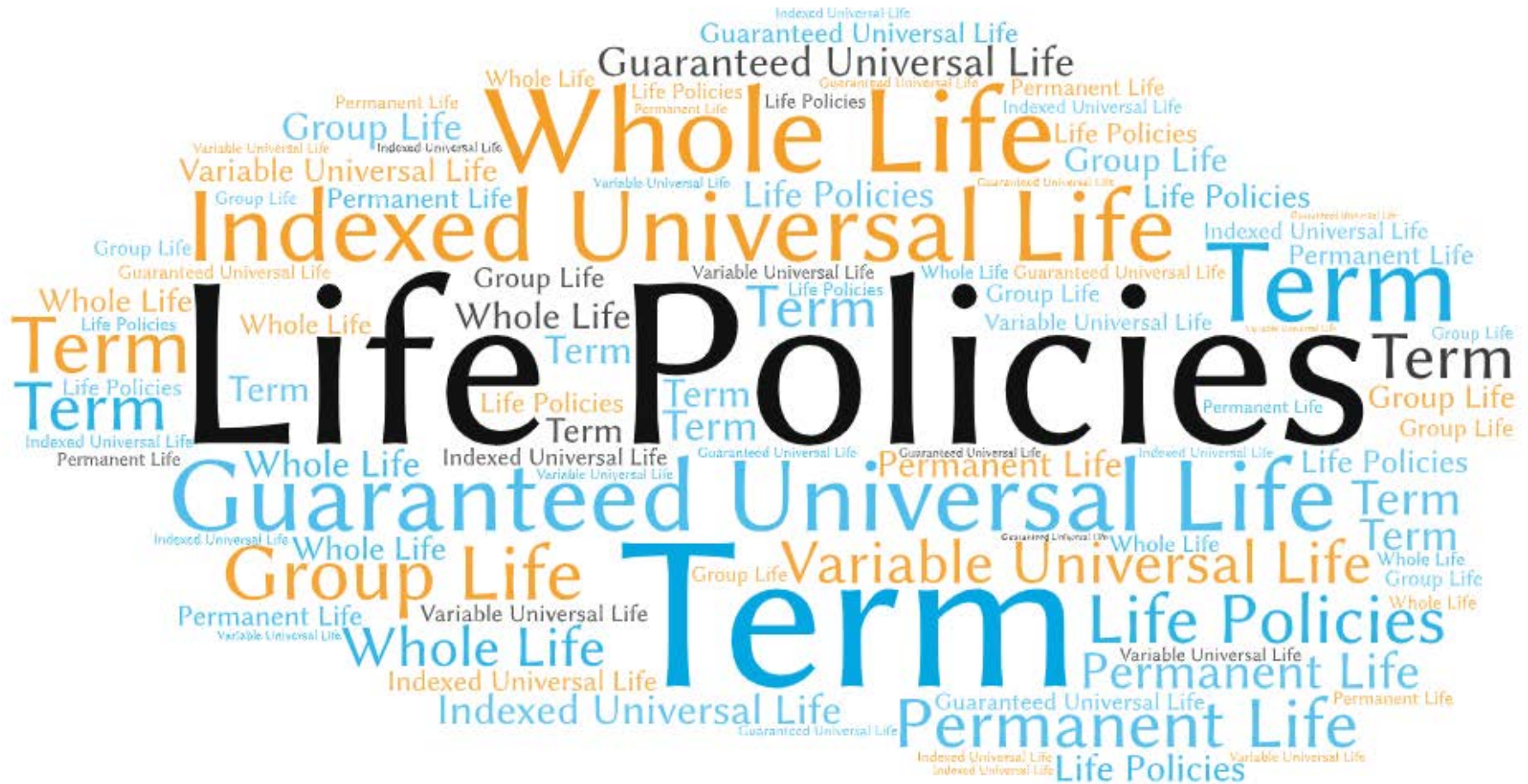
- In March of 2014, a world record was set
- A Silicon Valley Tycoon bought \$201 million in life insurance
- The premium: low-digit millions per year



First, let's go over

VARIOUS TYPES OF LIFE INSURANCE POLICES

Most Common Policies



Term Policies

Set premiums for
a set amount of
time

Premium drastically
increases after term ends

A \$2M, 20-year term for a male
age 39 Preferred Plus costs
\$950/annually and increased to
\$37K/annually

What need does
this fit?

Monitor

Convertibility

Whole Life

Cash Value buildup important, but not concerned about cash value growth keeping up with inflation

It tends to be a conservative investment

Offers guaranteed coverage for life at a premium that is fixed for life

Guaranteed Universal Life (GUL)

Premiums level for a lifetime

Policy guaranteed to a certain age

Length of premium payments can be structured to your preferences

Interest rate volatility does not affect premium payments

May not have cash value

Premium payments must be paid on time, or you can jeopardize the guaranteed level premium

Indexed Universal Life (IUL)

0 is your hero

Policies used for
Premium Financing
and Deferred
Compensation

Policyholders can decide
percentage of money
that is allocated to fixed
and indexed accounts

Cash Value
accumulation tax
deferred

When set up
correctly, can be used
to pull income out
during retirement

Allocate premiums
to flexible and
accessible tax-
deferred accounts

Business Retention Policies

- Business Retention
 - Loan Split Dollar
 - Non-Qualified Deferred Comp
- Protect Business from Death of Key Person
 - Key People Insurance
 - Buy-Sell

Michigan, Jim Harbaugh agree to increased compensation in form of life insurance loan



Dan Murphy
ESPN Staff Writer

Aug 17, 2016



Michigan and football coach Jim Harbaugh agreed to a contract amendment that will increase total payments from the school to \$9 million in 2016.

In addition to paying a \$5 million salary for each of the remaining six years on his deal, Michigan also will loan Harbaugh \$4 million in 2016 and an additional \$2 million for the following five years to pay the premium on a life insurance policy. The first \$2 million loan was made June 3, according to records obtained Wednesday via a Freedom of Information Act request. Each additional \$2 million payment will be made in December starting later this year.

Owner Types

Corporate Owned Life Insurance (COLI)

- Entity
- Cross Purchase

Irrevocable Life Insurance Trust (ILIT)

Estate Owned

Personal

Intentionally Defective Irrevocable Trust (IDIT)

Bank Owned Life Insurance (BOLI)

Common Pitfall: Issues in Life Policies

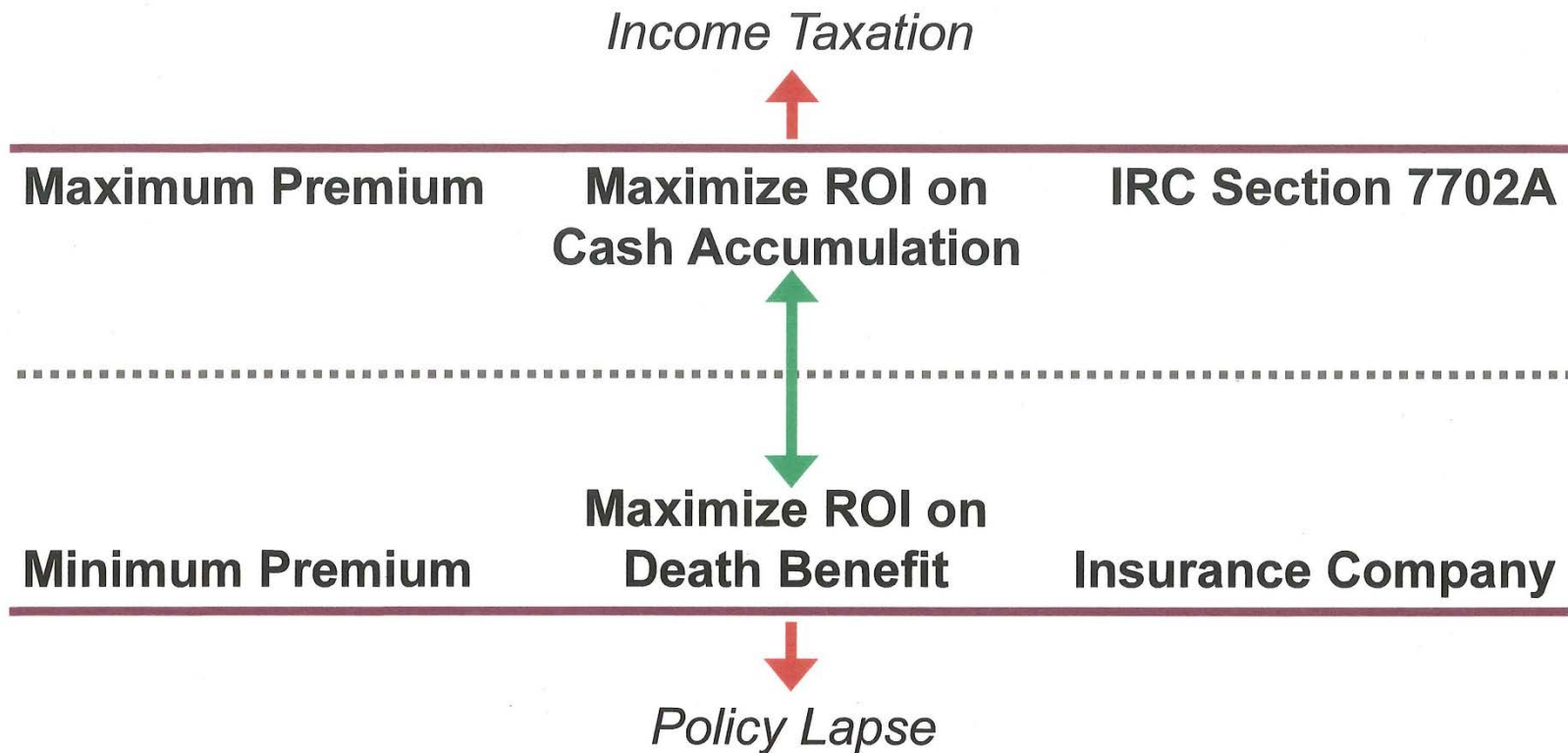
- The best way to protect your client is to look for common issues in life policies:
 - Overinsured or underinsured
 - Overfunded or underfunded
 - Incorrect ownership and tax consequences
 - Wrong beneficiary
 - Taxes when surrendering a policy

Potential Taxable Events

- Avoiding the Goodman Triangle
- Correctly funding the proper goals to be below the Modified Endowment Contract (MEC)
- Reviewing contracts for withdrawals and loans to avoid taxable gains at maturity
- Taxability of Surrenders v. Withdrawals v. Loan v. Selling
- Review older blocks of insurance business for endowment contracts or contracts that mature at age 95 or 100

Most Advisors & Insureds are Not Properly Funding their Policies

POLICY DESIGN





Now, let's go over how to

MAINTAINING A LIFE INSURANCE POLICY

Did you know?

69% of U.S. life insurance policies have not been reviewed during the past 5 years and 20% of these policies are likely to lapse during the next 3 to 7 years¹

John Resnick said of hundreds of older policies he has reviewed over a decade, “easily 90% or more actually were in trouble or soon to be in trouble.”²

Common Pitfall: Mismanaging Life Insurance

- The “Goodman Triangle”
 - *Goodman v. Commissioner of Internal Revenue* (1946)
 - *Taxable v. Tax Free Consequences*
- If you are the trustee of a policy, make sure to pay the premiums on time and that the invoices are billed to you and not the insured
- Valuing life insurance policy
- Fiduciary responsibility to order inforce illustration to make sure the policy is inforce when the insured dies

The Importance of Policy Reviews



Many CPAs treat insurance as a checklist and only ask if their client has insurance



When working with your clients, insurance needs to be a priority – Ask Questions!



A policy review should be part of your review with your clients

Is a Life Insurance Policy Still Serving its Purpose? Questions to Ask Your Client

Do you need additional or less life insurance coverage?

Are the current premiums on your policy affordable for you?

Have changes to your estate or marginal tax bracket affected the need for the policy?

Do you need to generate cash from the policy to offset other retirement expenses, such as health care bills or travel plans?

Is the ownership correct to avoid estate and income taxes?

Has there been a change of life status?

Does your family know about the various policies you own?

How big is your client's estate?

Findings from a Proformex Case Study¹

16% Orphan
Policies (no agent)

31% would lapse
before the desired
coverage date

44% fit the criteria
for a possible life
settlement

46% lapse prior to
their life expectancy

51% could
potentially be
enhanced with
lower cost products

53% have 25%
chance of outliving
the coverage

What Needs to be Monitored? ¹

Lapse Age

Death
Benefit

Premium

Crediting
Rate

Comdex

What Should Policy Reviews Accomplish?¹

Policy Beneficiaries

Policy Performance

Contract Details

Product
Alternatives

Confirm Policy Still
Meets Estate
Planning Tax Needs

To Monitor a Policy....

Statements

Review carrier statements

Illustrations

Order Inforce Illustrations

Financial

Review Carrier Strength

How Often Should Clients Have Their Policy Reviewed?

It depends on age, the type of policy, and strength of policy

Every
2-4 years

Average
policies

Every
1-2 years

Client has a policy
that has a loan
against

Performing poorly

Using cash value to
pay for premiums

No longer paying
premium

Every
year

Client is older

High chance
of passing in
the next 10
years

Types of Inforce Illustrations

As Is – if client pays the current premium, when will the policy last until?

Solve for Age – what is the minimum premium needed to desired age? 100? 90?

No More Premium – if client pays no additional premiums, when will the policy lapse?

Solve for premium amount

Inforce Illustrations Sample Letter

Insurance Carrier
Attention: Inforce Illustrations
Address
Fax:

RE: Policy #

Insureds:

Owner:

Policy Effective Date:

To whom it may concern:

For [Insured]'s Life Insurance Life policy number # I would like to request the following in force illustrations:

1. Illustrate As Is with Current Premiums
2. Illustrate the minimum premium needed to keep the policy in force to age 100, or closest age
3. Illustrate No More Premiums

The illustrations can be mailed to address on file or emailed to or faxed to

Thank you,

Owner

Date

Findings of Inforce Illustrations

Guaranteed 4.5% Interest with Current Premiums

End of Policy Year	Age of Client	Premium Due	Surrender Value	Death Benefit
24	61	\$27,000	\$622,594	\$5,000,000
33	70	\$27,000	\$134,873	\$5,000,000
34	71	\$0	\$0	\$0

Guaranteed 4.5% Interest with Premium Required to Age 100

End of Policy Year	Age of Client	Premium Due*	Surrender Value	Death Benefit
24	61	\$80,519	\$701,063	\$5,000,000
33	70	\$80,519	\$902,806	\$5,000,000
34	71	\$80,519	\$872,904	\$5,000,000
40	77	\$80,519	\$89,338	\$5,000,000
41	78	\$0	\$0	\$0

*If premium increased more, could have become a MEC, so this policy could not last until insured's age 100.

New Policy Options

Annual Premium Due	Guaranteed to Age	Death Benefit
\$31,469.00	100	\$5,000,000
\$51,655.00	105	\$5,000,000

Findings of Inforce Illustrations

Guaranteed 3% Interest with Current Premiums

End of Policy Year	Age of Client	Premium Due	Surrender Value	Death Benefit
15	64	\$69,300	\$465,529	\$3,200,000
17	66	\$62,401	\$541,332	\$3,200,000
18	67	\$44,277	\$748,372	\$3,200,000
40	89	\$44,277	\$1,098,593	\$3,200,000
46	95	\$44,277	\$0	\$3,200,000
76	125	\$0	\$0	\$3,200,000

Guaranteed 3% Interest with No More Premiums

End of Policy Year	Age of Client	Premium Due	Surrender Value	Death Benefit
15	64	\$0	\$478,780	\$3,200,000
17	66	\$0	\$503,503	\$3,200,000
18	67	\$0	\$514,591	\$3,200,000
40	89	\$0	\$0	\$3,200,000
46	95	\$0	\$0	\$3,200,000
76	125	\$0	\$0	\$3,200,000

What age should the policy be guaranteed until?

- Policies purchased before the mid 2000s have maturity dates of age 100, whereas policies purchased after the mid/late 2000s are guaranteed to ages 105-121
- Does your client know what happens to their life insurance policy if they turn 100? Do they get death benefit, or just the cash value taxed at ordinary outcome?

THE WALL STREET JOURNAL.

Happy 100th Birthday! There Goes Your Life Insurance Age limits are increasing problem for life-insurance industry

By Leslie Scism
July 20, 2017 7:00 a.m. ET



Gary Lebbin will be turning 100 and Transamerica has told him his life insurance policy will be terminated.

PHOTO: LEBBIN FAMILY

When Gary Lebbin turns 100 years old in September, hanging over any celebration will be one very costly fact: His life insurer aims to cancel two policies totaling \$3.2 million in death benefits.

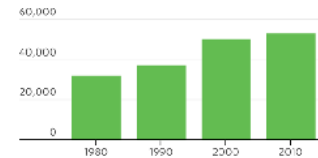
The Lebbin family has run up against a provision that exists in many life-insurance policies. Policies have expiration dates, and the one in the Lebbin family's two contracts is age 100 for the policyholder.

It is a standard feature of permanent life insurance, a product combining a tax-deferred savings component with a tax-free death-benefit. The provision calls for the termination of the death benefit and payout of all of the built-up savings when the policyholder reaches the specified age.

The limits weren't an issue in the many decades when very few people lived beyond 100. But they increasingly are a problem for the U.S. life-insurance industry as more people become centenarians. There were an estimated 63,364 centenarians in the U.S. as of 2010, up from 37,306 in 1990 and 32,194 in 1980, according to a U.S. Census report published in December 2012.

Passing a Century

More Americans are living beyond 100 years.



Source: U.S. Census Bureau

Since the mid- to late-2000s, the industry has used age 121 as the standard maturity date in new contracts. But an unknown number of older contracts with the 100-year-old limit remain in consumers' hands. Some insurers previously offered older policyholders the opportunity to extend the age in their older policies with varying financial terms.

The Lebbin family's insurer, a unit of Transamerica Corp., didn't offer an extension.

Lawrence Rybka, president of insurance brokerage Valmark Financial Group in Akron, Ohio, worries many people may unexpectedly lose out. At least seven people have recently contacted his firm with questions about older policies with maturity dates of 95 to 100 years. "Contract language of this type was common practice," he said.

Faced with the potential loss of coverage, Mr. Lebbin's family filed suit in federal court in Maryland earlier this month, accusing Transamerica of knowingly using a too-low age at the time of sale in the early 1990s. The suit also alleges the insurer improperly marketed the policies as "coverage for life."

The federal-court lawsuit says the Lebbins paid Transamerica more than \$1.5 million in premiums over the years. It seeks revision of the contracts to allow coverage until Mr. Lebbin's death. It also seeks an award including punitive and other damages.

Why are policies expiring prematurely in an Insured's 70s, 80s, or 90s?

- Several carriers have increased monthly deduction rates, Increase Cost of Insurance (COI), lower dividend rates, increase admin fees, etc.
- If a client is healthy, sometimes it makes more economic sense to purchase a new policy than to increase premiums on an older policy

Life Settlements

- Determining the transfer value (taxable?) provides attractive options for your clients
- All types of policies, including term insurance, can be exchanged for a lump sum
- Retain a portion of coverage and eliminate future premium payments
- Convert a policy to fund Long-Term Care as a qualified Medicaid spend-down

Factors that contribute to seeing if Life Settlements could be an option:

Age and Gender	Medical Condition
Smoking Status	Policy Type
Current Cash Surrender Value	Outstanding Loans
Current Premiums	Face Amount

AGE AND GENDER	POINTS
Male under 65 or Female under 65	0
Male 65-68 or Female 65-71	5
Male 69-74 or Female 72-77	10
Male 75-78 or Female 78-81	15
Male 79 and over or Female 82 and over	20

MEDICAL CONDITION	POINTS
Healthy Senior	0
Has minor health problems	15
Health has changed considerably since policy issue	20
Has serious health problems	25

SMOKING STATUS	POINTS
Non-smoker	0
Smoker	10

POLICY TYPE	POINTS
Joint Survivorship or Whole Life	4
Term Life	6
Universal Life	8
Joint Survivorship with one deceased	10

CURRENT CASH SURRENDER VALUE	POINTS
30% + of face amount	4
20% - 30% of face amount	6
10% - 20% of face amount	8
0% - 10% of face amount	10

OUTSTANDING LOANS	POINTS
30% + of face amount	4
20% - 30% of face amount	6
10% - 20% of face amount	8
0% - 10% of face amount	10

CURRENT PREMIUMS	POINTS
5% + of face amount	0
4% - 5% of face amount	3
3% - 4% of face amount	7
2% - 3% of face amount	11
1% - 2% of face amount	15

TOTAL POINTS maximum of 100

life settlement probability

TOTAL SCORE	
25 or less	Highly Unlikely
26 – 37	Low Probability Please contact us to discuss factors
38 – 67	Average Please contact us to obtain the proper state application
68 – 100	Highly Likely Please contact us to obtain the proper state application



Finally, let's go over

CARRIER OPTIONS AND RATINGS

Common Pitfall: Ignoring Strength Ratings

Clients sometimes prefer price over carrier's financial strength ratings



But this logic ignores long term strategies



Check Comdex ratings of carriers to confirm your client's insurance carrier will be there to pay off their death benefit

Rate Chart / Table Rating

Rate Class / Risk Class	* Basic Pricing
Preferred Plus / Best	50% of Standard
Preferred	63% of Standard
Standard Plus / Select	86% of Standard
Standard	Standard
Table Ratings	
Table 1 / A	+25% over standard
Table 2 / B	+50% over standard
Table 3 / C	+75% over standard
Table 4 / D	+100% over standard
Table 5 / E	+125% over standard
Table 6 / F	+150% over standard
Table 7 / G	+175% over standard
Table 8 / H	+200% over standard

*Discount percent shown for a particular Rate Class is an average and varies by carriers and policies.

Most carriers use +25% per table over standard for Table Ratings.

At least one carrier bases their Table Rates as *over* Standard Plus.

Client Got Declined...Now What?

- Clients who have been declined or rated poorly by a few carriers can be rated preferred by another carrier
- Carriers have different risk pools they like to take on
- Have expert review medical records for underwriting

There are many carriers out there...

<p>21st Services AIG Allianz of North America American General Life Insurance Co. American National Ashar Group, LLC AXA Equitable Life Insurance Co. Banner Life Better Health Advisors Brighthouse Financial Companion Life Continental Assurance (CNA) LTC Crown Global Insurance Group, LLC Crump Life Insurance Services, Inc. Disability Insurance Services, Inc. EMSI Equus Financial Consulting, LLC ExamOne Exceptional Risk Advisors Exclusive Marketing Organization (EMO) Fasano Associates, Inc. Genworth Life and Annuity Genworth Life Insurance Co. Genworth Life of New York Global Atlantic Financial Group Global Financial & Insurance Services Great West Life Guardian Life Hartford Life and Annuity Insurance Co. Hartford Life Insurance Co. Jetstream APS John Hancock Life U.S.A. John Hancock New York Legal & General America Life of the Southwest Lincoln Life Lincoln Life & Annuity Co. of New York Lombard International M3 Financial Mass Mutual Life Insurance Company Met Life Met Life Investors USA Insurance Minnesota Life Insurance Company Mutual of Omaha National Life of Vermont Nationwide Life and Annuity Co. of America</p>	<p>New England Life Insurance Co. New York Life Insurance and Annuity Co. New York Life Insurance Co. North American Co. One America/State Life Pacific Life and Annuity Co. Pacific Life Insurance Company Pan-American Assurance Company Pan-American Life Insurance Group Penn Insurance and Annuity Company Penn Mutual Life Insurance Company Peterson International Underwriters Phoenix Life Insurance Co. Phoenix Variable Ins. Co Principal Financial Principal Life Insurance Company Principal National Life Insurance Company Pro Offer (Risk Righter, LLC) Protective Life Insurance Co. Protective of NY Pruco Life Insurance Co. Pruco Life Insurance Co. of New Jersey Prudential Insurance Co. of America Prudential Life Insurance Companies ReliaStar Life Insurance Company ReliaStar Life Insurance Company of New York Resolution Life Securian Life Insurance Company Security Life of Denver Insurance Company Sun Financial Sun Life Assurance Co. of Canada Sun Life Insurance and Annuity Co. of NY Sun Life Insurance Co. of America Superior Mobile Medics Symetra Life Insurance Company Tellus Brokerage, Inc. TIAA -Cref Transamerica Financial Life Insurance Transamerica Life Insurance Company Union Central Insurance United of Omaha United States Life West Coast Life Ins Co. William Penn of New York Zurich American Life Insurance Company Zurich American Life Insurance Company of New York</p>
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Main Learning Takeaways to Protect Your Clients



Don't just buy the life policy and file it away. Monitor it and perform administration tasks!



Run inforce illustrations as frequently as needed based on your client and their policy



Confirm life insurance still meets tax planning needs



Know what type of policy your client has and the positives and negatives that come with it



For term policies, know when the conversion and policy ends



THANK YOU!

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