

It's About Your Business

A NEWSLETTER FOR LIFE AGENTS & FINANCIAL ADVISORS

Specializing in coaching growth-oriented producers

Summer 2010



More and more cases fall into impaired risk Watch Out for the Impaired Risk Red Flags

A CONVERSATION WITH ALLAN D. GERSTEN, CLU, CFP, CHFC

Life insurance is both a science and an art, which is why even a very difficult impaired risk case can obtain a positive result from a thorough and informed underwriting approach.

Informed analysis and thorough fact-finding are the essential and objective tools for moving a case forward. Yet, there can be a subjective element that should be included in the overall evaluation and decision process.

Since many insurance company underwriters use manual criteria, decisions can vary from one company to the next for a particular risk. A cancer history evaluated with the same stage, grade, treatment and background might carry a larger or smaller flat extra rating with one carrier, while another can offer a standard rate with no flat extra based on their experience with that type of risk, their reinsurance alliances, and their unique business and cost model.

By adding the subjective evaluation when deciding on a case, there can be a broad range of offers that can make the difference between closing the case or not.

Heart impairments, for example, may have a wide range of carrier offers since these cases require the evaluation of an immense amount of information, with particular dynamics adding to the challenge.

The construction, proper evaluation and ultimate presentation of a difficult case begin with identifying and collecting the relevant facts, the APS materials and other required information.

Then comes a comprehensive and positively presented case summary. It's important to portray a client based on the good, the bad and the ugly aspects of the file. A properly written summary can help put the case in a beneficial light.

The next step is to recognize "the red flags of impaired risk." The chances of receiving very good offers go up if you're aware of these critical issues:

1. Your client has been declined or rated by your primary company. When this occurs, it's an opportunity to assure the client that the process will continue, what the price range may be and the likelihood of receiving other offers.

However, before moving forward, it's essential to understand the factual issues or the subjective interpretation that caused a company to decline, rate or postpone the case.

At times, an insurance company will communicate the information to the broker, but in other cases it may be helpful having an underwriter speak with the original carrier to obtain a more complete understanding of what went into the decision. A skilled underwriter can often gain insight into another underwriter's thought process.

2. The client has a potentially challenging underwriting situation due to a chronic medical condition, poor personal habits, lifestyle issues or limited available information. In approaching case evaluation, it's essential to recognize that no two cases are exactly alike. Even though some cases may be similar, it's critical

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THE MIDYEAR CHECK-UP FINISHING THE YEAR ON A HIGH NOTE

President's Message

KENNETH A. SHAPIRO

It's now midyear – when many of us say, "Where has the time gone?" It's also an opportunity to take a close look at what we're doing. It's easy. For example, we may find that most of our sales are with a certain type of product. We're comfortable with it and we get a positive response from our clients.

But we may be falling into a trap: *whether we recognize it or not, we may be missing significant opportunities.* We get in, analyze the problem, make a recommendation, get client buy-in, submit the app and we're on our way. While we're efficient, we may be missing the rest of the picture. What else is going on in the client's life that we can help with? What concerns did we hear expressed but ignored? Are we connecting the dots?

Missed opportunities are more than just lost business. Picking up on a comment or asking a probing question lets a client know we're listening and concerned.

Clients also expect us to give thoughtful guidance. *Life insurance does not have to be a transactional business, even though we often treat it that way.* When clients think about their financial security, they aren't focused on products. What they are looking for is help and guidance, which requires conversations. This is when we discover new possibilities. Perhaps it's recommending a Long-Term Care rider to a life policy (see Josh O'Gara's article in this newsletter) or purchasing Annuities for retirement income and legacy planning.

If you're a financial planner, are you considering life insurance for clients? With the uncertainty of the stock market, consumers are looking for security. What offers more safety than life insurance?

There's plenty to do over the coming months to end the year on a high note. But it takes planning if you are to have the time to talk to clients and prospects. It's your opportunity. They have questions and they're looking for answers.



An effective way to overcome Long-Term Care objections The Increasing Role of LTC Riders

JOSH O'GARA, CLU, BROKERAGE MANAGER

Adding riders to enhance the features of a base life insurance policy has been popular since the early days of the industry. Whether it's one that doubles the death benefit in the case of an accidental death or waives the premium in the event of the insured becoming disabled, both insurance companies and agents have found that adding these riders can greatly increase the marketability of insurance contracts by customizing the life insurance policies to address specific concerns of an individual client.

For example, a guaranteed insurability rider can be added to a life insurance policy that will guarantee the client the ability to purchase a specific amount of insurance at certain points in time in the future. This type of rider is often favorable for a client who is starting a family and is anticipating the need for additional insurance upon the birth of children.

The accelerated benefit rider is another example of one that has been very popular in the past. It's often triggered by a terminal illness or permanent disability. It's particularly appealing since it creates a "living benefit" for the client in addition to the basic death benefit from the policy by paying the client up to 100% of the death benefit for a qualifying event.

A new twist to this type of rider allows clients access to their death benefit in the event they are in a nursing home or long-term care facility. This new twist on an old idea has substantial client appeal since it provides an effective argument to counter many of the objections to purchasing a traditional Long-Term Care (LTC) plan.

How it works

While there are several types of LTC "hybrid" products that are currently on the market both on life and annuity contracts, the focus here is on those that can be added to life insurance contracts.

The most common structure of these riders is in the form of an "accelerated benefit" that provides the client with a specified percentage of the death benefit each month that can be accessed to offset the cost of long-term care.

Assume, for example, that a female client needs \$300,000 of permanent life insurance. Along with the life insurance protection, a needs analysis reveals that the client can benefit from LTC protection of \$200/day in the event of being admitted to a nursing home. To address the need, a 2% LTC rider will be added to the policy so the client can

access up to \$6,000/month of the total death benefit for LTC payments.

To qualify for benefits, the rider's requirements are the same as a normal LTC plan in that the client needs assistance with two out of the six ADLs (Activities of Daily Living). After the waiting period (90 days on most riders), a client can begin collecting benefits each month until the death benefit is exhausted. Some riders currently on the market have an "enhanced" benefit feature that doubles the benefit pool for LTC purposes.

Most of these plans pay on a reimbursement basis. The client submits the LTC bills and is subsequently reimbursed accordingly for LTC facilities, home health care or nursing home care. If the client does not use the full benefit each month, the unused portion remains in the pool for later use. If the rider is never used, however, the client's beneficiaries will be paid the full death benefit.

The need

A U.S. Department of Health and Human Services study found that at least 70% of those over the age of 65 will require some form of LTC at some point in their lives. This is an overwhelming statistic for most people and demonstrates the clear need that most Americans face for long-term care coverage. When the high probability of needing care is combined with the cost statistics for average nursing home care, the numbers become staggering.

According to most estimates, the average nursing home costs about \$200/day and the average stay is about 2 ½ yrs. When the costs are added up, on "average" about 70% of people will incur a bill of more than \$180,000 (this figure can be significantly higher in metropolitan areas).

Even with all the data, many consumers choose not to purchase LTC policies. Given this often-daunting situation, a producer must look at every possible solution and that's where the LTC rider can provide an attractive alternative to a traditional LTC plan.

An alternative solution

There are many objections that clients come up with to justify delaying or completely dismissing the purchase of LTC. However, most of these fall into three main concerns, which an advisor should be prepared to address simply and clearly. Here they are:

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Frequently Asked Questions

Q Can you give me an example of how FAIU differentiates itself from other brokerage firms?

We are pro-active rather than re-active. We communicate with agents and multiple carriers on a daily basis expediting the underwriting process.

Responding to phone calls and emails continuously throughout the day provides excellent customer service while reducing the underwriting time for approvals.

Q When should contracting be submitted?

In most states, contracting should be submitted with a new business application, unless it is in a restricted state. Contact your licensing representative for pre-appointment and restricted state information for each carrier.

Q How should I handle a situation where you are saying to yourself, 'I have a guy who has issues' and you want to know the best options?

Contact your Brokerage Manager, who will work with our underwriting staff headed up by Allan Gersten. He is involved in reviewing and negotiating these cases along with his underwriting staff. You will receive an answer either immediately or within 24 hours, if we feel there is a need to "poll the marketplace" for offers. A second method would be to obtain a Risk Finder (www.faiu.com) with a HIPAA authorization to obtain the aps' needed to shop the case for greater accuracy.

Q Life Insurance is not my primary business and, at times, seems a long and tedious process for exams, ordering APS, etc. What can FAIU do to assist me in streamlining my business?

Several carriers have "express" issue programs that will simplify the process and provide you more time for other sales. Whether it's as little as a short form application package or as complete as ordering the exams, APS and filling out the application for you, we have the carriers and programs to make it work for you.

Watch Out for the Impaired Risk Red Flags

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to remember that each one is unique. Ironically, perhaps, this is the value of experience and is a refreshing, necessary and productive mindset when reviewing and presenting the file.

APS information may be vague, incomplete, incorrect or even in conflict with the client's actual situation. Clients are often poorly informed or sometimes in denial. Files can also be incorrect, inconclusive, misleading and just plain wrong. Sometimes, the client should have obtained a second opinion.

Having open communication with everyone involved is critical for obtaining the appropriate solution.

3. Multiple impairments are challenging for most insurance companies, depending on the particular combination and their relative severity, stability and control. Without question, the perception of importance, stability and severity by the underwriter is critical for receiving an acceptable offer.

Some carriers will discount a second or third impairment and work with the most important or dominant one when rating a case. Others may have a system for providing credits or reductions to the rates that the proposed insured qualifies for that can improve the offer. There can also be inconsistencies in the patient's treatment. Simply put, most cases present opportunities to improve offers if everyone's mind is open and everyone works with one objective in mind.

4. Unresolved medical status can very often stop a case's progress. This has become an area of growing concern, particularly with internists, who are often recommending that a client see a specialist.

In most cases, the specialist's responses and testing must be completed before a carrier will make an offer. This is also why it may be preferable to have a client's insurance needs secured before having the next regular medical checkup. This problem can be resolved if the broker reminds a client proactively that insurance

should be purchased when a person is healthy and before starting with a round of doctor visitations for a possible malady. This is like trying to insure a building when it is on fire. Under such conditions, it is an uphill struggle in a life insurance transaction.

5. Substance and alcohol abuse, driving history, moral issues, as well as financial matters, should be presented in the most advantageous way possible. Candidly, such factors tend to be dealt with quite harshly by most insurance carriers. Even so, there are companies that make informed, intelligent offers when provided with all the information.

Underwriters need help in justifying the offer. If relevant facts are missing, a client is at a disadvantage when the underwriter is reviewing the application. It can help if the insured composes a carefully drafted cover letter.

It's worth noting that underwriting in the lifestyle risk area is often very uneven and produces limited positive offers. Usually, considerable time passes between the occurrence and the offer. To have the best chance of success, it's imperative for the client to be open, forthright and offer all relevant details regarding the history and status of the issue at hand.

For example, a supplemental letter for an applicant who tested positive for past cocaine use that details the facts can be useful in obtaining good results. This is particularly true if the letter clarifies for the underwriter that this was a limited, short-term use and presents a clear picture of the proposed insured's stability.

6. Older applicants with medical impairments represent both challenges and opportunities for producers. Clients in their 70s and 80s present an opportunity for significant wealth transfer and wealth preservation cases. As might be expected older clients can have either current or past physical or mental issues.

The underwriting challenge is recognizing the relative importance of that history and/or current status as it relates to the probability of securing a result that works best for the client. These cases can be subjective.

When comparing clients in their 70s to those in their 80s, an insurance company has much more flexibility in offering a rated policy for the younger client. That flexibility disappears when faced with offering a policy to 80 plus-year-olds with higher than a table B, since the pricing for such a policy is usually impractical.

The evaluation of certain impairments for these ages can sometimes be more aggressive with great offers as compared with the same impairment underwritten conservatively with a younger proposed insured. For example, an 85-year-old male with prostate cancer using a "watchful waiting" method of dealing with the cancer can receive a standard non-smoker policy, while a 55-year-old with the same diagnosis who opts for the same treatment would be summarily declined for coverage by all carriers.

However, the reverse can also occur when the older client has a heart condition that may call for a 100% rating surcharge, while the same carrier may make a standard offer by utilizing credits and table shaving to the younger client with the same medical history. When it comes to every case—impaired risk cases in particular—there's value in maintaining an open mind, since there is often more than one way to solve an underwriting problem, including those that appear to be extremely difficult.

It's essential to pursue every possible solution to obtain the best possible answer—or any answer at times. This extra effort should be made even when it appears that the correct solution is in hand. This requires appropriate resources, patience, persistence and know-how. And since it makes a difference for both clients and producers, it's well worthwhile.



The Ritz-Carlton in Naples, Florida awaits you!

March 24-27, 2011

First American invites you to experience 4 Days and 3 Nights of luxury at the Ritz-Carlton in Naples, FL. Featuring dazzling views of the Gulf of Mexico, three miles of pristine beaches, world-class restaurants, impeccable service and much more!

For more details on this fabulous trip, contact your Brokerage Manager at

781.449.6800

Brokers' Open House

First American's 7th Annual Brokers' Open House took place on May 12, 2010 at Pine Brook Country Club in Weston, MA. The event offered producers, staff and carriers the opportunity to enhance business partnerships in a relaxed atmosphere. Those attending enjoyed great food, cocktails and prizes.

In continuing with our community outreach, First American made a donation on behalf of the 125 attendees to the Jimmy Fund in support of innovative cancer research treatment programs at Dana-Farber Cancer Institute. Thanks to all of you who attended this fantastic event.



Ron Wood, Tony McMullen, Mike Morrow and Ken Shapiro



Dave Colburn, Linda Fuchs and Richard Bourgault



Reggie St. Germain, Greg Schwabe and Gerry Kreuz

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An effective way to overcome Long-Term Care objections The Increasing Role of LTC Riders

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1. Cost is the most common objection to purchasing an individual LTC plan.

If we look at a typical individual plan with the same parameters for the same 65-year old female client (\$6,000/month for five years), the policy would cost about \$3,000/year. However, adding the LTC rider to the \$300K insurance policy costs only \$400/year. At a time when most Americans admit to being underinsured, this rider can provide added motivation to obtain adequate insurance to cover both the life insurance need and LTC coverage gap.

2. The second reason consumers give for not purchasing LTC is the possibility that they may never use the benefits.

Some life carriers attempt to mitigate these concerns through return-of-premium LTC plans. However, this adds significant costs to already expensive plans.

Presenting the LTC rider to a client can successfully overcome this objection. Because the rider is added to an underlying insurance contract, there will always be a death benefit paid to the client's beneficiaries if the rider is never used. When the rider is added to a life insurance plan with cash value, there is the added flexibility so the client can access the cash for supplemental retirement or emergency income needs.

3. The third objection is expressed by the client with sufficient assets that mitigate the need for an LTC policy.

Based on our example, a client would need at least \$300,000 of liquid assets set aside for LTC.

These so-called "lazy assets" are typically held in very low yield, low risk securities such as money market funds or CD's. However, if the client takes less than one-third of this emergency fund (about \$85,000 in this case) and purchases a single pay life insurance policy that includes a LTC rider they can obtain the same \$300,000 benefit pool. Along with the leverage this gives the client, there is the added benefit of an additional \$300,000 of life insurance, which can then be used to offset estate taxes or to create a legacy.

In a highly competitive market where products are constantly changing and information is easily available to consumers, it is vital that advisors be prepared with a level of knowledge to benefit their clients. Long-Term Care riders can provide an intriguing solution to the complexities surrounding the sale of traditional LTC plans.

The concept can be used to either open the door to a new client or to provide a compelling reason to revisit the insurance needs of current clients. This new twist on an old idea should prove to be a beneficial source of revenue as people increasingly try to get the most value out of their insurance policies in the tight monetary environment.