Will Your Clients Outlive Their Life Insurance?

A Session Specifically Designed for

The Estate Planning Council of Montgomery County, Maryland

Presented By:

itm twentyfirst

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Today's 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

Questions And Answers Throughout

Please Do Stop Me To Ask Questions

Part One - The Basics

Understanding The Actual Policy

Term → Whole Life → Current Assumption Universal Life → Secondary Guarantee Universal Life → Variable Universal Life → Index Universal Life

Term Insurance

- Easiest life insurance to understand. You pay a premium for a death benefit only.
- Level Term insurance coverage is coverage for a specific period (up to 30 years) for a level premium, which is usually guaranteed, after which the coverage is often dropped. These Level Term policies can often be continued, usually after a re-insurance process, called re-entry. At re-entry, the insured must submit to another underwriting process. The cost of the continued coverage for the additional time period will increase because of the increased age of the insured. If the health of the insured has deteriorated, it may dramatically increase.

Term insurance policies often contain a Conversion provision that allows the insured the option to convert the Term policy to a Permanent policy at current age and insurance rates, without providing evidence of insurability.

- Term insurance policies often contain a Conversion provision. This allows the insured the option to convert the Term policy to a Permanent policy at current age and insurance rates, without providing evidence of insurability. This is a very important provision, especially if the policyholder has suffered a change in health.
- Term insurance is typically used for short term coverage. Often, it is used for those who have a large insurance needbut lack the cash flow currently and will convert the coverage to Permanent coverage in the future.

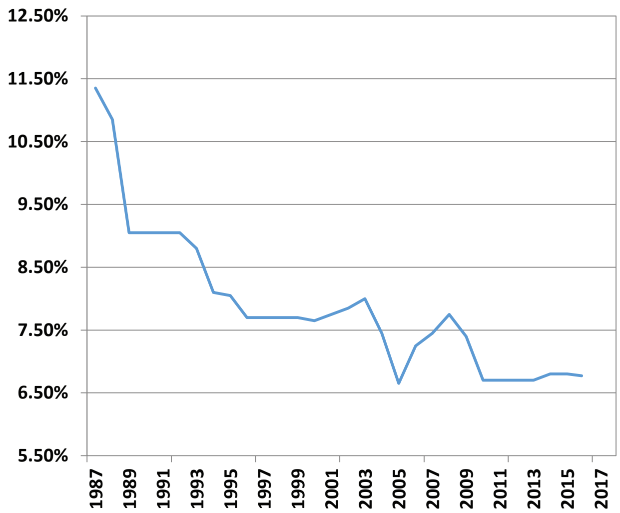
Whole Life Insurance

- A Whole Life policy provides a guaranteed death benefit as long as premiums are paid, as well as a guaranteed cash value. Most Whole Life policies also provide for additional cash value through dividends.
- The investment portion of a Whole Life policy goes into the General Account of the life insurance company composed primarily of long term bonds and mortgages, as dictated by various state insurance laws.
- Whole Life contracts pay dividends considered to be a return of premium paid when premiums received turn out to be more than the company needs, because fewer insureds die, expenses are lower, or portfolio returns are more than expected. Dividends can fluctuate above and below the dividends shown in the current illustration.
- The dividends that are earned on a policy can be used in a number of ways:
    - To reduce premium
    - Taken in cash
    - Purchase "paid up additions"
    - Left with carrier at interest
    - Repay loans on the policy

Bonds	71.50%
Mortgages	11.90%
Policy Loans	4.00%
Cash & Short Term Investments	3.20%
Stocks	3.70%
Real Estate	0.70%
Other Invested Assets	5.00%

Average General Account Portfolio of the 25 largest insurance carriers.

- Whole Life contracts can be blended with a Term portion, typically through the use of a Term Rider. This lowers the cost of the policy, but also lowers the guarantees in the policy as the cost of the Term portion is not guaranteed. Typically these plans are designed so that over time the Term portion is replaced with paid up base Whole Life coverage, until the entire contract has been converted. The ability to convert the policy is driven by premium paid and dividend performance and the amount of Term coverage that is to be converted. In some situations wherethere is a high Term component it is often impossible to convert all of the coverage over and the policy death benefit in the later years will drop, or the cost to maintain the death benefit will increase.



Whole Life Dividend Rates for Major WL Carrier

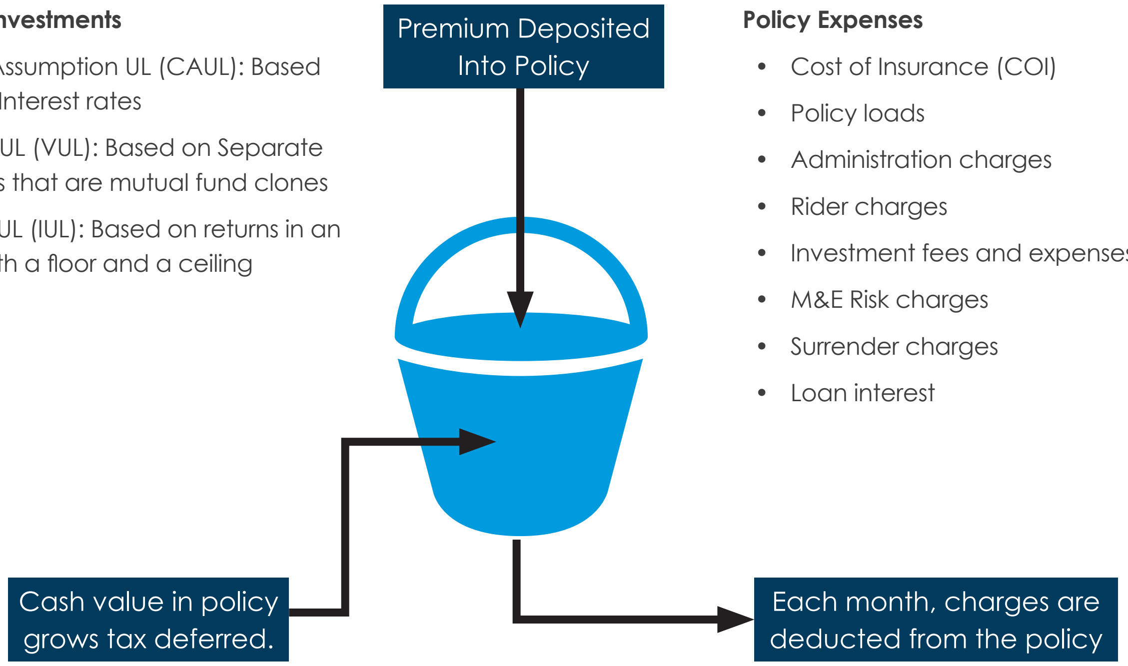
Insurance companies provide a sales illustration which shows how a policy might perform under various conditions and with different dividend options. With a Whole Life policy the illustration will show guaranteed cash value as well as the cash value growth attributed to dividends. **The illustrations usually show the outcome based on current dividends which may or may not occur.** It is important to understand that Whole Life policies will perform differently with different dividend assumptions.

- Although Whole Life policies have fixed premiums, premium does not always have to be paid out of pocket. As mentioned, dividends can pay the premium or even a portion of the premium. The premium can also be paid from the cash value of "paid up additions," those little paid up policies within the contract that are purchased with dividends. If the dividend or other sources are not enough to pay the policy premium, the premium can be paid by a policy loan. Often, this occurs automatically – a feature know as Automatic Premium Loan (APL).

Universal Life "Chassis"

Cash Value Investments

- Current Assumption UL (CAUL): Based on Fixed Interest rates
- Variable UL (VUL): Based on Separate Accounts that are mutual fund clones
- Indexed UL (IUL): Based on returns in an Index, with a floor and a ceiling



Policy Expenses

- Cost of Insurance (COI)
- Policy loads
- Administration charges
- Rider charges
- Investment fees and expenses
- M&E Risk charges
- Surrender charges
- Loan interest

Universal Chassis Is An "Excel Spreadsheet"

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 Change	Withdrawals	Gross Accumulation Value (1)	Loans	Surrender Charge	Surrendor 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	$55,482	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

Universal Life "Math"

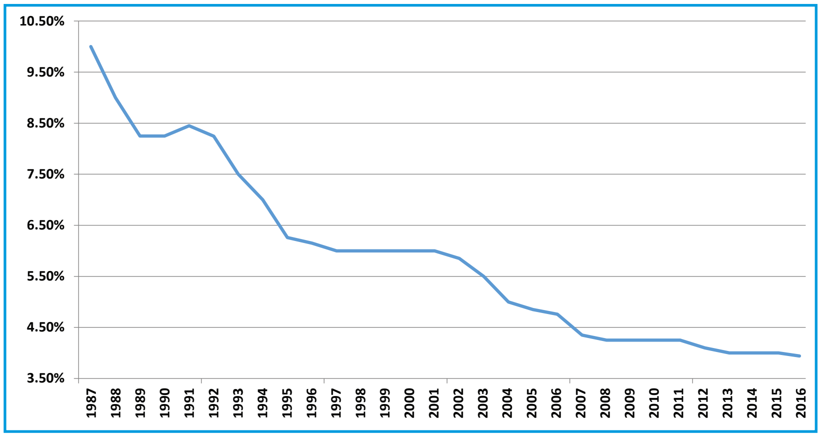
	Ending Surrender Value in Year 11	$156,571
Plus	Premium in Year 12	$27,750
Minus	Premium Load and Admin Charges in Year 12	$1,091
Minus	Current Cost of Insurance	$12,769
Plus	Investment Earnings in Year 12	$14,094
Minus	Investment Fees and M&E Charges in Year 12	$1,480
Equals	Gross Accumulation Value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

This shows the actual projected outcome for a Variable Universal Life policy

(Current Assumption) Universal Life (UL) Insurance

> From 1981 to 1986, the percentage of Whole Life policies sold dropped from 78% of the marketplace to 30%, as the sale of Universal Life policies grew.

- During the late 1970s and early 1980s, short term interest rates skyrocketed. The public clamored for an opportunity to participate in this high rate of return, and Money Market funds were born. Money flowed out of existing Whole Life policies into these newly formed Money Market funds.
- The insurance industry, being market driven, came up with a product that would combine the high rates of return existing in that day with the tax advantages of life insurance.
- For the first time there was total transparency in a life insurance product.
- A Universal Life policy allows adjustment of both the face amount of the policy and the premium level funding the policy - subject to minimum funding levels to start the policy. Underwriting approval is needed if death benefit is raised. Universal polices stay in force as long as the cash value in the policy is adequate to cover the expenses in the policy.



- When first introduced, all of the policies sold were sold based on projected current assumptions – the interest rate being paid at that point in time and the current costs being charged on the policy. The current crediting rate over the last 28 years for a top tier Universal Life carrier is shown above. Rates have fallen over the years. If policy performance expectation during policy lifetime was based on current crediting rate at time of sale, the policy cash value would not have earned nearly what was expected. Most of the policies sold in the last twenty eight years, if sold with a premium expectation based on these current assumption projections, turned out to be underfunded and many lapsed or will lapse without additional funding. Because so many Current Assumption Universal Life policies were underfunded and many lapsed, the insurance industry came up with a new feature in Universal Life polices – the Secondary Death Benefit Guarantee.

(Secondary Death Benefit Guarantee) Universal Life Insurance (GUL)

- A new generation of Universal Life policies with death benefit guarantees took the market risk out of Universal Life policies; however it took the premium flexibility that was an advantage away.
- With a guaranteed death benefit policy you have a stated premium that must be paid in full and on time or the policy death benefit guarantee will be compromised – typically lowering the age to which the policy is guaranteed. Each carrier has different policy designs but in most situations if a premium is missed or late, a "catch up" premium can be paid to put the policy guarantees back on track. However, these policies should not be thought of as flexible premium and if purchased should be purchased with the understanding that a fixed premium will be paid each and every year.
- One disadvantage of these newer generation policies is that the cash value growth is typically much less than with a Current Assumption product. The product is designed to provide a guaranteed death benefit, not develop significant cash value. If you look at a sales illustration of one of these policies you will see that the cash value will often go to zero at some point. At this point the policy is running on the death benefit guarantees, not the cash value, which has been exhausted.
- Changes to the reserve requirements for GUL policies occurred in the beginning of 2013. The cost of GUL policies increased or the policy death benefits were shortened.

Variable Universal Life Insurance

- Introduced in 1985 by Pruco Life, a subsidiary of Prudential Life.
- Like Universal Life, had a flexible premium.
- The most important difference was that the owner of the policy, not the carrier, invested the cash value.
- Cash value is invested in Separate Accounts that are mutual fund clones.
- Like Universal Life, the VUL policy will stay in force, for as long as the cash value in the separate accounts will pay all policy costs. But unlike the Universal Life policy, a VUL policy investment could actually lose money, making the product more unpredictable.
- Variable Universal Life policies have been used as investment vehicles.
- When funded to reach a certain goal the investment return will have a large impact on the premium needed. The chart to the right shows the annual premium needed to run a VUL policy to age 110, assuming a 65 year old male underwritten as a Standard Non-Smoker.
- All VUL policies have a Fixed Account option that allows for a guaranteed rate of return.

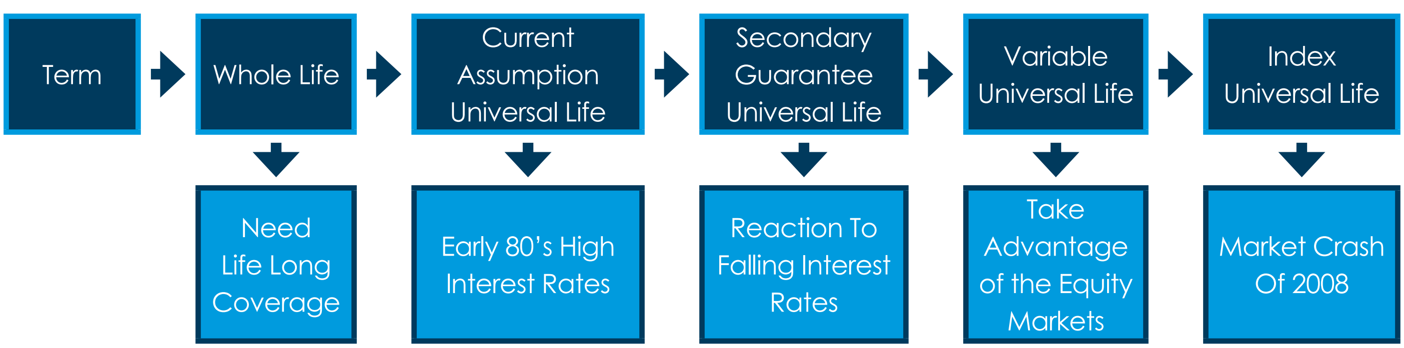
	Run to age 110
4% Net	$34,727
6% Net	$30,811
8% Net	$27,750

Indexed Universal Life Insurance

- Designed to provide "upside" of equities while limiting losses.
- The product ties investment returns to a specific index such as the S&P 500® Index. It eliminates down years with losses by providing a floor to the investment return. This floor might be as low 0% but will never be a negative return.
- In addition, there is a participation rate, a percentage factor that the actual index return is multiplied by to arrive at the adjusted return. The chart below shows the credited rate outcome for a sample policy with a 100% participation rate and a growth cap of 10% and floor of 0% at various actual index rates.

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%

Life Insurance Time Line Recap



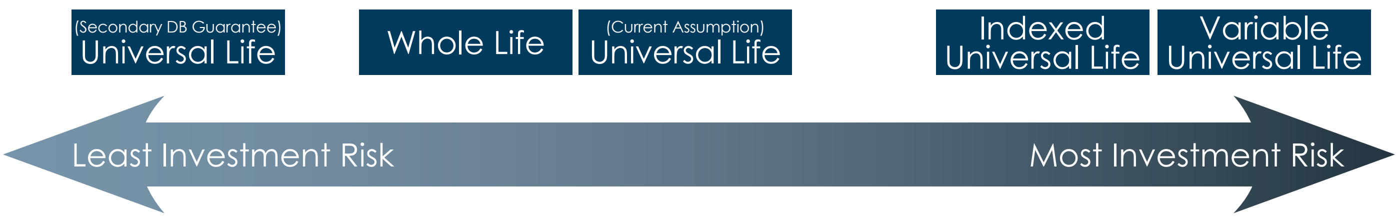
Selecting the Correct Policy for Your Client Through Policy Suitability

Premium Flexibility

- Is there a need to have flexibility in premium payments?
- Are you comfortable that money for premium will be available each and every year?
- Is there a change coming that may affect cash flow?

Investment Risk

- What is trust risk tolerance?
- Do you want to "invest" in the life insurance?
- Do you want to try to lower cost by attempting to get a higher return?



Cash Value Growth

- Do you want the ability to "trade up" in the future?
- Is there a possibility that the policy will be surrendered in the future?
- Is there a reason that you may need liquidity?

Death Benefit Guarantees

- Do you want the death benefit guaranteed?
- Do you want lower costs or cash value?

Part TWO – A Deeper Dive

What the Heck Is Going On with Life Insurance?

Email from a representative from a UL Carrier circa 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."

Carriers with Cost of Insurance (COI) Increases – 2015 into 2017

Transamerica COI Increase

Policies affected:

- TransMax
- TransUltra 91
- TransUltra 93
- TransUltra 95, 96
- TransMax Survivor 90, 91
- TransSurvivor Life 92
- TransSurvivor Life 95, 96

Effective with policy anniversary dates of August 1, 2015

- Policies issued between 1987-1998
- COI increase from single digits to 40% plus

AXA (USFL) COI Increase

Policies affected

- USFL Nova
- Super Nova UL

Effective on the first policy anniversary following August 31, 2015

- Not sure of COI increases

Legal & General
Banner COI Increase

Policies affected

- Continuity UL and UL 100
- Life Umbrella UL 120
- Advantra & OPTerm 20UL

Effective August 1, 2015

- Policies issued from 1995-2010

COI increases for Legal & General were the highest of all of the carriers that raised COI and ran as high as 600%.

William Penn COI Increase

Policies affected

- Longevity UL 100 & Penn 100
- Life Umbrella UL 120
- Advantra

Most policies had guarantees for a period of time

- 10, 15, 20 or lifetime

Other policies being evaluated for increases "later this year"

- Crusader 1 and 2
- Life Umbrella Series products – Band 1, Classic, Sterling, Gold, Umbrella
- Capitol UL

VOYA Cost Increase

Policies affected

ReliaStar

- GPUL
- Select Design
- Premier Design
- Security Design I and II
- Estate Design, Estate Design '97 and Estate Design NY

Security Life of Denver

- Strategic Accumulator
- Life Design Guarantee UL

Cost Increases

- Monthly Cost of Insurance
- Monthly Charge per Thousand of Specified Amount
- Percentage of Premium Expense Charge
- Monthly Expense Factor

AXA Athena UL II COI Increase

- Policies were issued from 2004-2008
- Specified policies
  - Policies issued to those age 70 and over
  - Policies issued above $1M death benefit
- If Policy has Lapse Protection Rider
  - Is not affected if still on policy
  - If not on policy, cannot be reinstated
- Can lower death benefit below $1M to avoid cost increase

Conseco Life Insurance Company COI Increase

- Began sending letters to policyholders on a limited number of policies in February of 2016.
- Don't know what the increase amount will be.
- Increases started in March, 2016.

Transamerica – Guaranteed assumption only inforce illustrations/new COLI increase

- In November 2015, Transamerica announced they will no longer run in force ledgers based on "current assumptions" on a specific group of Universal Life policies. According to the carrier, they are no longer "able to run non-guaranteed rates on a number of in force products." They told us that after "annual illustration testing" of their in force products, going forward they will only illustrate "the guaranteed future interest rate and monthly deductions," on that group of in force policies.
- In early 2016, Transamerica raised the cost of insurance inside this specific group of policies.

Lincoln National

- Announced in May of 2016. Acting as administrative agent and reinsurer, raised the COI rates on a specific block of universal life and variable universal life policies issued by Aetna Life Insurance and Annuity Company (now Voya Retirement Insurance and Annuity Company.) Approximately 18 products affected with issue dates from 1983 to 2000, with many policies issued in the 1990s.
- Announced in August of 2016 on policies issued between 1999 and 2007 on Legend Series Universal Life originally underwritten by Jefferson Pilot (Lincoln Financial purchased Jefferson Pilot in 2006.) The majority of the changes were increases, but also included some decreases, "reflecting Lincoln's commitment to acting fairly and responsibly."

Northwestern Mutual

- In October of 2016 the carrier announced that their 2017 Whole Life dividend scale would drop from 5.45% to 5% and the expense charges in the Whole Life policies would see an increase. At the same time, they announced that their Current Assumption Universal Life policies, would see a crediting rate drop "consistent with the 0.45% decrease to the dividend interest scale rate." Additionally, the company announced its Universal Life policies, both fixed and variable, would see expense charge increases similar to those found in Whole Life policies.

Carrier Reasons For Increases

Transamerica

"Based on our current expectations regarding our future costs of providing this coverage"

Legal & General

"Investment returns have been at all time lows"…making it impossible to earn the investment income assumed in pricing"

"Average mortality on these blocks has been unfavorable"

Voya

…"We periodically evaluate our costs of proving insurance coverage. As a result of the recent review of your policy, one of the charges assessed against the policy will be adjusted."

AXA (USFL)

…"Expecting future mortality experience to be less favorable than was anticipated when the current schedule of COI rates was established."

AXA

"We reviewed our mortality and investment expectations…determined they are less favorable than was anticipated when the current schedule of COI rates was established."

Conseco

…"**Increasing the cost of insurance rates because the Company now expects higher rates and numbers of insured deaths than we had anticipated for policies such as yours. We have been experiencing higher claims costs for these policies and expect this trend to continue in the future.**"

Transamerica Cost Of Insurance Increases: Is the Other Shoe Now Dropping?

Posted on February 29, 2016 by Michael Brohawn, CFP®, CLU

In the past 6 months we have posted a number of blog entries concerning the rash of cost of insurance (COI) increases. One of the first carriers to alert policy owners to a COI increase was Transamerica. We reported back in September of 2015 about the Transamerica increase and the effect on a policy we reviewed ***(See: Transamerica Cost Increase Causes Premium to Maturity to More Than Double: A Case Study for Trustees.)***

In November we reported that Transamerica informed us that they would no longer run in-force ledgers based on "current assumptions" on some policies that were not subject to the price increase ***(See: Transamerica Now Making It Almost Impossible to Manage Their Life Insurance Policies).*** As we mentioned in that blog, Transamerica told us that after "annual illustration testing" of their in-force products, going forward they would only illustrate "the guaranteed future interest rate and monthly deductions" on this specific group of policies.

I happened to be involved in a review of a policy affected by that Transamerica announcement, and in the process of following up on that policy last week I found out that Transamerica was now able to run current illustrations on that policy. That is the good news.

The bad news is that the COI on that particular policy will increase approximately 100%, making the policy's economic efficiency questionable. To date the highest increase we had seen for a Transamerica policy was approximately 40%. The chart on the right shows the pre and post-increase COI for the policy, showing the COI has essentially doubled. This particular policy is a Survivorship Universal Life policy issued in 2002. According to information I received, the policy owner will receive a letter alerting him or her to the COI increase 45 days prior to the anniversary date. The policy death benefit is currently just over $15.5M. **The premium to maturity solve, assuming a level death benefit, was $400,000 prior to the increase. After the increase the same premium solve is $981,707**, quite a hefty jump in premium cost.

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.)

How Do Carrier's Make Money on CAUL Policies?

- **Interest rate spread**
- **Cost of insurance (COI)**
- **Lapse rate**
- **Company overhead**

Reason for Increases

- **Low interest rate environment**
- **Poor underwriting decisions**
- **Adverse selection**
- **Less people lapsing policies**
- **Reserve requirements**

Carrier Provided Options

- **Pay more premium**
- **Reduce the death benefit**
- **Surrender the policy**
- **(Paid up policy)**

Now what?

- **Lawsuits against carriers**
- **Probably more increases coming, but slowing?**
- **Many people wondering what to do with their policy**

Life Insurance Is An Asset That Should Be Managed

- Annual Reviews, Reports and Tracking
- More Sophisticated Management Tools Should Be Employed to Maximize Policy Value

What is a Life Expectancy (LE) Report?

Underwriters estimate the average number of years a person is expected to live based on their age, gender, lifestyle, smoking status, family history and medical condition ("Underwriting Factors"). The life expectancy report includes the life expectancy estimate as well as the probability of mortality each year based on the insured's specific Underwriting Factors.

What is needed from your client to get a Life Expectancy Report?

All that is required is a signature on a HIPAA (Health Insurance Portability and Accountability Act) form. No doctor visit, paramed exam or medical consultation is needed. All information is held in strict confidence.

How an LE Can Help and Advisor or Trustee

Trustee with a Male Grantor Client, 85 years old with a portfolio of three Universal Life policies. Policies have been very well funded over the years, but Grantor has decided not to gift to trust any more. Total of $10M in death benefit. Inforce illustrations under current assumptions, assuming no more premium paid, were run.

8 Years before any premium is needed

At 8 years little chance the Insured is still alive

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

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.

itm twentyfirst Life Expectancy Certificate

Client company: ITM TwentyFirst Samples
Certificate ID: 348968
Certificate date: 12/3/2015

Insured: Sample Report
DOB: 11/1/1934
SSN: 111-22-2222

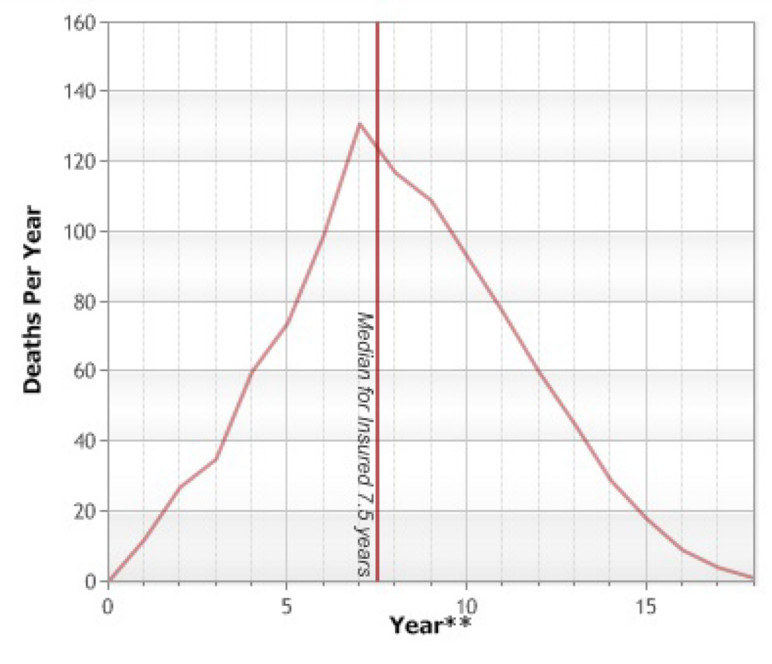
Gender: Female
Referenced Mortality Table: 21st Services 2014 Standard Non-Tobacco User

Insured's certificate age*: 81.09
Date range of medical records reviewed: 9/2011 - 10/2015

Mortality Multiplier*: 5.33
Median Life Expectancy Value*: 90 Months or 7.5 Years
Mean Life Expectancy Value*: 92 Months or 7.7 Years

Without life-threatening or catastrophic conditions or illnesses
Please note: It is recommended that the information provided in this life expectancy evaluation be used in its entirety. If only a subset of the data is used, you will be losing the interrelationships between the analytics.

21st Services
Mortality Curve



Year**	Lives***	Deaths	Accum. Deaths
0	1000	0	0
1	988	12	12
2	961	27	39
3	926	35	74
4	866	60	134
5	792	74	208
6	693	99	307
7	562	131	438
8	445	117	555
9	336	109	664
10	243	93	757
11	166	77	834
12	106	60	894
13	61	45	939
14	32	29	968
15	14	18	986
16	5	9	995
17	1	4	999
18	0	1	1000

* Terms are defined on the Definition of Life Expectancy Terms page in this document.
** Years since Life Expectancy calculation.
*** Number of lives in hypothetical sample of 1,000 individuals with profiles matching the insured's. 348968_279784_G

Policy Optimization

Premium Optimization is a method of maximizing value for the Beneficiary… on specific cases.

Where Premium Optimization Works Best:

- In older aged cases.
- When the health of the insured is diminished

As mentioned, when you order inforce illustrations you typically receive an illustration for a level premium to run to a certain point, typically an age late in life or maturity. For most ages and in most instances this makes sense. However, if you combine a Life Expectancy report with Policy Funding Optimization you can often save the client money and maximize the rate of return in the policy.

Using level premium solve illustration and comparing with the optimization outcome we can decide on the best funding pattern, after comparing with a Life Expectancy report.

Crossover Year

Annual Policy Year	Age	Optimized Annual Premiums	Optimized Cumulative Premiums	Carrier Provided Minimum Annual Premiums	Carrier Provided Minimum Cumulative Premiums	Advantage/ Disadvantage Optimization vs. Carrier	LE Report Percentage Total Deaths
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%

Dealing with an “Unwanted” Policy

More often these days, clients are taking a second look at their policy.

Example: A Trustee with 88 year old Grantor’s with a policy that will no longer be funded. $1.5M policy with $562k of cash value. Grantor’s want to surrender policy for the cash value.

	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

Selling a Policy - The Secondary Market

From a 2005 Deloite study:

“The Beneficiary, who has a vested benefit in maintaining the life insurance contract, can help preserve a high-yielding, tax-free asset by securing funds to satisfy the liquidity needs of the policyholder or by assuming the premium payments on the life insurance policy. The return on the Beneficiary’s investments to preserve the life insurance contract is likely to exceed any other investment option.”

From a February 24, 2015 Press Release

“Americans who are aged 65 or older leave approximately $112 billion in benefits on the table each year by lapsing or surrendering their life insurance policies, according to new research unveiled at the Life Insurance Settlement Association’s (LISA) Fifth Annual Institutional Investor Life Settlement Conference.”

2017 Course Schedule - Free CFP® & CTFA CE Credits

Learning When, Why and How to Do a Life Settlement

Jon B. Mendelsohn, Co-founder and Chief Executive Officer, Ashar Group
Tuesday, March 28, 2017 at 2PM ET

- 1 Hour CE credit for CFP, CTFA and FIRMA Certified Member

Each year over $100 Billion in life insurance death benefit is surrendered or allowed to lapse by seniors age 65 or older. Can you imagine the potential liability to advisors that omit this discussion with their clients? This significant asset could be used by many older individuals to help fund general retirement living or even long term care expenses. This session is designed to provide advisors, especially those acting as trustees in the personal trust space, the opportunity to gain a practical understanding of the life settlement process. Learn why and when you would sell a life insurance policy and how the actual process works. Our presenter, a nationally known life settlement market executive will give you the insight you need to allow you to maximize the value of a life insurance policy. Jon will show you how to provide your clients a valuable service and if you are a trustee of a life insurance policy, will show you how you can live up to your fiduciary responsibilities. This practical session is one you should not miss.

How to Conduct a Trust Owned Life Insurance Policy Review

Aaron Hanson, CLU and Michael Brohawn, CFP®, CLU, ITM TwentyFirst
Thursday April 20, at 2 PM ET

1 Hour CE credit for CFP, CTFA and FIRMA Certified Member

The OCC and regulatory guidance require initial and annual reviews for life insurance policies held in a trust. Life insurance has become increasingly hard to manage with cost increases and investment returns that can dramatically affect the policy year to year. The use of an annual policy review is not just a fiduciary requirement; it is the backbone of prudent policy management. This session, using the new ITM TwentyFirst Insight Report as a guide, will show the trustee, and those who handle life insurance, what is necessary to track on an annual basis, and what to do when a policy "goes off track." The session will be accompanied by a session handbook that will become a reference book for managing life insurance in a trust setting.

Visit itm-twentyfirst.com/Education to register!

Visit the ITM TwentyFirst Blog at blog.itm21st.com