PROFORMEX

Why Proactive Policy Management Matters

WRITTEN BY

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Regardless of product type, it's impossible to ensure your clients' best interests remain intact if you're not monitoring the policy's performance on an ongoing basis

When it comes to life insurance, we know that not one size fits all. Policyowners have unique needs that will change and evolve throughout their lifetime, and the products advisors sell need to be suited to their client's needs.

But even after identifying the right product to meet your client's current needs, there is still more work to do. Life insurance policies, whether they be whole life, term, perm, or variable, simply do not serve their purpose with a "set it and forget it" strategy. These policies are sold under the guise of hypothetical illustrations and performance predictions, not guarantees. A plethora of changing factors will impact that policy or product's performance, and if you're not proactively monitoring for those changes throughout the lifetime of the contract, you're doing your clients a disservice.

Below, we have compiled an overview of the coverage risks and new sales opportunities along with the product advantages and disadvantages associated with different types of policies to help illustrate the need for ongoing, proactive policy management.

Whole Life

Without term riders

Risks - It's expensive. Since permanent policies offer lifelong coverage, they come with a significantly higher price tag. Whole life typically costs 5 to 10 times more than term life insurance.

It's not as flexible as other permanent policies. Unlike universal life insurance, for example, you can't increase or decrease your coverage if your circumstances change. You can't adjust your premiums, either. If you foresee income fluctuations, you might want to explore a universal life insurance policy.

It can take a long time to build cash value. In the first few years, most of your premium pays for the insurer's fees and commissions, and a small percentage goes toward your cash value. This means it might take 10 to 15 years to accumulate the cash value you need to start taking out loans against your policy.

Its loans are subject to interest. If you decide to borrow against your policy, your insurer will charge you interest. And if you don't pay it back before you die, they'll reduce the death benefit and your beneficiaries will receive less money.

It's not always the best investment choice. Depending on the market, the interest you earn on the cash value might be less than what you could get with other investments.

Opportunity – Replacing coverage with universal life products provides substantial premium savings

Product Advantages

- Guaranteed Premiums – cannot change
- Fully reserved with cash values available to policy owners
- Over 100+ years history. Whole life has consistently paid benefits

Product Disadvantages

- Expensive – highest premium for the death benefit
- Inflexible design – difficult to change premium or death benefit
- Actual dividends are unlikely to be as high as currently illustrated dividend crediting rates
- Dividends paid at insurance company's discretion

Universal Life

Without secondary death benefit guarantees

Risk - of getting universal life insurance include higher premiums, surrender fees, lapse potential and uncertain returns.

Opportunity – 1035 exchanges or replacements to universal life with secondary death benefit guarantees

Product Advantages

- Lower projected premium
- A great amount of premium flexibility
- Adjustable death benefit

Product Disadvantages

- Client at risk for having to pay higher premium
- Company can change cost of insurance, credited rate and expense charges
- Very little is guaranteed - Almost everything is subject to company's discretion

Universal Life

With secondary death benefit guarantees

Risks - Doesn't provide the flexibility to skip premium payments like standard universal life. Missed premium payments can shorten or eliminate the guarantee. Limited or no cash value accumulation. Does not have the upside potential of other life products.

Opportunity – 1035 exchanges or replacements to variable universal life with secondary death benefit guarantees or to newer universal life with secondary death benefit guarantee contracts

Product Advantages

- Low guaranteed premium
- Premiums remain flexible. However, changes in premiums or timing of payment may adversely affect guarantees

Product Disadvantages

- Very high expense loads lead to low cash values
- Inability to adjust charges may create financial pressure on the company
- No potential for better-than guaranteed results.
- Little or no ability to adapt policy to future changes.
- If not properly managed, guarantees can be lost, leading to expensive "catch-ups' or policy lapse

Variable Universal Life

Without secondary death benefit guarantees

Risks - The additional complexity and variety of a VUL, along with the added risk, comes the potential for loss. If you lose your cash value, or you lose a substantial amount of your cash value, the policy will be in jeopardy. VUL can provide a death benefit guarantee up through a certain age. But that is just the bare minimum and is no better than Term. The separate accounts can gain or lose at any rate the market chooses. As such the risk is on the shoulders of the policy holder.

Opportunity – 1035 exchanges or replacements to variable universal life with secondary death benefit guarantees

Product Advantages

- All expenses are described in prospectus.
- Client selects investments
- Historically higher rates of return can be used to reduce premium payments, increase benefits, or provide flexibility
- Additional safety of separate accounts gives maximum protection from insurance company insolvency

Product Disadvantages

- Client has a higher premium if targeted returns are not achieved as illustrated
- Volatility of returns affects policy performance. Some clients are not sophisticated enough to understand or manage product
- Product may not be suitable for very conservative policyowners

Variable Universal Life

With secondary death benefit guarantees

Risks - This guaranteed death benefit requires higher premiums, however. The funding of the death benefit will be done by applying an assumed rate of interest, usually around 4%. If the fund performance exceeds or declines beyond this assumed rate of interest, the death benefit will go up or down accordingly. A variable life policy is quite risky because the cash value and death benefits can fluctuate in accordance with the performance of the investment portfolio. Therefore, if the underlying investments perform well, the death benefit and cash value may increase accordingly. If the investments perform worse than expected, the death benefit and cash value may decrease.

Opportunity – 1035 exchanges or replacements to universal life with secondary death benefit guarantees or to newer variable universal life with secondary guarantee products

Product Advantages

- Low guaranteed premium
- Premiums remain flexible. However, changes in premiums or timing of payment may adversely affect guarantees
- All expenses are described in prospectus.
- Client selects investments
- Historically higher rates of return can be used to reduce premium payments, increase benefits, or provide flexibility
- Additional safety of separate accounts gives maximum protection from insurance company insolvency
- Combines flexibility, low overall cost and potential for strong performance

Product Disadvantages

- These products have charges for the guarantees
- Younger clients with robustly funded VUL policies may prefer lower charges of VUL
- Guaranteed premiums are usually higher than with Non-Variable Universal Life. The upside potential may not offset this for older age clients
- Fewer insurance companies offer this product

Term Life

5, 10, 20, 30-year term periods

Risks - The main disadvantage associated with term insurance is that your premiums increase every time coverage is renewed, because of the chance of dying increases with age. As a result, term insurance can become too expensive at the time when you need it most — in your later years.

Opportunity – Term conversions, new term products to reset the term period, or to new permanent policies

Product Advantages

- Lowest premiums
- A great amount of coverage period flexibility
- Can include conversion features

Product Disadvantages

- No cash built up
- Annual renewable after term period ends with increasing premium cost each year

Indexed Universal Life

Without secondary death benefit guarantees

Risks -
Your cash value can go down. Flexible premiums can be used against you. You can lose money. The policy may not last your entire life. Guarantees in the policy can be eliminated if you do not follow the contract perfectly. Those are some pretty serious warning lights on the dash. Even if you do everything right, especially paying premiums exactly as illustrated, the environment of IUL is not conducive to delivering on its promises.

Opportunity – 1035 exchanges or replacements to universal life with secondary death benefit guarantees, to variable universal life with secondary guarantee products, or to newer indexed universal life products

Product Advantages

- Lower projected premium
- A great amount of premium flexibility
- Adjustable death benefit
- Somewhat higher cash value growth potential than Universal Life
- If chosen indices experience a loss, cash value protected by a minimum floor (usually 0%)

Product Disadvantages

- Client at risk for having to pay higher premium
- Company can change cost of insurance, credited rate and expense charges
- Very little is guaranteed - Almost everything is subject to company's discretion
- Extremely complex product mechanics usually
- Accompanied by various administrative technicalities that may materially alter the product performance results
- Limited historical information on carrier treatment of non-guaranteed performance elements related to the index in various economic environments
- It is a product that gives the insurance company the most latitude to change key non-guaranteed elements to the detriment of policyowners

Selling life insurance isn’t one size fits all, but post-sale policy servicing can be.

No matter what type of policy you’ve sold your client, it’s clear that in order to protect their best interests, you need to manage that policy long after point of sale. As-sold data only reflects hypothetical performance predictions, and many factors from missed premium payments to poor interest rates can negatively impact that policy’s performance. It can quickly fall off-track and no longer suit the client’s needs. Or perhaps the policy does perform as intended, but your client’s life circumstances change and a change in coverage would be appropriate.

Either way, you have to monitor and manage these policies to best serve your clients. And doing so shouldn’t require hours of administrative work.

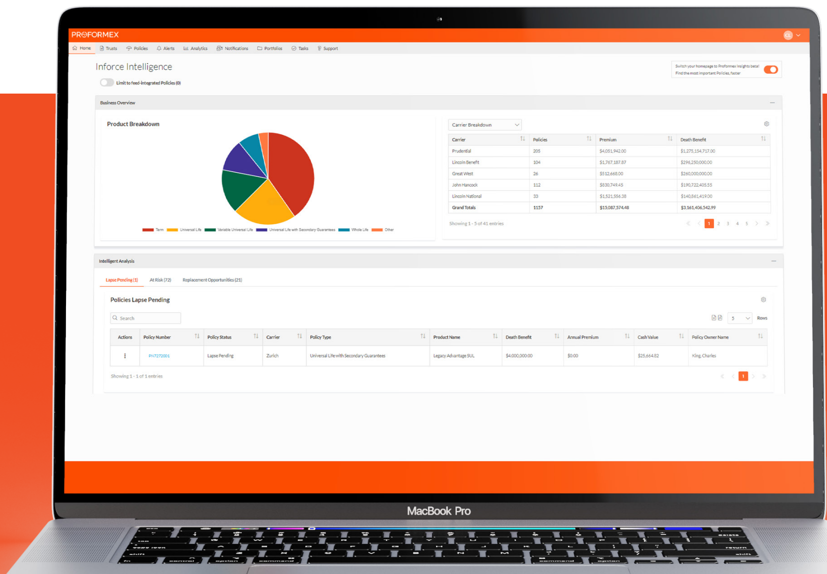
Establishing a single system of record for all your client policy data is the first step you should take to transition from a reactive inforce management strategy to a proactive one. And once you have the data in one place, you need a way to prioritize it and make it actionable. This shouldn’t be a painstaking, labor-intensive process.

Find a technology partner who can help you surface those policies that need your attention most, whether they’re at-risk of underperformance or an opportunity for replacement or modification.

Proformex was purpose-built to help advisors gain high-level visibility of their client policy data in a secure, centralized location. Our proprietary data analytics and algorithms help users to easily identify risks and opportunities within their book of business. Our Inforce Intelligence dashboard streamlines and prioritizes information for you and your teammates and partners to ensure everyone is working from the same playbook.

In addition to surfacing both risks and opportunities, our platform also helps to streamline and automate the more tedious tasks associated with the policy review process. With a click of a button, Proformex can request the policy statements and illustrations on your behalf. Simply upload those documents when you receive them and our software will alert you when the policy report is ready for your review. Proformex builds a client-ready report that compares current policy performance with the policyowner’s needs in an easy-to-understand format. You can also showcase internal policy modifications, product replacements, and/or life settlement evaluations within the report. Using unbiased, easy-to-understand reporting helps provide your client recommendations with an added layer of credibility and ensures that any decisions you help your clients make are in their best interests.

At the heart of our mission is a goal to enable the life insurance community – from advisors to brokerage general agencies to financial institutions to broker-dealers and to carriers – to work together more effectively and ultimately protect the millions of people who rely on their life insurance coverage. And we achieve this goal by providing shared visibility across the life insurance community so that policyowners are empowered with data to make critical decisions that will enhance their outcomes.



...Our Inforce Intelligence dashboard streamlines and prioritizes information for you and your teammates and partners to ensure everyone is working from the same playbook...

About the Author - Mike Pepe

Mike Pepe capitalized on his nearly 20 years of life insurance policy expertise by launching Proformex, an inforce policy management platform that helps fiduciaries, financial planners, insurance brokerages and agents monitor, manage and govern their life insurance policies. Its SaaS (Software as a Service) solutions are designed to proactively alert customers of potential problems with their life insurance policies and protect against degradation and asset erosion.

Prior to founding Proformex and serving as its Chief Strategy Officer, Mike started in the life insurance business with Mass Mutual and quickly became a leading agent. Soon after, he co-founded River Financial Group, a full service financial advisory firm. His focus was on building a highly successful financial planning practice which took into account the various parts of a holistic financial plan. As he focused on estate planning, he started The TOLI Group, a life insurance firm which was designed to fill the gap in the market for insurance consulting and the need for ongoing policy monitoring and management support, especially as it relates to trust owned life insurance.

About Proformex

Proformex is the leading inforce management platform offering data aggregation, analytics, and portfolio monitoring for life insurance and annuities. The platform is purpose-built to help independent life insurance and advisory firms protect their clients' best interest and ensure regulatory compliance by monitoring individual policy performance, identifying at-risk policies, and uncovering new sales opportunities. Our automated solutions make inforce management more efficient, more profitable, and results in better experiences for policy owners.

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