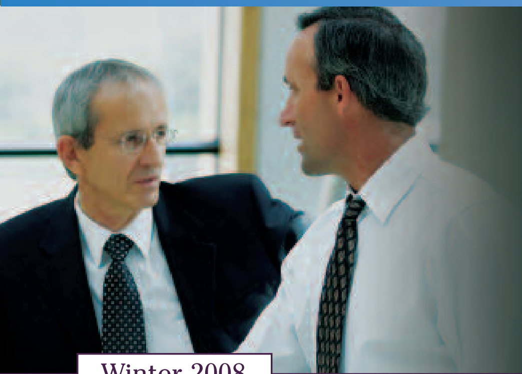
FIRST AMERICAN INSURANCE UNDERWRITERS



It's About Your Business

A NEWSLETTER FOR LIFE AGENTS & FINANCIAL ADVISORS

Winter 2008

Trends and New Directions in Life Underwriting

ALLAN D. GERSTEN, CLU, CFP, CHFC

The remaining handful of major reinsurers are having a profound and far reaching impact on life insurance company underwriting approvals, ratings, medical requirements and pricing.

Over the last five years, a consolidation juggernaut has reduced twelve of the largest reinsurance companies into a group of five.

Today, these heavyweights are imposing strict requirements, monitoring compliance, performing audits, applying onerous penalties and even threatening to pull out of their relationships with insurance companies.

At the same time, the many life carrier consolidations have created situations where companies are finding it difficult to hire qualified underwriters in the areas where they are located, a situation that's resulting in an accelerated growth in underwriters working remotely from their homes.

While this is certainly an effective way to meet the needs of the insurance companies, as well as independent underwriters, it also creates a painful transition for the companies and their brokers.

Nowhere has this situation had greater impact than with the impaired risk underwriting marketplace. At this point, there are virtually no life companies specializing in impaired risk.

However, it should also be noted that many carriers anxiously accept applicants with impairments who would have been easily rejected in past years. Today, the larger life carriers maintain their own underwriting manuals that include their own particular specializations and approaches to specific impairments. Since these are often unique to a particular carrier, they can be more competitive and aggressive than other carriers.

It is not uncommon for companies with their own underwriting manuals to make multiple corrections, changes and enhancements during the course of a year, incorporating medical and technological improvements in treatment and results. Since these manuals are computerized, it is easy to keep underwriters informed of the updates.

Field underwriting is taking on greater significance. Those who are closest to applicants can expect to play an increased role in the information gathering process.

In addition to these rather global issues, there are a number of other underwriting trends and changes taking place:

- Simplified issue of larger face amounts—often marketed through banks, Internet, property and casualty companies both through brokers and direct.
- Use of prescription websites to cut down on aps ordering. This reduces approval times and lowers costs. Based on the particular prescription medicines, an underwriter might decide that there is sufficient case development to avoid the aps, since the additional information could be of marginal benefit. These decisions are based on the insurance exam, client inspection, blood tests, family history and other available information.

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WHAT TO LOOK FOR IN THE YEAR AHEAD

How Life Producers Can Do More Business in '08

President's Message

KENNETH A. SHAPIRO

"The only trouble with work is that most of the time we're so close to it that we don't see what we're doing," a business associate commented not long ago. How these words may apply to other industries I'm not quite sure, but they certainly fit life insurance sales.

It pays to push back once in a while and take a look at what it is we're doing and the start of a new year is a good time to see where we are.

Based on our appraisal of the life insurance marketplace, here are the issues and opportunities we see for the year ahead:

1. The power of policy reviews. If you aren't doing policy reviews or have convinced yourself that they aren't necessary, you're making a major mistake for yourself and your clients. If you want to be accepted as an advisor, the policy review is the best way to develop that reputation.

2. Guarantee no lapse Universal Life products. There's no doubt about it; clients want guarantees. We often fail to give clients sufficient credit for thinking ahead, but they do. "Will I outlive my money?" This is a real concern in light of longevity.

The no lapse guarantee gives you the opportunity to approach those clients with confidence who may own underperforming policies.

3. Current assumption Whole and Universal Life and Equity Indexed products. While some clients are risk averse, others are willing to accept some risk if they can obtain affordable death benefit protection with a

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FIRST AMERICAN
Insurance Underwriters
Taking you there

Annuities
Client Retirement Planning: Discovering the right balance between income needs, long-term care and legacy planning

CAROL RUGGIERO, VICE PRESIDENT OF ANNUITY SALES
DAVID COLBURN, LUTCF

Producers often plan a separate "income planning" meeting with clients who are heading into retirement, generally when they are in their late fifties to mid-sixties. During this period it's important to select age-appropriate investment allocations to help protect clients from inflation and investment risk.

Single premium annuities offer attractive features such as increasing income based on a CPI index or liquidity options during the payout phase and there are fixed indexed annuities guaranteeing as much as 3% with the possibility of higher returns based on index performance.

Unfortunately, planning, with the primary focus on life expectancy and inflation issues, does not deal with the risk to income and assets posed by long-term care expenses associated with disability and income reductions occurring at death.

A life insurance policy can be "redefined" to meet the client's current death benefit requirements, thus protecting the survivor's retirement.

By isolating income planning, advisors may very well miss important factors that can affect a client's income in either a positive or negative way, particularly when they have been primarily concerned with accumulation.

Today, advisors need to be aware that life insurance and long-term care policies can have a positive impact on a client's retirement income. To do this, an effective approach is to combine an income planning meeting with probing questions about the risks that death and long-term care expense pose to the income needed to have that retirement—inflation and too long a life may not be the biggest risks.

A review of existing life and LTC policies should be performed and it may be necessary that existing policies will need to be "redefined" if they do not reflect a client's current situation.

For example, some life policies may have been purchased at a time when family issues, including a mortgage, were a major concern. In such situations, term insurance could well have been the product of choice, a product that is not appropriate when entering retirement age. This may be the time to acquire permanent insurance to ensure retiree income lost at death.

Death usually ends or reduces a defined benefit pension plan, leaving the surviving spouse with less income. Death also ends or reduces Social Security income. If retirees own permanent life policies, they may be very poorly priced or have short guarantees. It is often possible to combine one or more old plans into a modern plan with more death benefits and better guarantees at a much better price.

A life insurance policy can be "redefined" to meet the client's current death benefit requirements, thus protecting the survivor's retirement.

Long-term care expense is another factor that can impact client income. For example, if a client is receiving a defined benefit of $6,000 per month and they need to go into a nursing home costing $8,000 a month, then all that income leaves the stay-at-home spouse and goes to pay the nursing home.

In some instances, the spouse might be able to keep a small portion of the income if, without it, this would create a poverty situation. If the couple has assets either jointly or individually owned, the at-home spouse would be required to subsidize the nursing home expenses until the assets jointly or singly owned were reduced to a certain level. The in-care spouse needs to spend down to less than $2,000 of personal assets and the at-home spouse is allowed to keep up to a maximum of about $100,000 personal assets from the nursing home expense.

Long-term care insurance would pay all or most of the nursing home bills leaving the at-home spouse with family income, assets and a retirement secure from loss.
One way to do this is to set aside a lump sum and purchase an income annuity to provide the needed protection.

Here is an example of this approach: The client transfers $105,982 in liquid assets to purchase a single premium immediate annuity paying $6,367 annually for life with a 10-year period certain provision. The planner uses this income stream to pay for Long-Term Care coverage or needed life insurance. If the couple is healthy and age 50, a $9,000 per month benefit for five years with compound inflation will cost about this much.

If either one needs long-term care, the problem is solved. If one dies, the other's Long-Term Care policy will be paid using survivor waiver of premium. The $6,337 would continue and be simply additional income for the survivor.

The other major risk to income is death. Pension payouts and Social Security payments are reduced or terminated with death. The best protection from this is adequate permanent Life Insurance. A healthy 50-year-old couple can take the $6,337 and purchase $250,000 in permanent protection, coupled with $250,000 of 30-year Term Insurance. The $500,000 would replace substantial income or replace assets lost to a nursing home stay if LTC had not been purchased in time.

With a broad range approach that includes long-term care and death benefit components, clients can have a program that meets their income requirements and gives proper protection, while providing for their beneficiaries. In other words, matching the right assets to clients' needs will increase the possibilities for a more secure retirement.

While this strategy serves the best interests of clients, it is often easier to talk about than it is to execute satisfactorily, particularly since it involves considerable product knowledge.

However, learning to ask the right questions makes the process much easier and helps advisors obtain the information needed to help match clients' needs as they move from accumulating assets to withdrawing them.

Here are five key questions to ask clients and why they are important:

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Annuities

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1. *"Have you set aside money to fund long-term care for yourself, spouse or both? If you have, how much?"*

2. *"Are you aware that your spouse's income goes with them if they should enter a nursing home?"*

3. *"Have you considered how you would replace the retirement income lost at your death or that of your spouse, or if either of you were to go into a nursing home?"*

4. *"In addition to an income stream that you cannot outlive, inflation will have an impact on your income soon after you retire. Are you aware of what will be needed to offset what is lost to inflation?"*

5. *"Are you aware that your retirement years may come close to or equal your working years?"*

Moving clients from an asset accumulation focus to a retirement plan that emphasizes an income stream for what can be as much as one-third of an individual's life span requires answers to these questions and a different approach. Yet, this is exactly where advisors find themselves today, particularly when the 78.5 million Boomers are moving into the retirement period of their lives.

Trends and New Directions in Life Underwriting

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- Use of telephone interviews with applicants to clarify psychological issues, reduce costs and make more informed decisions.
- Use of new, improved methods for detecting mood disorders and determining inherent risks, if any.
- Improved cognitive testing technology and state of the art testing capabilities can assist in the challenges that occur when underwriting an elderly client, by providing more objective information about individuals who might otherwise be declined, such as those in their eighties. It is common for an underwriter to hang on to the slightest suggestion of a cognitive concern or a memory issue.
- Reduced number of medical exams or specific testing to lower costs.
- Greater objectivity and flexibility when considering negative family medical history.
- Introduction of requirements for additional testing beyond what the physician may have ordered to clarify or determine the specifics of particular impairments.
- The use of new methods for screening the elderly client for cardiovascular disease, including electron beam CAT scan and new serum cardiac markers.
- Underwriting foreign travel has become highly fluid and subject to frequent changes, depending on such factors as specific location of the travel, citizenship, visa, amount of travel and purpose for travel.
- With the explosion in life settlements, financial underwriting of an older risk can be the order of the day. Carriers are taking a hard look at a client's commitment and objectives when applying for larger amounts of coverage at age 70 and beyond.

There is a clear message for producers in these trends: field underwriting is taking on greater significance. Those who are closest to applicants can expect to play an increased role in the information gathering process. It is absolutely necessary to be thoroughly prepared and accurate up front and prepare clients that additional information may be requested.

CASE STUDY

Turning a No into a Yes

DENISE M. DESAUTELS, VICE PRESIDENT OF BROKERAGE SALES

Situation

A female, age 85, applied for coverage with another brokerage organization and was declined for coverage.

The client's broker felt that the facts of the case did not warrant a decline. Since he had recently received some information on First American Insurance Underwriters, he gave us a call. He asked that we shop the case—so we went to work for him.

Facts

Female, age 85:

- Slightly high blood pressure; takes meds
- Cholesterol well controlled with meds
- She had a recent fall in 2007
- Still takes cruises with her family 1–2 times a year
- She leads an active lifestyle
- HT/WT good, within normal range

In speaking with the broker, the original company declined her mainly due to a recent fall in 2007 and her age. When I asked some additional questions, important information came out about the fall.

The fall occurred while she was visiting her daughter and she tripped on a child's toy. This seemed like a highly plausible explanation in itself. However, there were two other factors that helped us obtain a favorable offer.

The client was asked to complete a senior assessment exam by the insurance company (the exam looks at balance, agility and memory). For example, a client is asked to walk across a room, turn around, and walk back to the other side of the room. How easily a client can get up and out of a chair is also reviewed. The ease with which the woman performed this task proved to be very favorable.

The second part is the memory recall in which clients are asked to name three items and recall them a few minutes later. She also passed this with flying colors.

With this information at hand, the underwriter now had a clearer picture and reviewed the client in a positive light.

Results

The case went from a **Decline** to a **Table B** and from no money in the broker's pocket to a $32,000 premium case and a very happy client who was able to secure the life insurance she wanted, even at age 85.

By knowing the right questions to ask and being persistent, it *is* possible to turn a *no* into a *yes*. That's what brokers should expect from their brokerage firm.

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How Life Producers Can Do More Business in '08

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competitive cash value accumulation. This type of product can capture the interest of higher income professionals who like flexibility.

4. Long-term care sales primed for growth. Consumers are finally recognizing that the responsibility for covering long-term care expenses is squarely on their shoulders.

In addition to individual LTC sales, the business marketplace remains a largely untapped field, particularly with executive carve-out programs designed to reward valued employees with a significant benefit.

New multi-life Long-Term Care plans can be an attractive benefit, both for retention and for recruiting new employees. With simplified underwriting, discounted rates and groups as low as three lives, the premiums can be either employer-paid (and tax deductible) or voluntary.

5. The life settlements explosion. It's here–and here to stay as more Americans recognize that a life insurance policy can be a negotiable asset as Boomers age and need additional financial resources to live.

Advisors with older clients should look upon policy reviews with this age group as absolutely critical. With lifestyle or financial changes, a policy may no longer be needed or the policyholder may find paying premiums a burden. Rather than allow a policy to lapse, help them turn it into cash.

6. Impaired Risk opportunities. The impaired risk field has changed. Today, insurance company underwriting is sophisticated and actuarial data is more readily available that has raised their comfort level with many of these conditions. More cases are being accepted at standard and preferred and there are good reasons for doing so, including medical technology advances and increased life expectancy.

7. Annuities and income planning. As millions come face-to-face with retirement, *investment security is a top priority.* The days of risk-taking are behind them, which is one reason why annuity sales continue to skyrocket.

Two annuity issues deserve attention. First, it is essential to shop for the best payout for *each* client. This means taking the time to run illustrations for at least eight to 10 companies. This can be a great way to give a client a "raise" in retirement.

Second, become familiar with medical underwritten immediate annuities (known as Impaired Risk Annuities). Clients with serious medical conditions such as Alzheimer's, alcoholism, ALS, heart surgery, congestive heart failure, emphysema and heart valve disease, for example, may qualify for either a higher level income or a lower purchase price based on an "adjusted mortality."

> If we ignore what's happening in the marketplace, we will lose sales to those who make it their business to know what's going on.

8. Financial underwriting on the rise. With large cases, financial underwriting is playing an increasingly important role with insurance companies for both individual and corporate life insurance purchases.

On the corporate side, underwriters may allow key person coverage for a multiple of 10 times income and benefits and stock redemption for demonstrable balance sheet equity. They also take into account growth history and expected future income.

For personal and estate planning, an amount up to 20 to 25 times current income can be insured, while liquidity needs are a factor up to 50% of the client's current tax liability. In addition, underwriters look at the client's estate growth rate and life expectancy for determining the ultimate need. Typically, valuations are not for more than the estate's value. The younger the applicant, the longer the growth period and higher face amounts can be written.

For applicants over age 70, large face amounts receive greater scrutiny. Underwriters look at whether or not the case is being financed, is a recourse loan or if the purchase is intended as a settlement. Many companies have a history of avoiding cases where they believe there may be a settlement involved.

Underwriters want to understand the reasons why the policies with large face amounts are being purchased, as well as the underlying financial underpinnings.

The year ahead will offer focused, serious-minded and competent advisors enormous opportunities to help clients meet the sophisticated financial challenges they face today.