

Will Your Clients Outlive Their Life Insurance?



EPC OF MONTGOMERY COUNTY MARYLAND, INC.

Who is ITM TwentyFirst?

InsuranceIQ
ILIT MANAGEMENT SOLUTION

itm
INSURANCE
TRUST MONITOR

twentyfirst

Who is ITM TwentyFirst?



3 Things We Will Accomplish Today

Information

=

Power



3 Things We Will Accomplish Today

Life
Insurance
=
Asset



3 Things We Will Accomplish Today

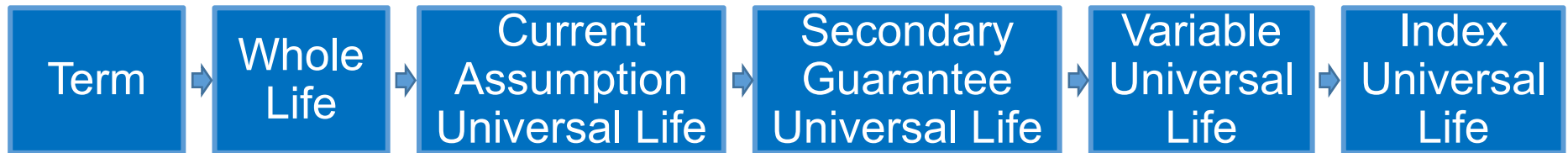
Your
Time
=
Money



Agenda

1. Understanding Life Insurance Policy Types and History
2. Selecting the Best Policy Through Policy Suitability
3. What Has Gone Wrong With Life Insurance and Why?
4. How Carriers Make Money on Life Insurance
5. What Next?
6. Managing a Life Insurance Policy Over Time
7. Advanced Techniques for Maximizing the Value of a Life Insurance Policy
 - Using a Life Expectancy Report
 - Policy Optimization
 - Dealing With an "Unwanted" Policy
8. Understanding Life Settlements

Life Insurance Time Line



Term Insurance



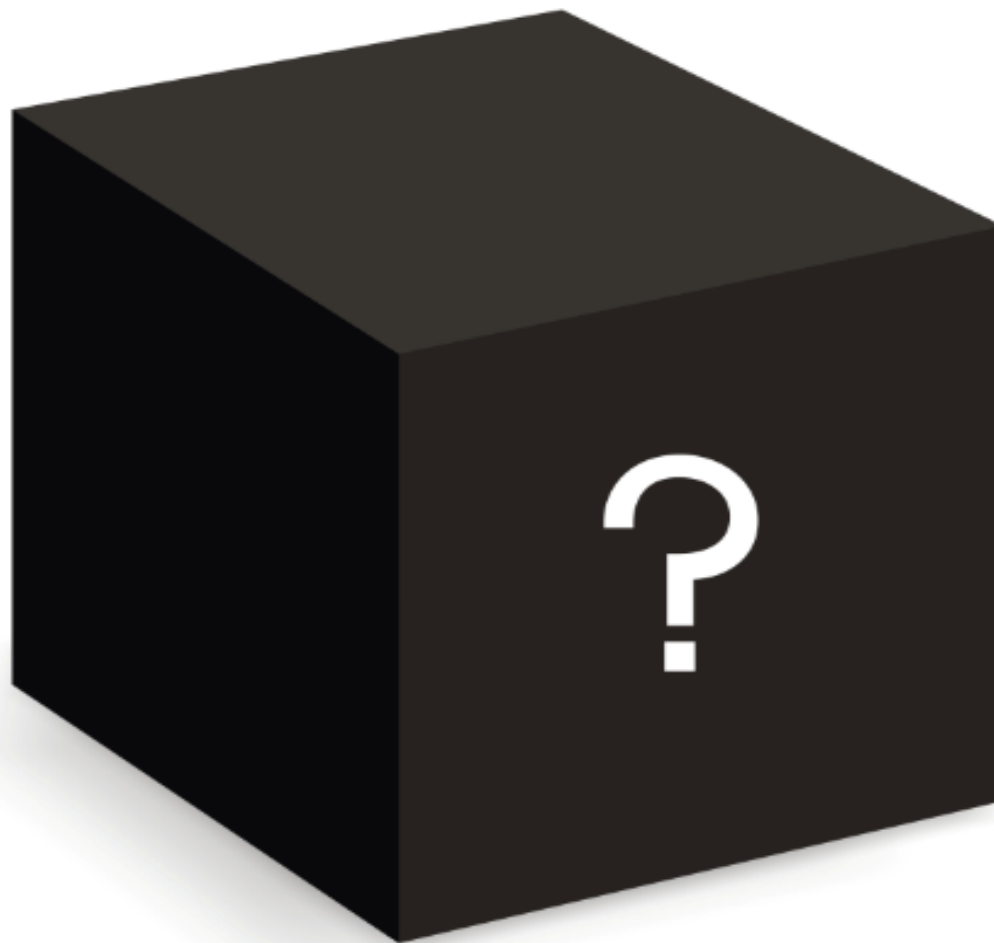
Term Insurance



Term Insurance

Conversion Option

Whole Life Insurance

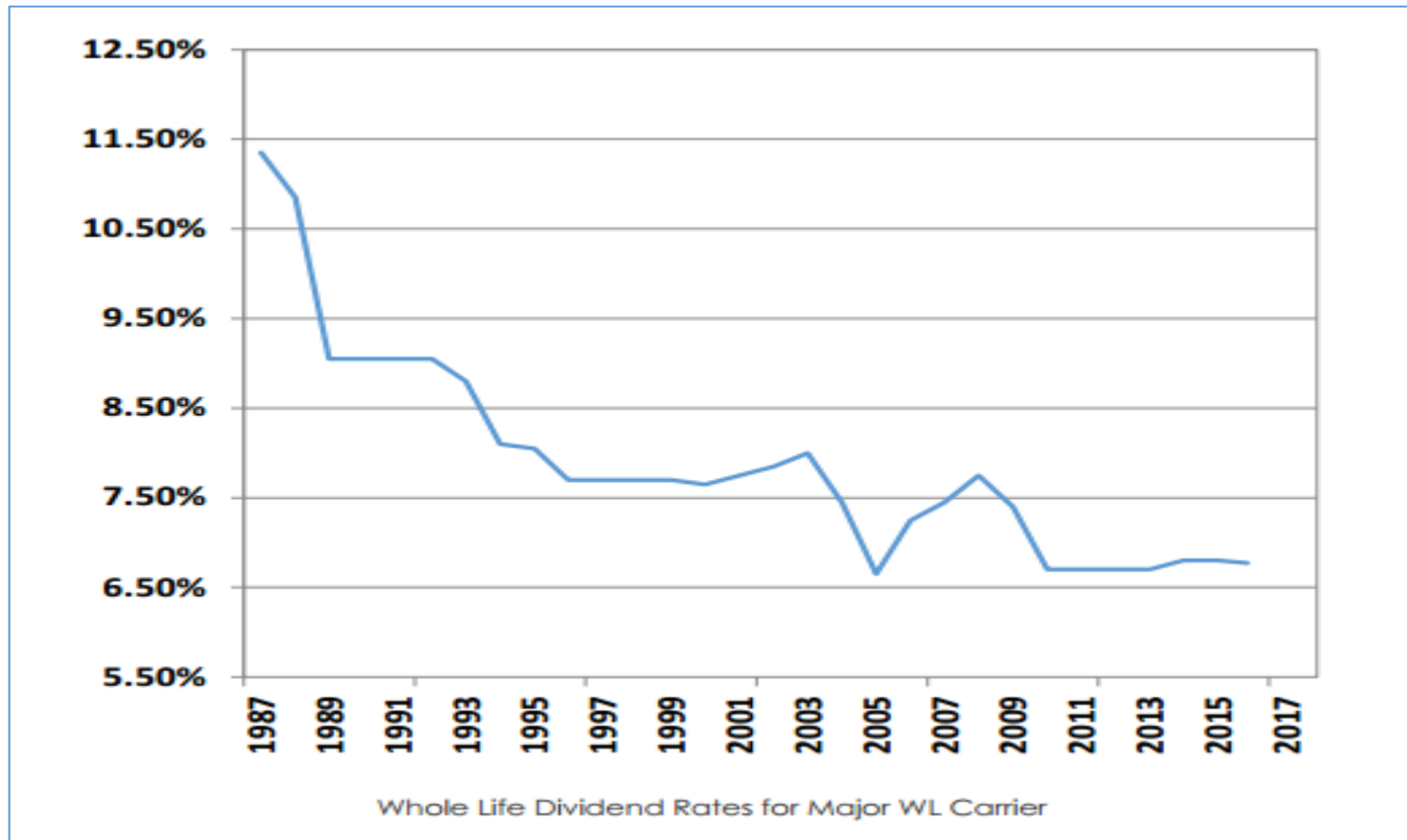


Whole Life Insurance Dividends

- To **reduce premium**
- Taken in **cash**
- Purchase “**paid up additions**”
- **Left with carrier** at interest
- **Repay loans** on the policy



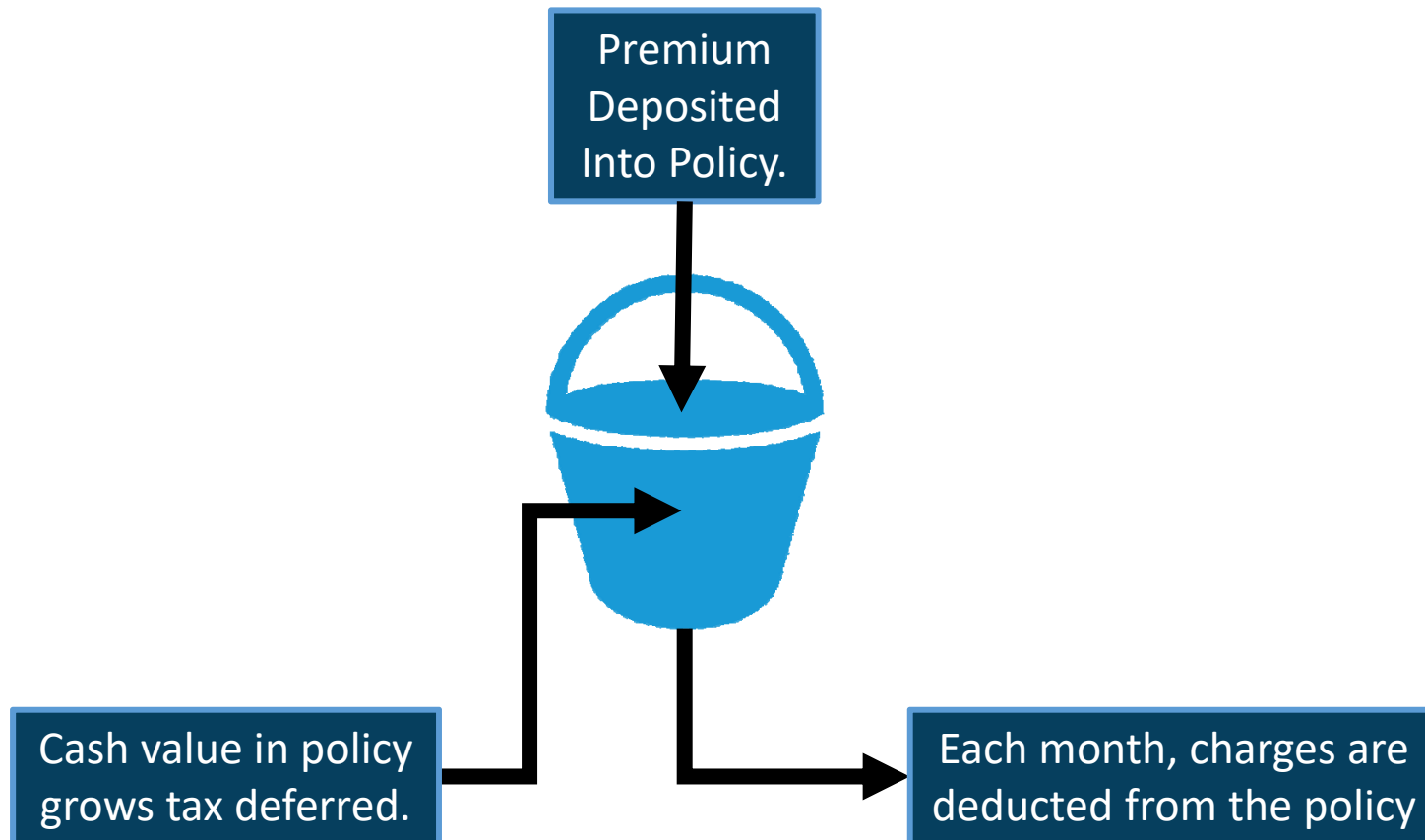
Whole Life Insurance Dividends



Remember the 80's?



Universal Life "Chassis"



Universal Life "Chassis"

End Of Year	Age	Annual Premium Outlay	Premium Load	Admin Charge	Current Cost of Insurance	Rider Costs	Gross Investment Earnings	Investment Fees & Expense	M&E Risk Charge	Withdrawals	Gross Accumulation Value (I)	Loans	Surrender Charge	Surrender Value
1	66	\$27,750	\$971	\$10,140	\$8,400	\$0	\$1,346	\$116	25	0	\$9,444	0	\$51,770	\$0
2	67	\$27,750	\$971	\$10,140	\$8,316	\$0	\$2,104	\$181	39	0	\$19,650	0	\$49,630	\$0
3	68	\$27,750	\$971	\$10,140	\$8,225	\$0	\$2,923	\$252	55	0	\$30,679	0	\$47,460	\$0
4	69	\$27,750	\$971	\$10,140	\$8,127	\$0	\$3,809	\$328	71	0	\$42,599	0	\$45,260	\$0
5	70	\$27,750	\$971	\$10,140	\$8,021	\$0	\$4,765	\$411	89	0	\$55,462	0	\$43,020	\$12,462
6	71	\$27,750	\$971	\$10,140	\$7,907	\$0	\$5,799	\$500	109	0	\$69,404	0	\$40,740	\$28,664
7	72	\$27,750	\$971	\$10,140	\$7,783	\$0	\$6,916	\$597	130	0	\$84,449	0	\$38,430	\$46,019
8	73	\$27,750	\$971	\$10,140	\$8,511	\$0	\$8,087	\$698	152	0	\$99,815	0	\$36,100	\$63,715
9	74	\$27,750	\$971	\$10,140	\$9,497	\$0	\$9,273	\$800	174	0	\$115,256	0	\$33,740	\$81,516
10	75	\$27,750	\$971	\$10,140	\$10,434	\$0	\$10,466	\$903	196	0	\$130,928	0	\$31,330	\$99,498
11	76	\$27,750	\$971	\$120	\$11,729	\$0	\$12,083	\$1,042	227	0	\$156,571	0	\$0	\$156,571
12	77	\$27,750	\$971	\$120	\$12,769	\$0	\$14,094	\$1,216	264	0	\$183,075	0	\$0	\$183,075
13	78	\$27,750	\$971	\$120	\$14,589	\$0	\$16,134	\$1,392	303	0	\$209,584	0	\$0	\$209,584
14	79	\$27,750	\$971	\$120	\$16,876	\$0	\$18,153	\$1,566	340	0	\$235,614	0	\$0	\$235,614
15	80	\$27,750	\$971	\$120	\$19,575	\$0	\$20,117	\$1,735	377	0	\$260,703	0	\$0	\$260,703

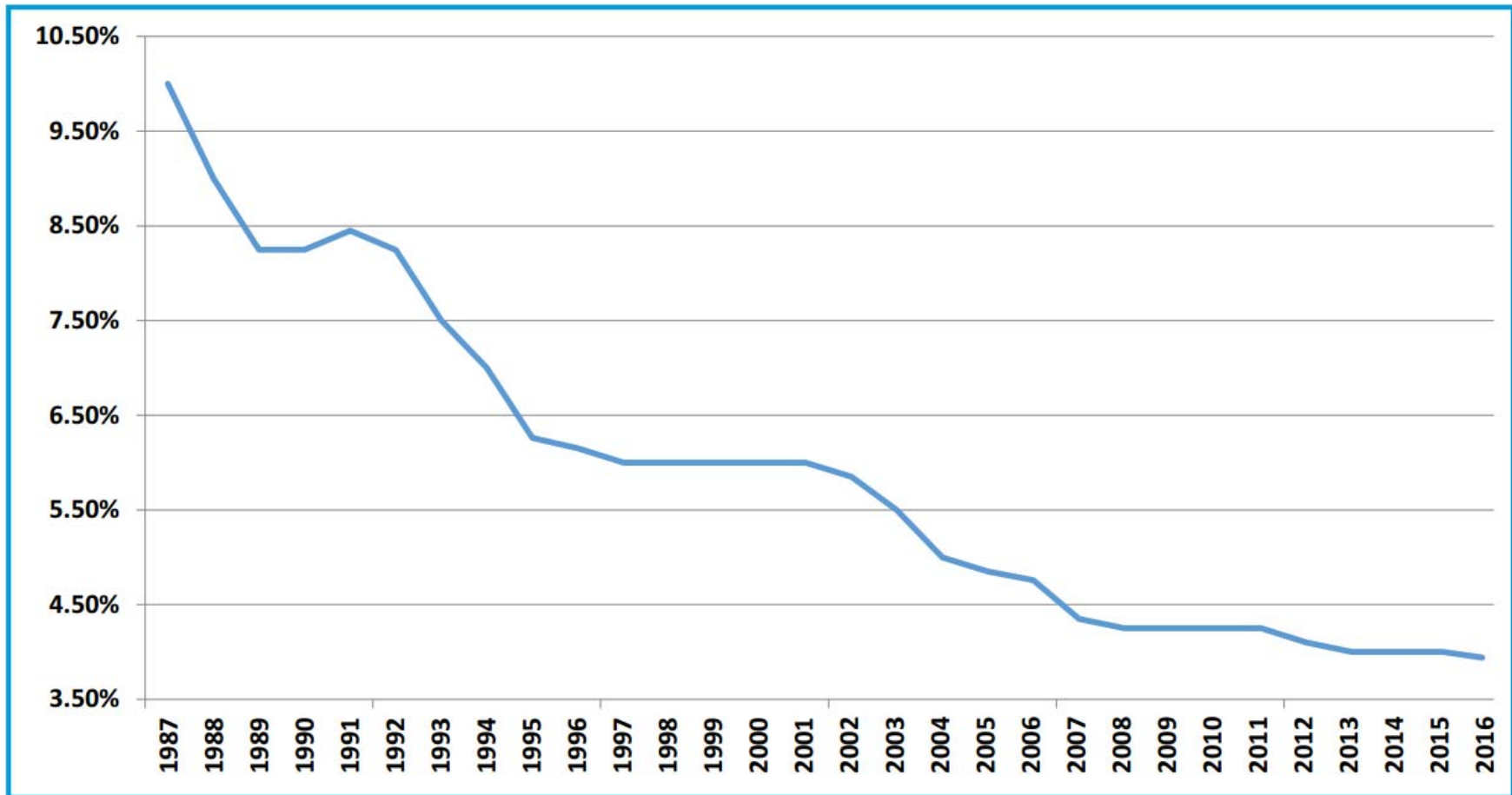
	Ending Surrender Value in Year 11	\$156,571
Plus	Premium in Year 12	\$27,750
Minus	Premium Load and Admin Charges in Year 12	\$1,091
Minus	Current Cost of Insurance	\$12,769
Plus	Investment Earnings in Year 12	\$14,094
Minus	Investment Fees and M&E Charges in Year 12	\$1,480
Equals	Gross Accumulation Value in Year 12	\$183,075
Minus	Surrender Charge in Year 12	\$0.00
Equals	Surrender Value	\$183,075

CAUL Sales Illustration

End of Year	Age	Net Annual Outlay(1)	Net Accum. Value	Surrender Value	Death Benefit	Net Annual Outlay(1)	Net Accum. Value	Surrender Value	Death Benefit
1	66	46,000	27,565	0	1,000,000	46,000	25,163	0	1,000,000
2	67	46,000	57,102	7,782	1,000,000	46,000	50,352	1,032	1,000,000
3	68	46,000	88,752	41,432	1,000,000	46,000	75,569	28,249	1,000,000
4	69	46,000	122,667	77,317	1,000,000	46,000	100,811	55,461	1,000,000
5	70	46,000	159,009	115,619	1,000,000	46,000	126,081	82,691	1,000,000
6	71	46,000	197,951	161,991	1,000,000	46,000	151,377	115,417	1,000,000
7	72	46,000	239,680	211,430	1,000,000	46,000	176,700	148,450	1,000,000
8	73	46,000	283,762	262,612	1,000,000	46,000	201,379	180,229	1,000,000
9	74	46,000	330,013	315,373	1,000,000	46,000	224,980	210,340	1,000,000
10	75	46,000	378,638	369,948	1,000,000	46,000	247,459	238,769	1,000,000
11	76	46,000	440,838	440,838	1,000,000	46,000	279,320	279,320	1,000,000
12	77	46,000	506,835	506,835	1,000,000	46,000	310,049	310,049	1,000,000
13	78	46,000	577,104	577,104	1,000,000	46,000	339,613	339,613	1,000,000
14	79	46,000	652,230	652,230	1,000,000	46,000	367,987	367,987	1,000,000
15	80	46,000	732,929	732,929	1,000,000	46,000	395,144	395,144	1,000,000
16	81	46,000	824,310	824,310	1,000,000	46,000	423,394	423,394	1,000,000
17	82	46,000	924,097	924,097	1,000,000	46,000	450,493	450,493	1,000,000
18	83	46,000	1,032,188	1,032,188	1,083,798	46,000	476,427	476,427	1,000,000
19	84	46,000	1,147,186	1,147,186	1,204,545	46,000	501,191	501,191	1,000,000
20	85	46,000	1,269,475	1,269,475	1,332,949	46,000	524,777	524,777	1,000,000
21	86	46,000	1,399,348	1,399,348	1,469,315	46,000	546,489	546,489	1,000,000
22	87	46,000	1,537,163	1,537,163	1,614,021	46,000	566,225	566,225	1,000,000
23	88	46,000	1,683,280	1,683,280	1,767,444	46,000	583,873	583,873	1,000,000
24	89	46,000	1,838,049	1,838,049	1,929,952	46,000	599,270	599,270	1,000,000
25	90	46,000	2,001,828	2,001,828	2,101,920	46,000	612,286	612,286	1,000,000
26	91	46,000	2,175,043	2,175,043	2,283,795	46,000	622,995	622,995	1,000,000
27	92	46,000	2,360,269	2,360,269	2,454,680	46,000	630,698	630,698	1,000,000
28	93	46,000	2,558,962	2,558,962	2,635,730	46,000	635,044	635,044	1,000,000
29	94	46,000	2,772,868	2,772,868	2,828,326	46,000	635,547	635,547	1,000,000
30	95	46,000	3,004,111	3,004,111	3,034,153	46,000	631,829	631,829	1,000,000

Current interest crediting rates and costs are projected over the life of the insured

CAUL Crediting Rates



Guaranteed Universal Life (GUL)

- Death benefit guaranteed as long as required premiums were paid in full and on time
- Minimal cash values



Variable Universal Life (VUL)

- First policy to have cash values directed by policy owner
- First policy where investments could lose money



Variable Universal Life (VUL)



Indexed Universal Life (EIUL or IUL)

- More Conservative than Variable?



Indexed Universal Life (EIUL or IUL)

Actual Index Rate	Times the Participation Rate	Equals the Adjusted Growth Rate	Subject to Growth Cap of 10% and Floor of 0%	Equals Credited Rate
18%	100%	18%	Subject to Cap	10%
9.25%	100%	9.25%	No Cap/Floor	9.25%
-14.25%	100%	-14.25%	Subject to Floor	0%

Indexed UL Example

Indexed Universal Life (EIUL or IUL)

If S&P Return Is	Crediting Rate Is
6%	5.63%
8%	6.12%
10%	6.60%
12%	7.09%

Indexed UL Crediting Example

*Assumes Participation is 100%,
Cap of 10%, Floor of 0%*

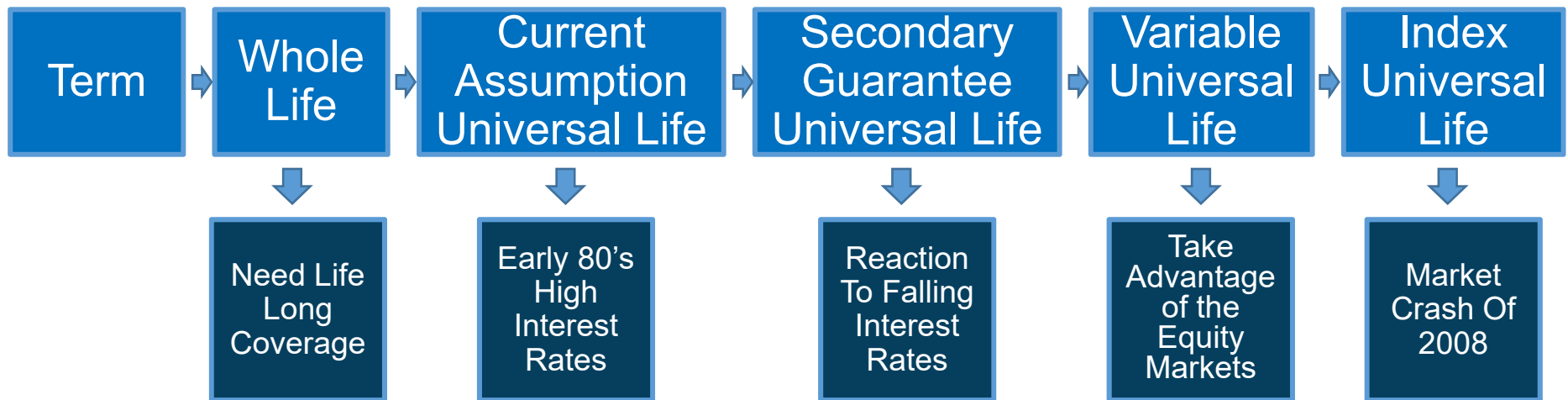
Indexed Universal Life (EIUL or IUL)

Actuarial Guideline XLIX Will Mandate More Realistic Assumptions for Index-Based Life Insurance Policies

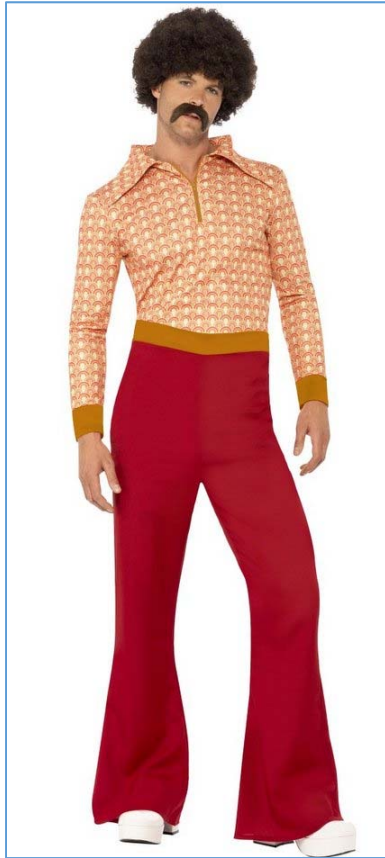
Posted on September 1, 2015 by mbrohawn

We have written, as recently as June of this year, in [*Life Insurance Illustration Assumptions...a Trustee's Dilemma*](#), about the investment assumptions used in life insurance sales illustrations. In most illustrations, all else equal, the higher the return assumed in the investment backing the cash value, the lower the premium shown to carry the policy. Historically, this has led to aggressive sales presentations that illustrate well, but ultimately do not hold up. In the last few years we have published a number of Blogs referencing Indexed Universal Life (IUL) policies sold with what we believed were aggressive assumptions. It appears that that will be ending. As of today, Actuarial Guideline XLIX (AG 49) will limit the crediting rate shown on all "new business and inforce life insurance policies" where "interest credits are linked to an external index or indices."

Life Insurance Time Line Recap



Fads Come and Go...

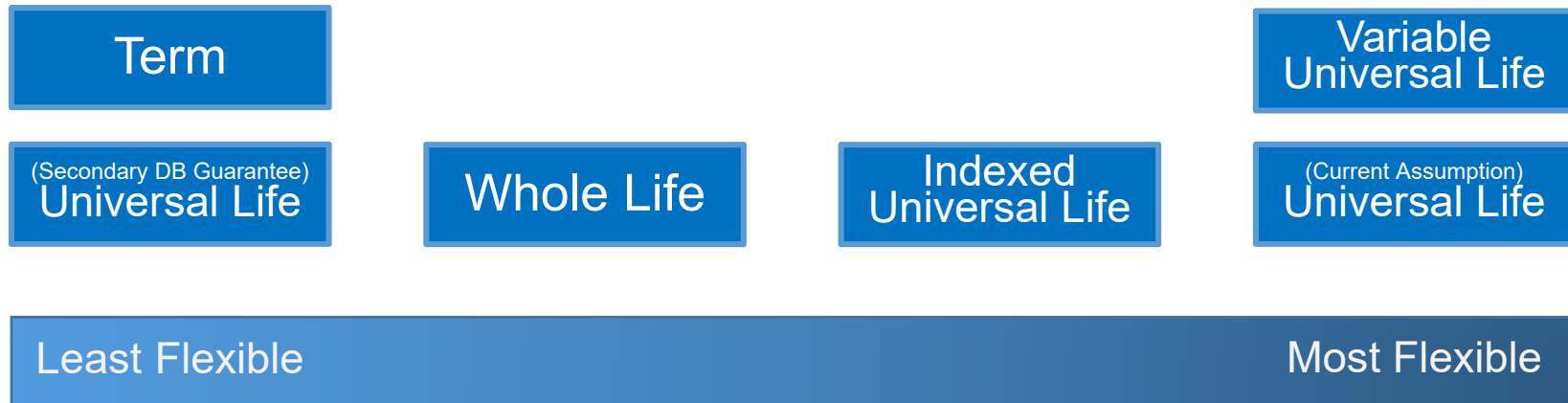


Policy Suitability

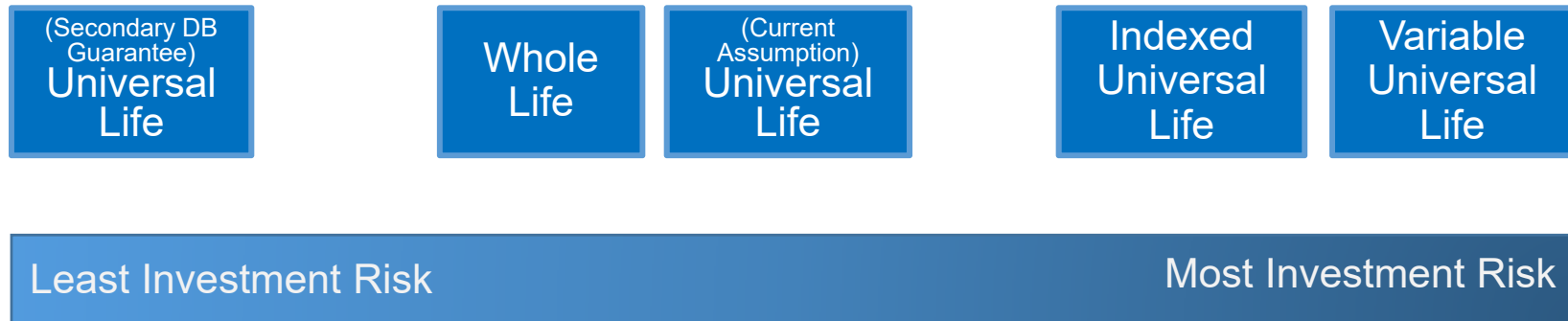
How
Do
You
Define?



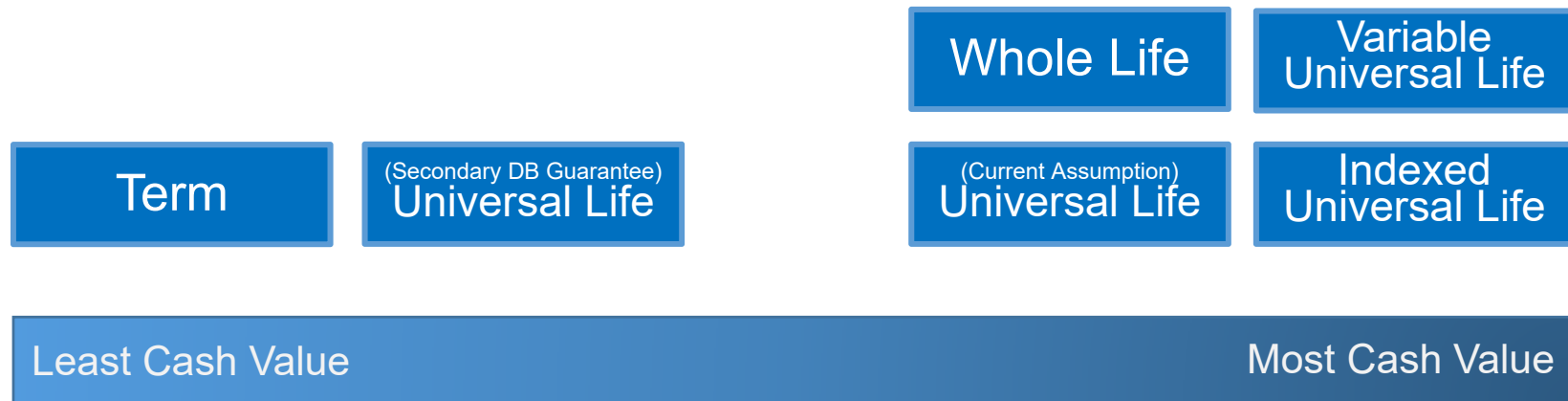
Premium Flexibility



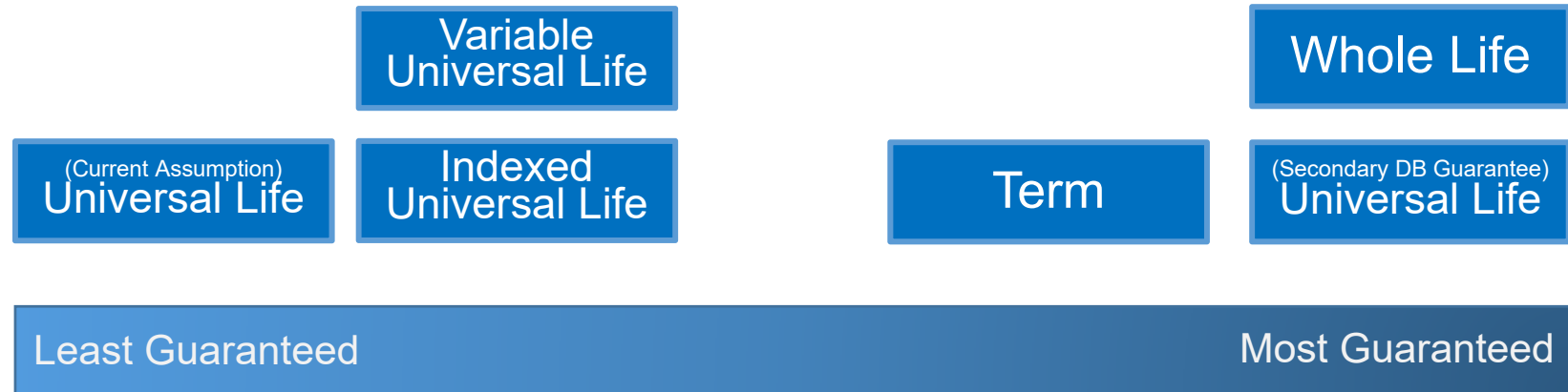
Investment Risk



Cash Value Growth



Death Benefit Guarantees

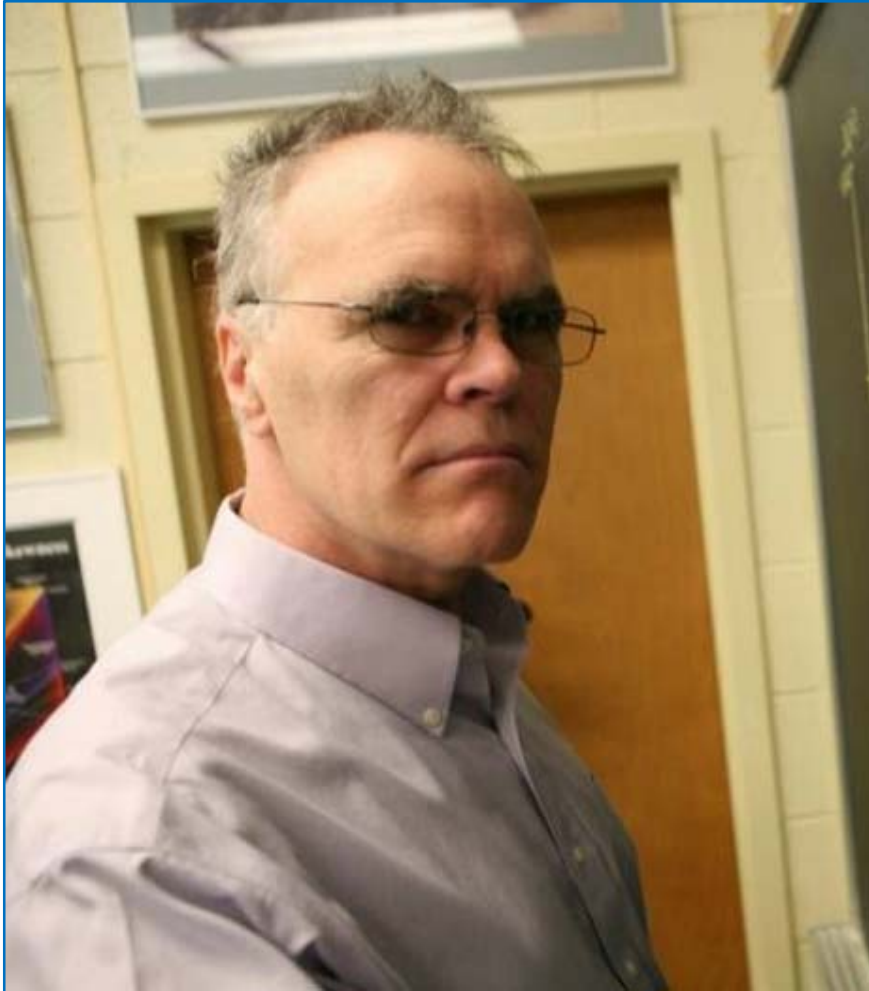


Other Criteria

- Policy Costs
- Underwriting
- Years to Pay



What Is Going On With Life Insurance?



Email from a representative from a UL Carrier: *From 2013*

“Actuarial is currently doing an expense, mortality and interest study... COI’s are anticipated to increase up to the guaranteed maximum and the preliminary results are showing that we will likely be increasing COI’s to near the maximums, if not the maximums.”

Cost of Insurance (COI) Increase

- Transamerica
- AXA (USFL)
- Legal & General
 - Banner
 - William Penn
- Voya
- AXA (Athena II)
- Conseco
- Transamerica (again)
- Lincoln National (twice)



Cost of Insurance (COI) Example

Year	Age	Monthly COI per thousand dollars of death benefit coverage		% Increase
		Pre COI	Post COI	
14	89	2.103644	NA	NA
15	90	2.415111	4.80131	98.80%
16	91	2.757187	5.48628	98.98%
17	92	3.130776	6.23376	99.11%
18	93	3.534362	7.04206	99.25%
19	94	3.968182	7.91036	99.34%
20	95	4.430643	8.83617	99.43%
21	96	4.920327	9.81697	99.52%
22	97	5.484253	10.94527	99.58%
23	98	6.082343	12.14441	99.67%
24	99	6.715234	13.41104	99.71%
25	100	7.371911	25.05658	239.89%

The Cost of Insurance (COI) is taken out as a monthly charge.
The cost shown above is the cost per month for \$1,000 of pure insurance coverage (The Net Amount at Risk.)



Cost of Insurance (COI) Reasons

- “**mortality** on these blocks has been **unfavorable**”
- “**investment returns** have been **at all time lows**”
- “expecting **future mortality** experience **to be less favorable than was anticipated**”
- “**mortality and investment** expectations...are **less favorable** than was anticipated”
- “experiencing **higher claims costs**...and expect this trend to continue”



How Carriers Make Money On CAUL



- ✓ Interest Rate Spread
- ✓ Cost of Insurance (COI)
 - ✓ Lapse Rate
- ✓ Company Overhead

Reasons For The COI Increases



- ✓ Low Interest Rates
 - ✓ Poor UW
- ✓ Adverse Selection
 - ✓ Low Lapse Rates
- ✓ Reserve Requirements

What Can the Consumer Do?



- ✓ Pay More Premium
- ✓ Reduce the Death Benefit
- ✓ Surrender the Policy
 - ✓ Paid up Policy

Cost Of Insurance (COI) Increases

Now
What?



Now What?



Now What?



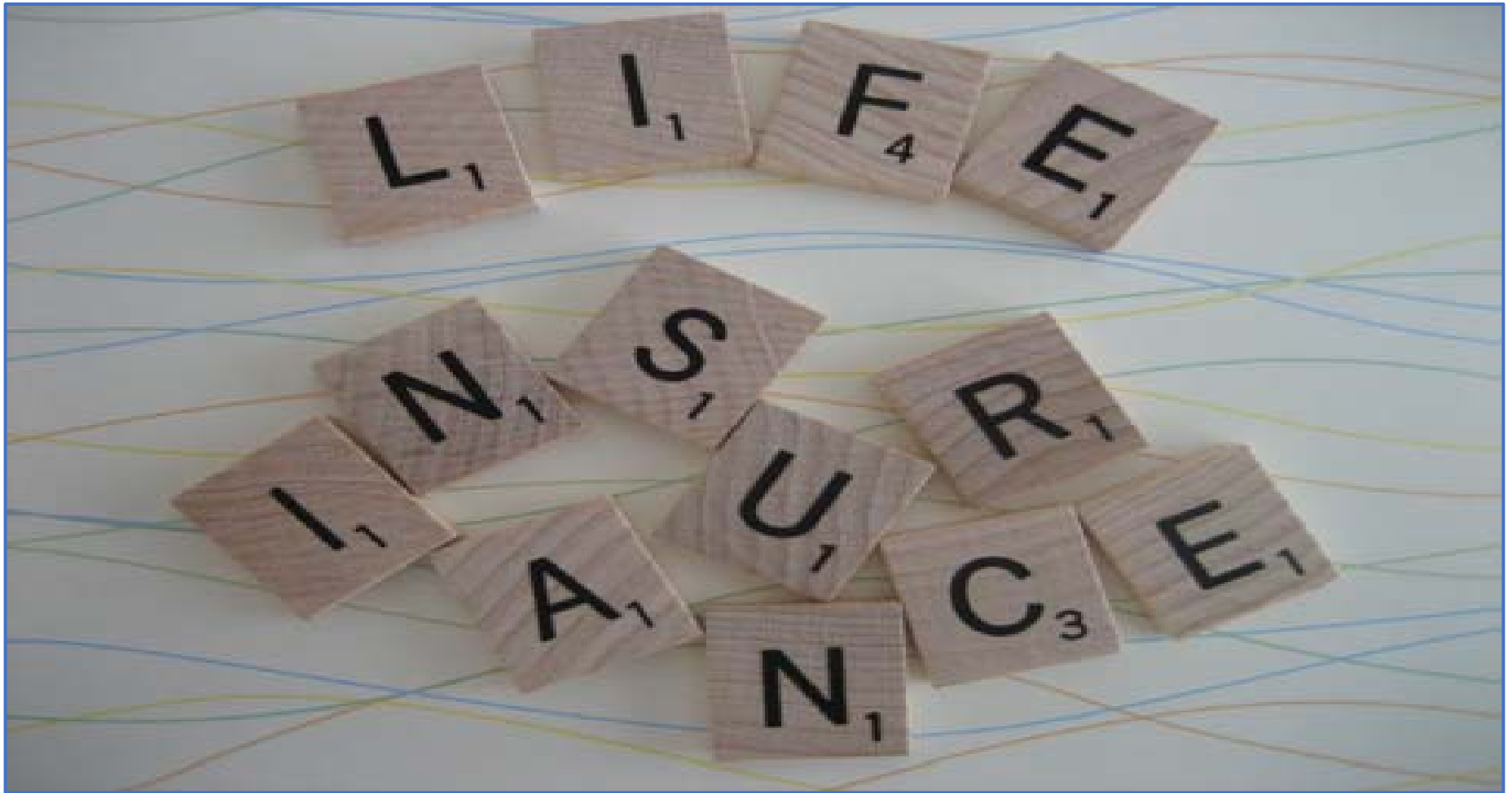
Now What?



Clients Need Answers



Tracking a Policy Over Time

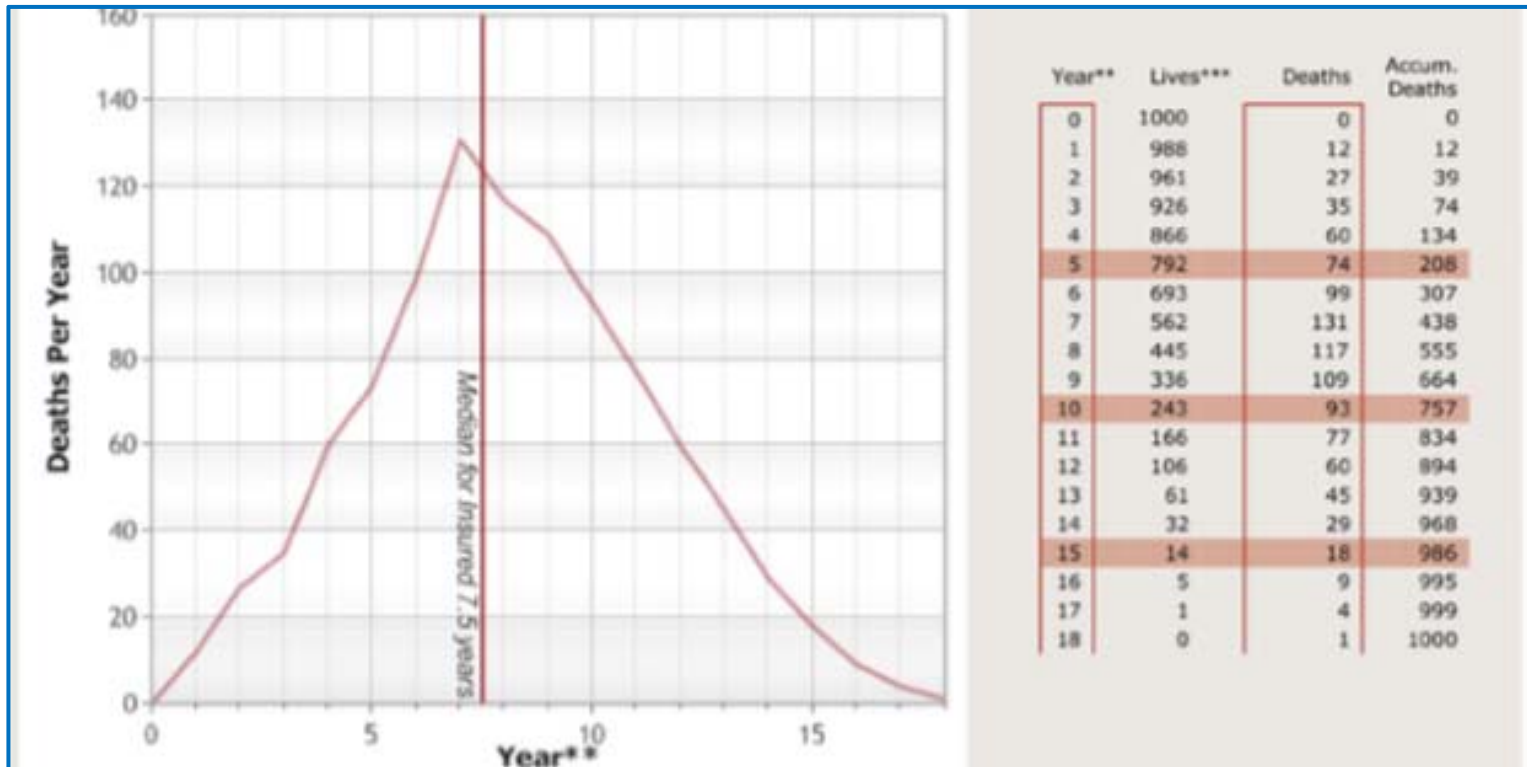


More Sophisticated Tools

- ✓ Life Expectancy Reports
- ✓ Policy Optimization
- ✓ Dealing with the “Unwanted” Policy



What Is A Life Expectancy (LE) Report?



How Can An LE Report Help An Advisor or Trustee?

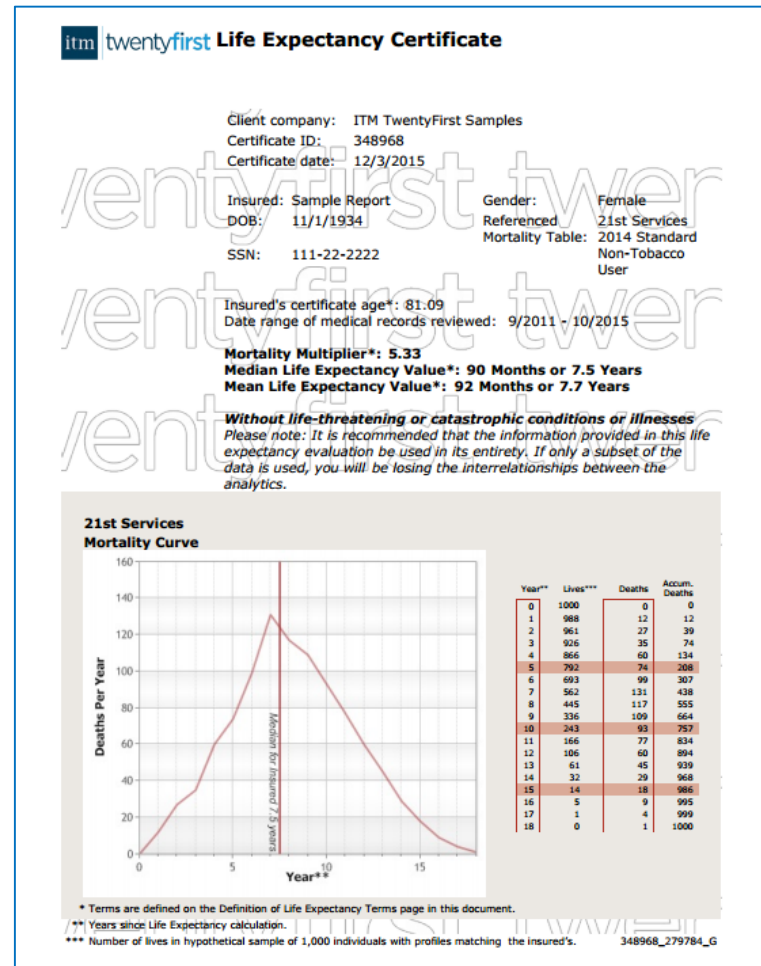
Year	Age		Projected Out of Pocket Contributions - Pay \$0 Until Point of Lapse							Total Cumulative Premium	Life Expectancy Report % Total Deaths
			Policy #1		Policy #2		Policy #3				
			\$5,000,000 policy		\$2,000,000 policy		\$3,000,000 policy				
			Annual Premium	Cumulative Premium	Annual Premium	Cumulative Premium	Annual Premium	Cumulative Premium			
2016	1	86	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	12%
2017	2	87	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	29%
2018	3	88	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	46%
2019	4	89	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	64%
2020	5	90	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	76%
2021	6	91	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	85%
2022	7	92	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	91%
2023	8	93	\$0	\$0	\$17,650	\$17,650	\$0	\$0	\$17,650	\$17,650	97%
2024	9	94	\$35,000	\$35,000	\$17,650	\$35,300	\$0	\$0	\$70,300	\$70,300	100%
2025	10	95	\$70,000	\$105,000	\$17,650	\$52,950	\$18,000	\$18,000	\$175,950	\$175,950	NA
2026	11	96	\$70,000	\$175,000	\$17,650	\$70,600	\$35,675	\$53,675	\$299,275	\$299,275	NA
2027	12	97	\$70,000	\$245,000	\$17,650	\$88,250	\$35,675	\$89,350	\$422,600	\$422,600	NA
2028	13	98	\$70,000	\$315,000	\$17,650	\$105,900	\$35,675	\$125,025	\$545,925	\$545,925	NA
2029	14	99	\$70,000	\$385,000	\$17,650	\$123,550	\$35,675	\$160,700	\$669,250	\$669,250	NA

8 Years before any premium is needed

At 8 years little chance the insured is still alive

Life Expectancy (LE) Report

The Life Expectancy Report gives an Advisor or Trustee another data point. It does not provide “an answer,” but does provide **guidance**, especially for the Trustee attempting to make a **prudent decision** about a valuable asset where answers are hard to find.



Policy Optimization

1					2			3		
CURRENT ANNUAL PREMIUM STREAM * Based on non-guaranteed assumptions, the policy will provide death benefit coverage until age 82					MINIMUM LEVEL ANNUAL PREMIUM STREAM *Based on non-guaranteed assumptions adjusting the premium to \$471,369 will provide death benefit coverage to age 99			21STREAM™ OPTIMIZED PREMIUM STREAM *Based on non-guaranteed assumptions paying minimum premiums will carry the Death Benefit to age 100		
Policy Year	Age	Current Annual Premium	Non-Guaranteed CSV	Non-Guaranteed Death Benefit	Annual Premium	Non-Guaranteed CSV	Non-Guaranteed Death Benefit	MINCOI	Non-Guaranteed CSV	Non-Guaranteed Death Benefit
7	77/78	\$0.00	\$384,647	\$10,000,000	\$236,685	\$607,381	\$10,000,000	\$0.00	\$384,647	\$10,000,000
8	78/79	\$135,000	\$311,776	\$10,000,000	\$471,369	\$866,815	\$10,000,000	\$0.00	\$216,689	\$10,000,000
9	79/80	\$135,000	\$215,232	\$10,000,000	\$471,369	\$1,123,297	\$10,000,000	\$0.00	\$18,824	\$10,000,000
10	80/81	\$135,000	\$91,707	\$10,000,000	\$471,369	\$1,376,199	\$10,000,000	\$0.00	\$0.00	\$10,000,000
11	81/82	\$135,000	\$0.00	\$10,000,000	\$471,369	\$1,629,894	\$10,000,000	\$169,940	\$0.00	\$10,000,000
12	82/83	\$135,000	\$0.00	\$0.00	\$471,369	\$1,886,328	\$10,000,000	\$388,599	\$0.00	\$10,000,000
13	83/84	\$0.00	\$0.00	\$0.00	\$471,369	\$2,146,612	\$10,000,000	\$424,750	\$21,252	\$10,000,000
14	84/85	\$0.00	\$0.00	\$0.00	\$471,369	\$2,392,110	\$10,000,000	\$467,794	\$66,569	\$10,000,000
15	85/86	\$0.00	\$0.00	\$0.00	\$471,369	\$2,629,616	\$10,000,000	\$501,177	\$112,004	\$10,000,000
16	86/87	\$0.00	\$0.00	\$0.00	\$471,369	\$2,762,302	\$10,000,000	\$603,469	\$131,640	\$10,000,000
17	87/88	\$0.00	\$0.00	\$0.00	\$471,369	\$2,871,968	\$10,000,000	\$637,438	\$144,807	\$10,000,000
18	88/89	\$0.00	\$0.00	\$0.00	\$471,369	\$2,955,972	\$10,000,000	\$687,306	\$159,682	\$10,000,000
19	89/90	\$0.00	\$0.00	\$0.00	\$471,369	\$3,010,831	\$10,000,000	\$739,269	\$176,591	\$10,000,000
20	90/91	\$0.00	\$0.00	\$0.00	\$471,369	\$3,031,515	\$10,000,000	\$794,398	\$195,965	\$10,000,000
21	91/92	\$0.00	\$0.00	\$0.00	\$471,369	\$3,011,925	\$10,000,000	\$852,471	\$218,273	\$10,000,000
22	92/93	\$0.00	\$0.00	\$0.00	\$471,369	\$2,944,399	\$10,000,000	\$913,585	\$244,111	\$10,000,000
23	93/94	\$0.00	\$0.00	\$0.00	\$471,369	\$2,820,358	\$10,000,000	\$976,206	\$274,080	\$10,000,000

Policy
(Premium)
Optimization is a
method of
maximizing the
value of a policy
*...on specific
cases*

Putting It All Together

Annual		Optimized		Carrier Provided Minimum		Advantage/ Disadvantage Optimization vs. Carrier	LE Report Percentage Total Deaths
Policy Year	Age	Annual Premiums	Cumulative Premiums	Annual Premiums	Cumulative Premiums		
7	82	\$8,308	\$8,308	\$131,164	\$131,164	\$122,856	0.00%
8	83	\$91,949	\$100,258	\$262,329	\$393,493	\$293,235	1.20%
9	84	\$108,936	\$209,194	\$262,329	\$655,822	\$446,628	3.90%
10	85	\$133,910	\$343,103	\$262,329	\$918,151	\$575,048	7.30%
11	86	\$142,732	\$485,835	\$262,329	\$1,180,480	\$694,645	13.40%
12	87	\$156,725	\$642,560	\$262,329	\$1,442,809	\$800,249	20.80%
13	88	\$179,591	\$822,151	\$262,329	\$1,705,138	\$882,987	30.70%
14	89	\$210,379	\$1,032,530	\$262,329	\$1,967,467	\$934,937	43.80%
15	90	\$241,130	\$1,273,661	\$262,329	\$2,229,796	\$956,136	55.50%
16	91	\$342,074	\$1,615,734	\$262,329	\$2,492,125	\$876,391	66.30%
17	92	\$369,141	\$1,984,876	\$262,329	\$2,754,454	\$769,578	75.70%
18	93	\$401,760	\$2,386,636	\$262,329	\$3,016,783	\$630,147	83.40%
19	94	\$438,375	\$2,825,010	\$262,329	\$3,279,112	\$454,102	89.40%
20	95	\$484,318	\$3,309,328	\$262,329	\$3,541,441	\$232,113	93.80%
21	96	\$537,418	\$3,846,747	\$262,329	\$3,803,770	-\$42,977	96.80%
22	97	\$595,873	\$4,442,620	\$262,329	\$4,066,099	-\$376,521	98.60%
23	98	\$648,127	\$5,090,747	\$262,329	\$4,328,428	-\$762,319	99.50%
24	99	\$690,860	\$5,781,607	\$262,329	\$4,590,757	-\$1,190,850	99.90%
25	100	\$674,558	\$6,456,166	\$262,329	\$4,853,086	-\$1,603,080	100.00%

Crossover Year

Dealing With Problem or Unwanted Policy

2004 - 31,329

2014 - 5,158

*The World Has
Changed*



Dealing With Problem or Unwanted Policy

	1	2	3	4	5	6	7	8
	Year	Policy Year	Ages	Surrender Value Invested at 4% net return	Surrender Value Invested at 6% net return	Policy Outcome at Reduced Death Benefit of \$1,500,000	Policy Outcome at Reduced Death Benefit of \$1,100,000	
	1	2015	14	88	\$584,480	\$596,033	\$1,500,000	\$1,100,000
	2	2016	15	89	\$607,859	\$631,795	\$1,500,000	\$1,100,000
	3	2017	16	90	\$632,173	\$669,702	\$1,500,000	\$1,100,000
	4	2018	17	91	\$657,461	\$709,884	\$1,500,000	\$1,100,000
What if LE Was 5 Years	5	2019	18	92	\$683,759	\$752,478	\$1,500,000	\$1,100,000
	6	2020	19	93	\$711,109	\$797,626	\$1,500,000	\$1,100,000
	7	2021	20	94	\$739,554	\$845,484	\$1,500,000	\$1,100,000
	8	2022	21	95	\$769,136	\$896,213	\$1,500,000	\$1,100,000
	9	2023	22	96	\$799,901	\$949,986	\$1,500,000	\$1,100,000
What if LE Was 10 Years	10	2024	23	97	\$831,897	\$1,006,985	Policy Lapse	\$1,100,000
	11	2025	24	98	\$856,173	\$1,067,404		\$1,100,000
	12	2026	25	99	\$899,780	\$1,131,448		\$1,100,000
	13	2027	26	100	\$935,771	\$1,199,335		\$1,100,000
	14	2028	27	101	\$973,202	\$1,271,295		\$1,100,000
	15	2029	28	102	\$1,012,130	\$1,347,573		\$1,100,000
	16	2030	29	103	\$1,052,615	\$1,428,427		\$1,100,000
	17	2031	30	104	\$1,094,720	\$1,514,133		\$1,100,000
	18	2032	31	105	\$1,138,509	\$1,604,981		\$1,100,000

Life Settlements

A golden key is positioned diagonally across a document. The document has the text "YOUR LIFE INSURANCE POLICY" printed on it in a serif font. The scene is lit with a cool blue light, creating a professional and serious atmosphere. The key is highly reflective, and the document is slightly out of focus, emphasizing the key as a symbol of access or solution.

YOUR LIFE
INSURANCE POLICY

Selling a Policy - *Pro*



\$112,000,000,000



Selling a Policy - Con



Would You Like A 15-20% Return?



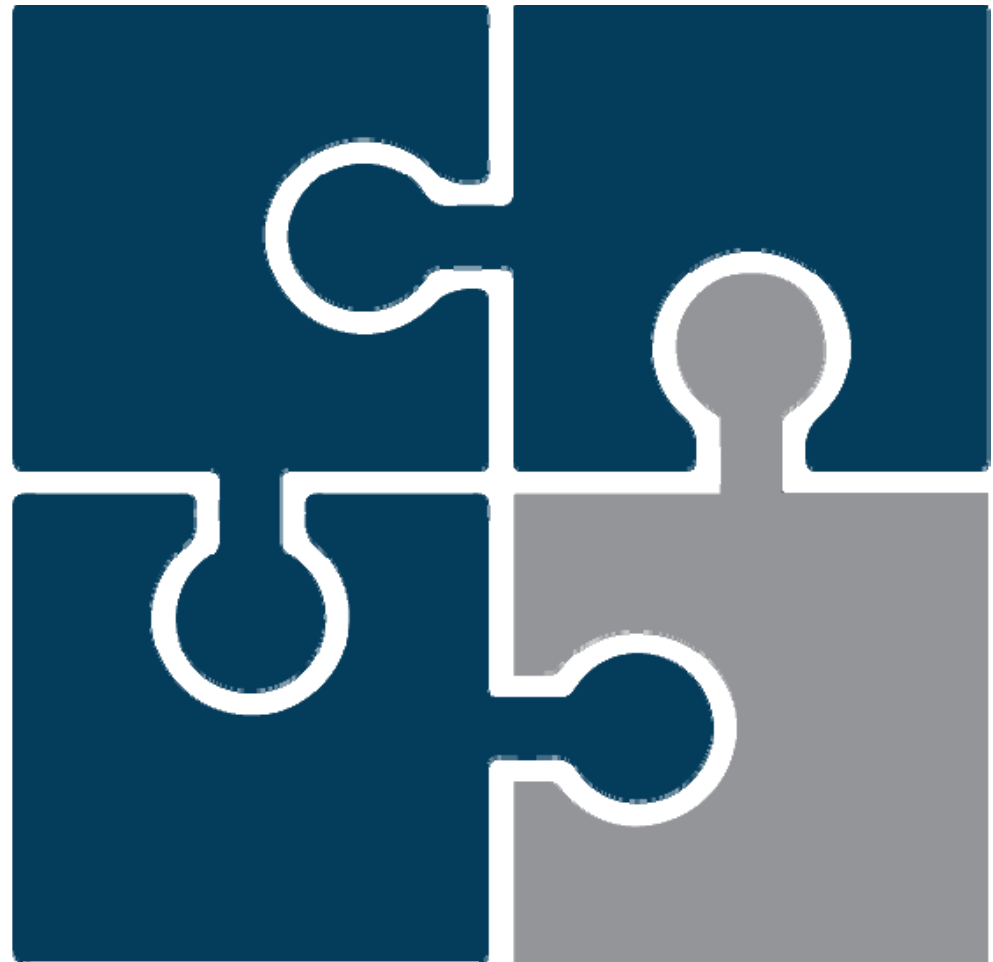
So When Do You Sell?

YOUR LIFE
INSURANCE POLICY

A golden key is positioned diagonally across the lower right portion of the document. The key has a circular head and a long shaft ending in a bit. The document is white with blue text and is set against a blue background.

The Process

1. Pre-Screen
2. Formal UW
3. Policy Pricing
4. Negotiation and Offer Acceptance/Rejection
5. Contracting
6. Settlement



THANK YOU

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