



Scorekeeper or Strategist: Your Life Insurance Policy Reviews Say a Lot About Your Practice

The need to review a client's life insurance is clearly established in the world of comprehensive financial planning. What separates a good advisor from a great advisor can show up in how these reviews are conducted. It all begins with the client balance sheet you create for planning. When there are life insurance policies in the mix, advisors will at least include the policies, typically with an entry for the current cash value. What happens next is where our story begins....

A wise advisor will seek a few more facts about the policies. Each one of these facts can have a major bearing on how the policy will be evaluated and used in the planning process:

- Carrier
- Policy Number
- Type of Policy
- Premium
- Face Amount
- Cash Value
- Surrender Value
- Owner
- Beneficiary

Collection and updating of the facts just listed are minimal requirements if you want to demonstrate the attention you take in serving your clients. For advisors who want to be more detailed, you might also include:

- Cost Basis
- Full Premium Schedule
- Carrier Ratings
- Current Crediting Rate
- An "In Force Ledger"

Much of the information can be taken from the original policy, signed application, and the annual report for the policy. Filling in the blanks might require communication with the carrier, which might require an authorization from the client. This is easy work to delegate to staff. Alternatively, there are services that can provide the entire picture for you for a small charge. Just so you know, **ADVISORSERVE** can also do this for you, presently at no charge. But regardless of the way it is done, trustees and advisors often think they have completed a regular policy update and review once the data is collected and displayed. Nothing could be further from the truth. If you are one of those advisors, you have downgraded yourself to the position of a simple *Scorekeeper*. Even worse, you have likely exposed yourself to justifiable claims that important issues were right there in writing on your summaries but ignored --- to the client's detriment.

This would be like receiving a report from your doctor containing the results of several blood tests. Let's say the list of lab results included cholesterol numbers or certain blood elements far out of normal range. If the doctor's office merely sent you the results with no comments, would you even notice the suspicious numbers? And if you noticed the out of range numbers or if you later discovered a health issue that the lab results warned you about, how would you feel about the doctor who had just sent you the list of results with no comments? A list of life insurance data can present a very similar problem for the client and the advisor.

Did anyone notice that the carrier's ratings had taken a significant decline? Was the premium schedule updated to reflect low interest rates or was the policy going to lapse as a result, likely before life expectancy? Conversely, has the client's health declined to a point that no more premiums should be paid into the policy? Is the policy still competitive and a good economic deal? Are the underlying investments or indexes, if applicable, reflective of the client's risk tolerance? You get the idea. The landmines are everywhere.

So, let's start over. I mean, let's start from the beginning again. Here's what the great advisors might do. We call them the *Strategists*.

Go back to that very first time you see there is a life insurance policy among the client's assets. What comes first? The same thing that should have come first when the coverage was originally purchased --- understand the **client's objectives**. Even if current coverage was purchased for all of the right reasons a few years ago, things change. Client situations, health, family changes, and even tax law can impact the "why" of this coverage. Attention to objectives and how they are accomplished with life insurance is a constant cause for review and it is also the thing that can separate you from the pack. Life policies are only as good as the solution they provide. You must ask why the coverage is still needed and whether there are different directions or risks it should address. A great policy with good numbers may still be a poor use of client resources if it is no longer needed. Conversely, a poorly-priced policy can be one of the client's most important assets especially if, for example, the client has become uninsurable.

When advisors come to **ADVISORSERVE** for a policy review, we want to know client objectives. This will color how we look at the coverage and finely tune how to keep it effective in the client's planning. It may be as simple as hearing from the advisor that, "this

client needs \$1,000,000 of coverage for family income for the next 10-20 years." But even this statement of client objectives leads us in certain directions (cash value coverage vs. term in this example).

Of course, there can be more complicated objectives, such as family transfer strategies, creation of tax-free retirement income sources, executive compensation, buy-sell funding, or paying estate taxes. In all cases, objectives must control the coverage. When objectives change, so should the coverage.

That takes us to a second threshold issue we want to know before running through the numbers and evaluating the coverage: what is the **client's health**? Has it changed? This can have a tremendous impact on how we recommend funding the policy, since we might want to adjust the premium schedule to more closely fit a particular client's life expectancy. Of course, judging a client's health is not the first thing most money managers say they can or want to do. That's where our health questionnaire or even medical records review can be of major importance. The health questionnaire is something the interested client can fill out in a few minutes. It is usually all we need to assess the situation. However, when a more significant health issue is possible, a client signature authorizing us to collect and review medical information might be more important.

Our underwriting advocacy team can review records and let us know the impact a health condition can have on insurance pricing. This is something few advisors ever take the time to address or even have the capability to do so. However, many clients will welcome such careful and confidential attention to their situation. Since insurance pricing is built on age, pricing tables and medical condition, how can anyone assess the viability of a policy without knowing all three?

When we know client health and client objectives, more alternatives and

improvements can appear. This can be as simple as realizing that current term or permanent coverage has been mispriced due to the improvement of a client's health, even due to something so small as a change in the client's weight or smoking status. We also have a basis to determine if more or less coverage is warranted. We might even discover new needs that can be addressed with existing coverage even if that coverage was previously intended for other needs that no longer exist.

With the full understanding of client health and objectives, we finally get back to the step you thought came first: **policy profile and status**. This provides the same information that appeared at the beginning of this article, but now we are in a position to understand what the numbers show. Maybe there will be no issues to address. Perfect. You have a baseline for all future policy reviews. Often, the issues with the older coverage are not quite apparent and you have a basis for addressing the changes that are needed. This can be as simple as updating information with the carrier or adjusting the premium pattern. It can also require more significant action, including policy surrender, replacement, or repurposing to fit changed objectives. In all cases, you will have done a far better job for your client and separated yourself from the crowd of advisors who don't really do what they say they do.

Finally, don't forget that the same discipline of applying client objectives and client profile to the acquisition of new coverage is something you need to demand from any insurance professionals you engage. Of course, no need to worry if you work with **ADVISORSERVE**. That's how we do business.

Are you a Scorekeeper or a Strategist? Your clients are counting on you to take the right action.

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