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Life Insurance Policy Review

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Our Goal is Your Legacy ®

Prepared For:

(Client Name)

Presented By:

(Agent Name)

Comprehensive Brokerage Services, LLC

9655 Schmidt Lake Road, Suite 300

Plymouth, Minnesota 55442

(763) 450-1870

Why Evaluate A Life Insurance Policy?

Life insurance is one of the most valuable assets you own. Due to its importance in protecting your family and/or business needs, your policies should be reviewed on a regular basis. Changes in the insurance industry, along with medical and technological advances over the past decade, have led to many insurance companies to change how they design and price life insurance policies. Interest rate and market volatility may have also impacted the underlying cash value causing you to pay premiums longer than expected.

Some of the factors that may impact your life insurance policy:

- ⇒ *Policies that were illustrated at interest rates that are inconsistent with today's economic environment and may be underperforming expectations*
- ⇒ *Policies that were either underfunded or funded with a combination or term and permanent coverage, to minimize outlay, and may require an extension of the premium payment or an increase in the current premium outlay due to recent declines in interest and dividend credit rates*
- ⇒ *Recent policy feature developments that guarantee death benefits for a specified premium regardless of actual investment performance*
- ⇒ *Insurance company ratings may have declined, threatening the ability of that carrier to meet its contractual obligations*
- ⇒ *Term or graded premiums that may increase substantially in cost*
- ⇒ *Recent medical advancements, underwriting improvements, technology and mortality improvements in product pricing which may provide opportunities to enhance benefits or decrease costs*
- ⇒ *More favorable underwriting classifications are now available*
- ⇒ *Your needs for life insurance may have changed*
- ⇒ *Changes in life expectancies*

Policy Review Process

The life insurance policy review process consists of:

- ⇒ *A summary of policy data*
- ⇒ *A review of policy, ownership, beneficiaries and premium*
- ⇒ *An evaluation of the current underwriting rate class and potential improvements*
- ⇒ *An evaluation of the financial stability of the insurance company*
- ⇒ *Unbiased evaluation of possible alternatives*
- ⇒ *A list of options to select from*

Some questions that we consider during the review process may include:

- ⇒ *Is your life insurance coverage still appropriate to meet your needs?*
- ⇒ *Have your estate planning needs changed since purchasing your current coverage?*
- ⇒ *Are your policies still competitive in today's market?*

Types of Life Insurance Policies

Term Life

Simplest and usually the cheapest type of life insurance that stays in effect for a specified period or until a certain age of the insured. It pays the face amount of the policy in case the insured dies within the coverage period (term) but pays nothing if he or she outlives it. Also, (unlike in whole life insurance) whereas the premium costs are lower in younger years, they generally increases rapidly with the age of the insured. Term life insurance is used commonly as insurance coverage for a loan repayment or post-death liabilities such as estate taxes.

Universal Life

Life insurance which combines the low-cost protection of term insurance with a savings component that is invested in a tax-deferred account, the cash value of which may be available for a loan to the policyholder. Universal life was created to provide more flexibility than whole life by allowing the holder to shift money between the insurance and savings components of the policy. Additionally, the inner workings of the investment process are openly displayed to the holder, whereas details of whole life investments tend to be quite scarce. Premiums, which are variable, are broken down by the insurance company into insurance and savings. Therefore, the holder can adjust the proportions of the policy based on external conditions. If the savings are earning a poor return, they can be used to pay the premiums instead of injecting more money. If the holder remains insurable, more of the premium can be applied to insurance, increasing the death benefit. Unlike with whole life, the cash value investments grow at a variable rate that is adjusted monthly. There is usually a minimum rate of return. These changes to the interest scheme allow the holder to take advantage of rising interest rates. The danger is that falling interest rates may cause premiums to increase and even cause the policy to lapse if interest can no longer pay a portion of the insurance costs.

Whole Life

Form of life insurance policy that offers protection in case the insured dies and also builds up cash value. The policy stays in force for the lifetime of the insured, unless the policy is canceled or lapses. The policyholder usually pays a level premium for whole life, which does not rise as the person grows older. The earnings on the cash value in the policy accumulate tax-deferred, and can be borrowed against in the form of a Policy Loan. The death benefit is reduced by the amount of the loan, plus interest, if the loan is not repaid.

In a Whole Life policy, also known as a participating policy, the insurance company shares the excess profits with the policyholder. The greater the success of the company's performance, the greater the dividend payment to the policy. For a mutual life insurance company, participation also implies a degree of ownership of the mutuality.

In an interest sensitive policy, there is a mixture of traditional whole life insurance and universal life insurance. Instead of using dividends to increase guaranteed cash value accumulation, the interest on the policy's cash value varies with current market conditions. Like whole life, death benefit remains constant for life. Like universal life, the premium payment might vary, but not above the maximum premium guaranteed within the policy.

Section 1035 Exchanges

A Section 1035 Exchange is an option if you are dissatisfied with your current policy's performance or its ability to meet your changing financial needs. Internal Revenue Code §1035(a) provides that, under certain conditions, no gain or loss will be recognized on the exchange of one life insurance contract for another. The taxpayer's basis in the new policy will be the same as that of the contract exchanged. IRC §1031(d) provision allows the policy owner to avoid current tax where there is a gain or maintain a higher tax basis in the new contract where there might otherwise be a nondeductible loss by avoiding the current recognition of gain, or loss that could result upon the surrender of an existing policy. IRC §72(e) provision allows those policies maintaining an outstanding loan, it is important to check if an alternative policy option has a §1035 loan carryover provision and will accept the client's outstanding loan; otherwise any discharge of loan indebtedness may be a taxable event to the owner.

Another major advantage of using a §1035 exchange is the ability to apply significant cash values accrued in an existing policy to the new policy without incurring the adverse consequences of creating a modified endowment contract (MEC) under IRC §7702(a). In effect, the adjusted 7-pay premium calculation applicable to a §1035 exchange treats cash values rolled over from an existing policy as cash values under the new policy, rather than premium paid. IRC §7702(c)(3)(A). Therefore, §1035 cash values will not, by themselves, cause the policy to violate the 7-pay rules.

In order to qualify under §1035, the exchange must fall within the following parameters:

- ⇒ *The life insurance policy may be exchanged for another life insurance policy, an endowment contract, or an annuity*
- ⇒ *The existing life insurance contract must be assigned to the insurance company issuing the new policy*
- ⇒ *The same life must be insured on the contract before and after the exchange*
- ⇒ *The policy must be issued to the owner of the original policy*

Other issues to consider:

- ⇒ *A replacement of an existing policy will likely result in a reduction of cash value due to the acquisition costs (sales loads and other expenses) of a new policy*
- ⇒ *A new policy will be subject to a new suicide and contestability period (of one to two years). During the contestable period the insurer may cancel the contract or refuse to pay a claim where any mistaken or untrue statements were made on the application*
- ⇒ *Your current policy may have more advantageous contractual provisions, loan interest rates or tax treatment than are available on the new policy*
- ⇒ *Changes in your health and your increased age may negatively impact mortality costs and premiums*

Life Insurance Inside Of A Trust

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Are your policies in an Irrevocable Life Insurance Trust?

Trust owned life insurance policies are often central to many client plans, enabling clients to provide for survivors, cover estate tax liability planning, balance inheritances among heirs and meet charitable objectives. Managing an irrevocable life insurance trust is demanding and can be difficult. Changing state laws and new developments in the life insurance industry can affect administration duties for ILIT's and the changes often come as a surprise to trustees.

Duties of the trustees

Many trustees are under the impression that their duties are limited to holding the policies the trust owns, paying the premiums and distributing the death benefits when the insured dies. Depending on the terms of the trust and the law of the state where it is located, that may not be true. ILIT trustees may be amazed to learn they can be held personally liable if something goes wrong with the trust or if it's improperly managed. Under the law trustees are "fiduciaries" who must protect the interests of the trust's beneficiaries. They are , in fact, held to a very high standard in managing the trust's assets. In today's litigious world, serving as an ILIT trustee can be hazardous to the trustee's personal wealth.

What can go wrong in an ILIT?

ILIT"s may last for a long time. It can take many years before the insured dies and policy death benefits are paid and distributed. Over the years the trustee runs the risk that:

- ⇒ *One of the trust's life insurance policies may not perform as originally anticipated– the policy may produce fewer death benefits than expected, or it may even lapse before the insured's death.*
- ⇒ *New life insurance products often become available which may provide larger death benefits or require smaller premium payments. Improvements in health care, underwriting and policy design may mean the original policy is outdated. It also provides less value to the trust and its beneficiaries than new policies available today.*

The Uniform Prudent Investor Act encourages trustees to seek advice from financial experts. Guidance from a life insurance specialist may assist the trustee in evaluating the performance of existing policies and determining if new policies should be added to the trust. The original life insurance policies placed in an ILIT may or may not still be suitable for the trust, but adopting and following a good investment policy statement and repeatedly going over the trust's policies should reduce risk.

Current Policy Overview

The financial strength of an insurance company is one of the most important factors that should be considered in selecting an insurance carrier. Purchasing insurance from a financially strong carrier increases the likelihood that the policy's benefits will be paid when due.

Traditional rating agencies have had strong impact on the insurance industry and its customers. The criteria used by the principal three multi-industry ratings services share many of the same common factors. The rating services each evaluate the strengths and strategies of the company management, the operating results of the business unit, investment performance, and capitalization. Although each rating agency looks to the same criteria, each has its own rating scale.

A.M. Best	Fitch	Moody's	Standard and Poor's
15 rating categories	24 rating categories	21 rating categories	19 rating categories
A++ ⇒ F	AAA ⇒ D	Aaa ⇒ C	AAA ⇒ R

Industry ratings are not a warranty of an issuer's current or future ability to meet its contractual obligations. Each issuing company is solely responsible for the obligations under their own policies.

Comments About Your Current Policy

Client Name:

Personal Data		
Name of Insured		
Date of Birth		
Current Age		
Gender		
Underwriting Class at Issue		
Table Rating		
Flat Extra		
Years Flat Extra Paid		
Assumed Underwriting Class		
Table Rating		
Flat Extra		
Years Flat Extra Paid		
Purpose		
Owner		
Beneficiary		

Current Policy

Policy Information		
Carrier		
Product Name		
Policy Type		
Policy Number		
Issue Date		
Face Amount at Issue		
Current Premium		
Premium Mode		
Net Cash Surrender Value		
Current Net Death Benefit		
Current Outstanding Policy Loan		
Riders on the Policy		
Other Comments		

Policy Ownership, Funding and Beneficiary Review

This policy is currently owned by ____________ *and* ____________________ *serves as the trustee.*
(Policy Owner) (Trustee)

________________ *is the listed beneficiary.*
(Name Of Beneficiary)

________________ *gifts* ________________ *to the trust in order to fund the policy.*
(Policy Owner) (Premium Amount)

It is recommended that ____________________ *legal and tax counsel assist in reviewing these arrangements.*
(Policy Owner)

Underwriting Rate Class Review

The ________________ *policy indicates that* ____________________ *was issued as a mortality classification.*
(Insurance Co.) (Insured's Name)

An extensive evaluation of the medical underwriting elements was conducted. Based on the medical information provided, a few select carriers are likely to offer __________________________ *a* ____________ *rate class.*
(Insured's Name)

Medical testing will be required to validate rate classification.

A reduction in policy cost is expected if ____________________ *obtained a* ______ *rate class. The figure below illustrates the relationship between an underwriting class and policy costs.*
(Insured's Name)

Lower Cost				**Higher Cost**
Preferred and Elite Non-Smoker	Standard Non-Smoker Rate Classes	Preferred Smoker Rate Classes	Standard Smoker Rate Classes	Rated and Sub-standard Rate Classes

Policy Comparison – Current Assumptions (Non-Guaranteed Values)

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Male/Female ☐ ☐ Pref/Standard/Rated ☐ ☐ ☐ Smoker/Non-Smoker ☐ ☐ Age ☐

Carriers	Carrier #1 company name	Carrier #2 company name	Carrier #3 company name	Carrier #4 company name
Alternate Product				
Product Name				
Product Type				
Current / Guaranteed Crediting Rate				
Current Net Cash Flow				
Current CSV / §1035				
Initial Premium				
Current Premium				
Years Paid to Age 100				
Total Net Outlay				
Current Annual Net Outlay				
Year 10				
Year 20				
Year 30				
Net Cash Surrender Value at Current Assumptions				
Year 10				
Year 20				
Year 30				
Net Death Benefit at Current Assumptions				
Initial Death Benefit				
Year 10				
Year 20				
Year 30				
When Will the Policy Lapse?				
Current Assumptions				
Guaranteed				

Policy Comparison - Guaranteed Values

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	Male/Female		Pref/Standard/Rated			Smoker/Non-Smoker		Age
	☐	☐	☐	☐	☐	☐	☐	

Carriers	**Carrier #1** company name	**Carrier #2** company name	**Carrier #3** company name	**Carrier #4** company name
Alternate Product				
Product Name				
Product Type				
Current / Guaranteed Crediting Rate				
Guaranteed Net Cash Flow				
Current CSV / §1035				
Initial Premium				
Current Premium				
Years Paid to Age 100				
Total Net Outlay				
Guaranteed Annual Net Outlay				
Year 10				
Year 20				
Year 30				
Net Cash Surrender Value at Guaranteed Values				
Year 10				
Year 20				
Year 30				
Net Death Benefit at Guaranteed Values				
Initial Death Benefit				
Year 10				
Year 20				
Year 30				

Death Benefit, Cash Surrender Value, Carrier Financial Stability Comparisons

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Male/Female		Pref/Standard/Rated			Smoker/Non-Smoker		Age
☐	☐	☐	☐	☐	☐	☐	

Carriers	Carrier #1	Carrier #2	Carrier #3	Carrier #4
	company name	company name	company name	company name
Product Name				
Projected Death Benefit at Current Assumptions				
Year 10				
Year 20				
Year 30				
Projected Death Benefit at Guaranteed Values				
Year 10				
Year 20				
Year 30				
Projected Net Cash Surrender Value at Current Assumptions				
Year 10				
Year 20				
Year 30				
Projected Net Cash Surrender Value at Guaranteed Values				
Year 10				
Year 20				
Year 30				
Financial Stability Ratings				
A.M. Best				
Fitch				
Moody's				
Standard & Poor's				

Policy Options

Objective: Increase and Extend Coverage

Carrier Name	Rate Classes	Benefit Amount	Premium	A.M. Best Rating	S & P Rating	Guaranteed To:	Projected To:
Carrier #1						Age	Age
Carrier #2						Age	Age
Carrier #3						Age	Age
Carrier #4						Age	Age

Current Carrier						Age	Age

Objective: Reduce Cost

Carrier Name	Rate Classes	Benefit Amount	Premium	A.M. Best Rating	S & P Rating	Guaranteed To:	Projected To:
Carrier #1						Age	Age
Carrier #2						Age	Age
Carrier #3						Age	Age
Carrier #4						Age	Age

Current Carrier						Age	Age

No Change. *Continue to pay your current premium of __________ for the policy. Based on current assumptions, your policy will lapse at age ____ with no value or death benefit.*

Select the policy with the lower premium. *The premium could be reduced to __________. This would reduce your current premium outlay by __________. In addition, the death benefit amount and premium payments would be guaranteed for the rest of your life (as long as the premiums are paid as scheduled and no withdrawals and/or loans are taken from the policy).*

Select the policy with the same premium and higher death benefit. *For the same premium outlay, you will have a higher guaranteed death benefit for the rest of your life (as long as the premiums are paid as scheduled and no withdrawals and/or loans are taken from the policy).*

**Medical testing and complete underwriting will be required to verify your insurability.*

I acknowledge that I have been presented with this entire document and have reviewed and understand my options.

At this time, I wish to implement the following option (please check only one):

☐ *Option 1* ☐ *Option 2* ☐ *Option 3*

Insured Signature ____________________

Insured Name ____________________

Date ____________

Owner Signature ____________________

Owner Name ____________________

Date ____________