

It's About Your Business

A NEWSLETTER FOR LIFE AGENTS & FINANCIAL ADVISORS

Specializing in coaching growth-oriented producers

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Estate Planning for Life Insurance Producers

GREGORY E. SCHWABE, FLMI, NATIONAL MARKETING DIRECTOR

"Hey, don't tell me that I should do estate planning. I do life insurance and leave all that complicated stuff to someone else." If you're a life producer and feel this way, it's understandable.

There's a huge difference between *doing* estate planning and *being* an estate planner. The latter is a specialized field, requiring a high level of expertise, while doing estate planning is (or should be) a function of every life producer. In fact, highly effective life producers do estate planning, some without even knowing it.

They are successful for one reason: they work with their clients in a way that establishes rapport and creates confidence, the antithesis of so many insurance salespeople. Their core quality is demonstrating an extraordinary interest in their client's dreams and goals. Whatever else you may call it, that's estate planning for life producers.

Let's take it a step at a time and the place to begin is by asking simple questions: "What would happen tomorrow if you were to die?" If the prospect finds the question disturbing, follow up with this one: "What would you like to have happen if you should die tomorrow?" This is the key estate planning question.

The art of a good estate plan is to make the answer to the "What would you like to happen?" question as much of a reality as possible within the means available. It also allows clients to be in control

of their assets and to determine who will make decisions for them should they become physically or mentally incapacitated.

Quickly, the client realizes that this isn't about buying life insurance; it's about writing a life script, something that most people never have a chance to do. This creates interest and involvement and changes the way clients view you as a life insurance producer. More importantly, they also find that they don't have to be wealthy to need estate planning.

- *The role of a will in estate planning.* The cornerstone of estate planning is a will. There are two reasons every client needs a will: To minimize the tax consequences whenever property is passed from one person to another and to make sure their family is taken care of properly. Without a will, the client loses control and a probate judge takes over and decides how the assets will be divided or disposed of, something many clients have never thought about and when they do, the thought is unappealing. If clients have any assets they would like to pass on to their heirs, they must have a will to make sure their wishes are carried out.

Since you are helping the client with estate planning, your role at this point is to suggest that it's appropriate to have an attorney draft a will. If you work with someone who has earned your trust, this is a good opportunity to make a referral.

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WHAT LIFE INSURANCE PRODUCERS CAN LOOK FOR IN 2010

President's Message

KENNETH A. SHAPIRO

If any words can capture the mood of consumers in the year ahead, they are gun shy and upbeat. Yet, if you want to understand your clients, this is a good place to start.

If you bring clients solutions that help increase their confidence and are consistent with their feelings about the future, you will be on track to do more business in 2010.

In other words, the issue is not life insurance products, but the ability of the products to deliver the results clients want and expect.

Here are seven significant ideas that can help meet the challenges and opportunities created by clients who are both cautious and optimistic.

1. Consumers want flexibility. While death benefits are a given, it's the flexibility offered by UL/permanent life products that has a strong appeal, as more consumers recognize the value of cash, which makes the tax deferred feature of UL/permanent life insurance particularly attractive.

If a policyholder needs money, it can be available tax-free (as long as it doesn't exceed what has been paid on the policy), either as a withdrawal or a loan. This is far more preferable than running balances on high-interest charge cards. The overloan features on some policies provide additional flexibility.

The shock of seeing their 401(k) accounts decimated by the drop in the stock market has made consumers far more security conscious. Even though the market delivered solid gains this past year, investment vehicles such as UL products that offer a floor as well as a ceiling give skittish consumers a needed level of security.

While no single investment vehicle can meet a consumer's total needs, permanent life products offer the flexibility that many are looking for today.

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What Life Insurance Producers Can Expect in 2010

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2. Survivorship estate planning. As the history of life insurance makes clear, “everything that goes around comes around.” That’s what’s happening with survivorship life products, which are continuing to make an appearance after declining for several years.

Because the proceeds of this type of life policy are given to the beneficiary upon the death of the surviving spouse, the path where the money is going is completely clear so that there’s no question about it winding up in the hands of the tax collector. As such, it’s a simple and useful estate-planning tool and the cost is generally less than insuring two separate lives.

3. Hybrid permanent life insurance that does more. With the continuing escalation of medical, rehabilitation and nursing home costs, we all know the value of Long-Term Care coverage—and so do your clients. But closing Long-Term Care sales, particularly individual policies, remains stubbornly difficult.

Some life companies recognize that while consumers want LTC coverage, they don’t act because of the cost. By packaging an LTC rider with a UL policy, they make both more appealing. While LTC riders may not be the perfect solution, they generally accelerate the benefits of the life policy to help cover long-term care expenses. If the rider is not used, the full benefits of the life policy remain intact.

As one company states, “It can be an affordable, hybrid solution to the ‘use it or lose it’ dilemma of traditional long-term care insurance.”

4. Guarantees are disappearing. In 2009, the notices began arriving from insurance companies indicating that they were either repricing certain Guaranteed UL products or withdrawing them from the market. The repricing appears to increase premiums from three to 12 percent, depending on the carrier and the policyholder’s age and health.

Return-of-Premium term products are following a similar pattern, along with the longer durations, generally 25- and 30-year guaranteed premium term life. Some companies have left the 30-term market and others may certainly follow along.

Premium increases began occurring in 2009 and it’s prudent to expect that trend to continue.

These products are being impacted by changes in long-term interest rate assumptions that threaten profitability, substantial increases in the cost of capital reserve requirements and returns that are not meeting minimum objectives.

5. Strong corporate profits open the door of opportunity. With corporate profits rebounding as a result of belt-tightening, downsizing, increased efficiency and prudent decision-making, companies have available cash to enhance both executive and employee benefits, which may have lagged behind over the past few years. They will be looking for ways to reward valued employees for their loyalty during the trying times of the last three years.

At the same time, the recent layoffs have spotlighted the issue of portability and will be an attractive feature for insurance buyers of many small- and medium-sized companies.

It is also worth noting that as businesses emerge from recession pressures, they will be looking for ways to regain financial stability. Without question, many will be seeking other than traditional sources, after having been rather severely burned.

Finally, companies will be seeking cost-effective solutions for rewarding and retaining key employees, such as defined benefit plans and funding business continuity programs.

Business owners and managers are consumers, too. And that’s why UL products can be so effective, whether providing cash growth, executive bonuses, financing needed projects or supplemental retirement savings.

6. Clients are looking for an advanced level of service from advisors. Consumers are expecting all their advisors—including insurance advisors—to be far more proactive than ever before. They don’t want to hear about after-the-fact problems and they certainly don’t want someone bringing them bad news.

With changes in life insurance policies, the economy and the life events of policyholders, annual policy reviews are an essential service of advisors. Like every other investment, life insurance policies require regular attention and maintenance. And that includes a review meeting with their policyholders.

Even relatively new life policies need regular scrutiny. Since we are living longer due to improved medical care and more effective medications, life underwriting is more liberal. It’s quite possible that clients who bought policies just a few years ago can obtain more coverage at a lower cost today. The annual policy review is the opportunity to deliver this good news.

At the same time, consumers are far more aware than ever of policy performance issues, particularly if they have policies that have been in force for 15 years or longer. If a policy isn’t performing on the assumptions of the original illustration, the review is the time to discuss options with a client.

More than anything else, it’s an enormous opportunity to be of service to clients.

7. Look for increases in life product pricing. Consumers certainly have benefited from lower life insurance costs resulting from updated mortality tables, more appealing products, and marketing strategies such as table shaving.

After several years of surprisingly low prices, the pendulum began to swing in the other direction in 2009, and the upward trend will most certainly continue in the year ahead. The change is mainly due to weakened investment returns, tighter margins, higher reinsurance costs and the need for insurance companies to add to their reserves. All this is not unexpected and is a reflection of what is happening throughout the economy following the recent recession.

With a clear upward pricing trend, it’s incumbent on advisors to let clients know there is a cost attached to waiting. These conversations can certainly include policy reviews to make sure their existing life program continues to meet their objectives.

If there is an overriding message in all this, it is that advisors are well positioned with products and strategies that fit both the economic times and the expectations of clients. As consumers turn their attention to the future, particularly retirement, today’s advisor comes armed with meaningful and trustworthy solutions.





Maximize Guaranteed Retirement Spending with Immediate and Deferred Payout Annuities

DAVID OLSEN, CLU, CHFC, RHU, BROKERAGE MANAGER

Millions of retirees face the task of translating their accumulated savings into retirement income. Needless to say, not all clients will have saved enough to ensure they have sufficient retirement income, particularly as they systematically make withdrawals from their stock and bond portfolios. Today's volatile financial markets are a clear indication of how market risk takes on added meaning for those who are retired, as well as many more who see it looming before them.

Beyond that, roughly half of your clients will live beyond their life expectancy. As we all know, the longevity risk creates additional uncertainty on sustainable withdrawal rates from retirement portfolios.

While this is certainly an accurate but sobering analysis, the picture isn't necessarily bleak. Immediate and deferred payout annuities can help alleviate both market and longevity risks by guaranteeing a certain amount of lifetime income.

The immediate annuity is generally positioned to supplement other sources of guaranteed lifetime income, such as Social Security and pension plans. However, the gap that exists between required annual expenses and guaranteed inflation-adjusted income can be filled with immediate annuity income.

Immediate and deferred payout annuities can help alleviate both market and longevity risks

A newer type of product, the deferred payout or longevity annuity, provides inflation-adjusted life-contingent income that begins in the distant future, say at age 80 or 85. This is much like buying auto insurance with a large deductible. The longevity insurance kicks in once the longevity risk is substantial and financially unworkable. This allows the retirement portfolio and asset allocation model to

focus on a specific time horizon, the annuity income commencement date, instead of an unknown date of death. By taking away the longevity risk, the investment portfolio can increase market risk for higher returns.

The client-specific considerations, such as wealth, risk tolerance, health status and desire to leave a bequest, are important factors to determine which type of annuity and how much money to allocate.

If properly structured in the retirement portfolio, these products can provide substantial benefits to help clients achieve their retirement objectives.

COMING 2010

FIRST AMERICAN'S 2010 INCENTIVE TRIP

Qualifying information on this fabulous trip will be coming to you soon!



CASE HISTORY More Coverage For Lower Cost

JUSTIN JURIS, BROKERAGE MANAGER

Situation

The clients were a 60-year-old male and his 66-year-old wife, both non-smokers. They were the owners of a successful business and no longer needed access to the cash surrender value of their existing life policy.

Their goal was to lower their annual trust contribution for payment of premium, while maintaining the policy's current \$7.5 million death benefit.

Analysis

The clients had an existing survivorship whole life plan in an Irrevocable Life Insurance Trust (ILIT) for estate planning purposes. They currently were paying \$121,000 a year into the ILIT to guarantee the death benefit for their two lives. The plan also had a current cash surrender value of more than \$700,000.

Solution

After taking the clients through a Policy Annual Review, we were able to secure favorable approvals with the insurance company for a guaranteed survivorship universal life policy. Using a tax-free 1035 Exchange of the cash value, they purchased a new plan with a guaranteed annual premium of \$51,000, an annual savings of \$70,000. Needless to say that the clients were more than pleased, not to mention the producer, who was compensated on the target premium of \$125,000 plus excess on the exchange.

Since First American is highly experienced in working with difficult cases, the results speak for themselves. When you have a problematic case, let First American go to work for you and your client.

FREQUENTLY ASKED QUESTIONS

Q. "How can I complete my 'Anti-Money Laundering Training'?"

A. It's very easy. Log on to LIMRA at <https://aml.limra.com>. If you prefer, contact the Licensing Team at First American. LIMRA sends an automatic feed once the training is completed and the producer's record will be updated within 48 hours after completion. Once your contract has been submitted to a specific insurance carrier, the training becomes available to a producer.

Q. "Are all medical exams transferrable between insurance companies?"

A. Most companies will allow the use of another carrier's physical exam, although the Part II Non-Medical Questions must be filled out.

If you have questions or would like more information, please contact your Brokerage Manager.

First American Contact Information

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ESTATE PLANNING FOR LIFE INSURANCE PRODUCERS

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- *Transferring assets through a living trust.* You can also point out that another way to transfer assets is through a living trust, which has become a popular tool in estate planning in recent years. This legal arrangement allows the client to transfer assets to beneficiaries without having to endure the probate process, which can be expensive and tie up an estate for months and even years after death.

In this arrangement, a trustee holds legal title to property for another person. This trust is created and administered during the client's lifetime rather than at death like the terms of a will. In many cases the "grantor" (client and spouse) serves as trustee and beneficiary during his or her life, thereby retaining control over their assets.

Assets in a living trust don't go through probate. The successor trustee—the person you appoint to handle the trust after your death—simply transfers ownership to the beneficiaries you named in the trust. Once the assets are transferred the trust ceases to exist.

- *Taxation in estate planning.* Estate tax is assessed on a person's taxable estate, meaning all of your property, including life insurance and property owned jointly with others, minus debts, funeral expenses and expenses of administering the estate such as executor's commissions and attorney fees.

Estate taxes are imposed on estates with a net value of \$2 million or more, an amount that increases to \$3.5 million in 2009. In 2010, the estate tax disappears completely. It's up to the next Congress if this will be permanent or if the tax will return in 2011 and beyond.

Now that you have shown the client the advantages of properly structuring their assets so that their wishes are carried out, the conversation can turn to what they want to have happen upon their death or in the event of a terminal illness. Call it what you will, but it's a basic needs analysis in just two questions:

- *"What do you want to have happen?"* What do they want to have happen to the mortgage on their home, outstanding loans, final expenses, future family needs such as tuition, child/parent care and weddings, income for a spouse (including how many years to provide for and an inflation factor), and any charitable contributions?
- *"What do you have to make it happen?"* What assets (their net worth) do they currently have to provide for these needs? This can include stocks, mutual funds, life insurance, savings accounts and a pension.

By going through this fact-finding process, you have performed an enormously valuable service for your client.

You have given the client the opportunity to draw a complete picture of their financial life situation.

Having completed this exercise, you have also uncovered the information you need to determine if the client has sufficient resources currently to satisfy their wishes.

If the needs and desires exceed the assets, using the client figures, then they have created a life insurance sale for you.

At that point, the question becomes the type of insurance best suited to fill the shortfall and showing the client how they can fund it. You are right where you want to be at this point: where you can put your life insurance knowledge and expertise to work on behalf of the client. You did estate planning in your role of life insurance producer.

A needs analysis should be conducted regularly with clients, once a year is optimal. Life circumstances change more rapidly today than ever, as do the tax laws. By asking the same simple questions you will evoke the information you need to make sure your client's wishes and goals will continue to be met.

Keeping your client's life script up to date will assure you of a continuing relationship and should result in quality referrals to help build your business. For the astute life producer, estate planning is the key to success in satisfying clients and increasing sales.