



FINANCIAL EXPERTS
NETWORK



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A New York Long-Term Care Brokers, Ltd. Company

LIFE INSURANCE IS MORE IMPORTANT THAN EVER

A LOOK AT “WHAT TIME IT IS” **AND** “HOW THE WATCH WORKS...”

BOB VANDY, CLU, CHFC, LTUFC, CLTC

11 Executive Park Drive, Clifton Park, NY 12065
518-371-5522 | Toll-free: 800-695-8224
Fax: 518-371-6131 | www.advisorsib.com

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LIFE INSURANCE – MORE IMPORTANT THAN EVER - AGENDA



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- Why make life insurance part of client conversation
- Revisit the “basics” of life insurance
 - Is life insurance like a pizza?
- Which type of life insurance when?
- Covid & interest rate environment impact on life insurance
- Life insurance you don’t need to die to use

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LET'S KEEP TWO THINGS IN MIND...

The KIND of life insurance your client has is less important than having at least SOME individual life insurance, having enough and having it when they need it...

AND

People buy life insurance for one (or more) of three reasons:

* Protection * Cash Accumulation * Wealth Transfer/Legacy Planning

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SOME INTERESTING STATS ON LIFE INSURANCE

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2011-2020 LIFE INSURANCE STATISTICS



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- Overall life insurance ownership down 9%
- Group life = 32% → 27%
- Individual life = 40% → 55%
- Ownership of BOTH = 28% → 18%
- Intent to purchase next 12 mos. = 36% BUT
 - People consistently overestimate cost of LI
 - 50% of people think it's 3x actual cost!

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KNOWLEDGE CHECK:

WHAT DID THE RECENT STUDY SHOW WAS THE BIGGEST REASON PEOPLE HAVE NOT PURCHASED THE LIFE INSURANCE THEY KNOW THEY NEED?

- A. PERCEIVED POSSIBLE INABILITY TO QUALIFY**
- B. CONCERNS ABOUT LIFE INSURANCE INDUSTRY STABILITY**
- C. PERCEPTIONS ABOUT COST OF LIFE INSURANCE**
- D. WHAT THEY HEARD AT A RECENT DINNER PARTY**

WHY INTEGRATE LIFE INSURANCE PLANNING INTO YOUR PRACTICE?



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- Fulfills “financial planning” vision
 - What are the 5 areas of financial planning?
 - Estate Planning, Retirement Planning, Investment Planning, Tax Planning and – you guessed it – PROTECTION Planning
- Builds firm revenue
- Cements client relationship
- If you are not asking, someone else is!

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COVID, INTEREST RATES & LIFE INSURANCE



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- Covid = increased awareness, interest
- Product & pricing changes
 - Fewer guaranteed products; Higher pricing
- Underwriting changes
 - More liberal, fewer labs and para-meds
 - Accelerated underwriting programs
- Process changes
 - Virtual vs. live client/prospect meetings
- The interest rate issue



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ONE OTHER MAIN THING TO REMEMBER ABOUT LIFE INSURANCE...



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- Regardless of the type of insurance, ALL life insurance has...4 main ingredients...

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“THE 4 MAIN INGREDIENTS...”



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- In a pepperoni pizza:
 - Dough
 - Sauce
 - Cheese
 - pepperoni



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“THE 4 MAIN INGREDIENTS...”

- In a pepperoni pizza:

- Dough
- Sauce
- Cheese
- pepperoni

- In a life insurance policy?:

- Mortality
- Expenses
- Interest
- Lapses (persistency)

KNOWLEDGE CHECK:

WHICH “INGREDIENT” IN LIFE INSURANCE HAS HAD THE BIGGEST IMPACT ON RECENT PREMIUM CHANGES?

- A. MORTALITY
- B. EXPENSES
- C. INTEREST/INVESTMENT RETURN
- D. PERSISTENCY

WHY IS THAT IMPORTANT TO UNDERSTAND?



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- Those 4 ingredients act as “levers” & impact:
- Premiums
- Cash values, if any
 - Incl. dividends, interest, etc.
- Ability to guarantee premiums



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2 BASIC TYPES OF LIFE INSURANCE



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- Term
- Permanent



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TYPES OF TERM LIFE INSURANCE



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- **ART**
 - Premium increases annually, may be guaranteed for a time period
- **Level Term:**
 - 5, 10, 15, 20, 30-year level term are common
 - Premiums typically guaranteed; “Select-A-Term”
- **Decreasing term?** Not common
- **Underwriting** – based on age/face amount
 - More liberal than ever before; accelerated U/W programs common



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ART



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Term Policy Premiums



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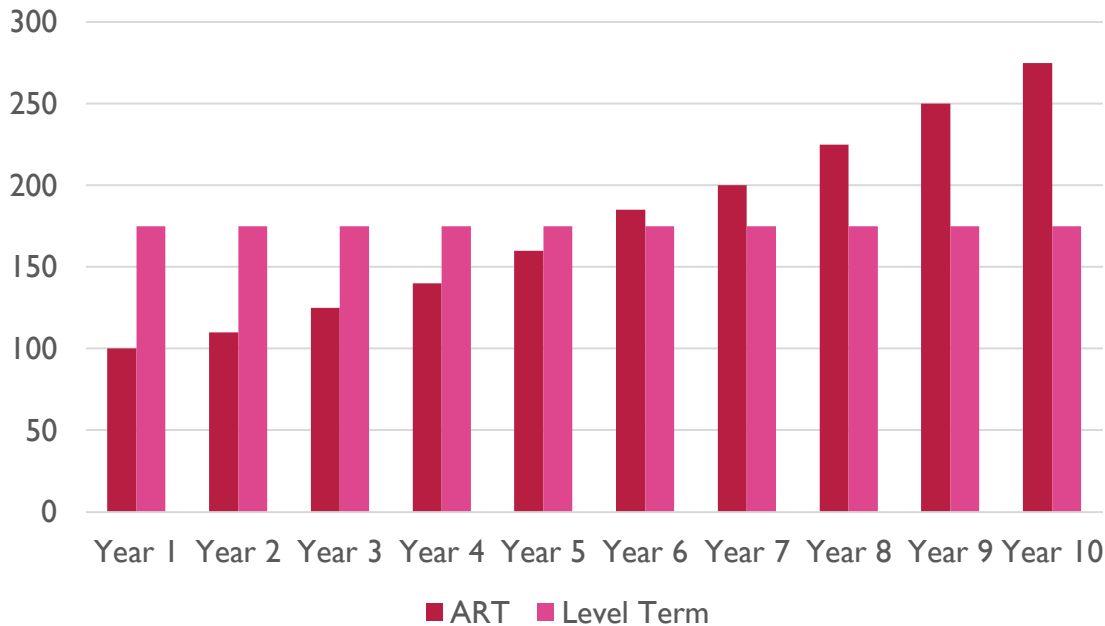
ART VS. LEVEL TERM



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Term Policy Premiums



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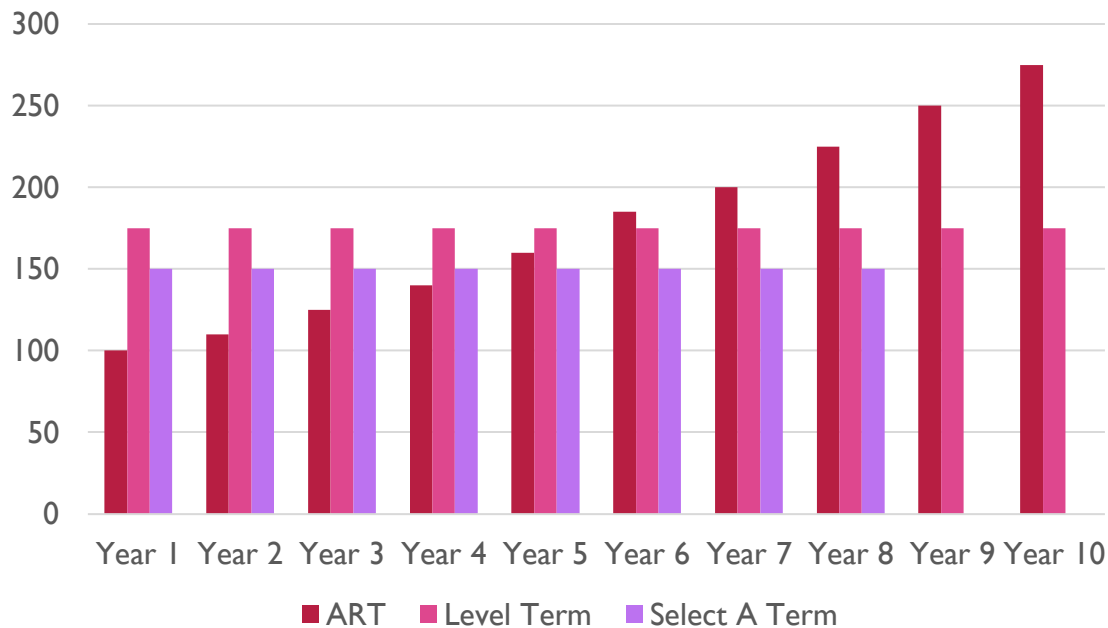
ART VS. LEVEL TERM VS. SELECT A TERM



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Term Policy Premiums



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REMEMBER...



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- The pricing of “the pizza” applies to ALL insurance, including term...
- Recent economic factors’ impact?
 - Interest rates?
 - Mortality?



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WHAT'S THE "BEST" TYPE OF LIFE INSURANCE?

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WHAT'S THE "BEST" TYPE OF LIFE INSURANCE?

IT DEPENDS!

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KNOWLEDGE CHECK:

WHAT IS THE BIGGEST ADVANTAGE OF TERM LIFE INSURANCE?

- A. LOWER INITIAL PREMIUM COMPARED WITH PERMANENT LIFE INSURANCE
- B. THE ABILITY TO PROVIDE THE LEAST EXPENSIVE LIFETIME LIFE INSURANCE
- C. EASIER MEDICAL QUALIFICATION
- D. ABILITY TO BYPASS PROBATE

BENEFITS OF TERM LIFE INSURANCE



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- Lowest initial premium
- Best for shorter-term duration needs
- May be able to renew after initial term period
 - if healthy, may reapply at then-current market rates
- Attractive riders may be available:
 - ROP, Chronic Illness, Critical Illness, etc.

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POTENTIAL DRAWBACKS OF TERM LIFE INSURANCE



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- Most expensive option over time
 - Renewal premiums may become prohibitively expensive later
- What if the coverage expires “before I do?”
- Lack of cash values is a disadvantage for some
 - “renting” vs. “owning”
 - Life insurance as an asset class



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TYPES OF PERMANENT INSURANCE



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- Universal Life



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WHY PERMANENT LIFE & CASH VALUE BUILD-UP?



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- Tax deferred growth; Tax favored access (non-MEC)
- Term v. Permanent “cross over” year at ~ year 15-20.
 - Permanent may be advantageous if cash flow supports
- IRRs competitive with other conservative asset allocations
 - Especially if overfunding
- Mitigation of “sequence of returns” risk



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PROPERTIES OF WHOLE LIFE (GENERALLY)



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- Fixed, guaranteed premiums/cost
- Fixed, guaranteed death benefit
- Cash value
 - Tabular/guaranteed cash value + dividends
- “Net” death benefit may increase from dividends (e.g. “PUAs”)
- New riders have emerged in WL



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TYPES OF UNIVERSAL LIFE



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- Traditional Fixed UL
- Indexed UL (IUL)
- Variable UL



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PROPERTIES OF UNIVERSAL LIFE (GENERALLY)



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- Flexible premiums & death benefit
- Quicker to react to interest rate changes than WL (remember disintermediation)
- May lapse if underfunded (current assumption UL)
- May guarantee premium
 - Current assumption vs. no lapse/“GUL”
- Option 1 vs. Option 2 death benefit
- Variable CSV based on subaccount performance

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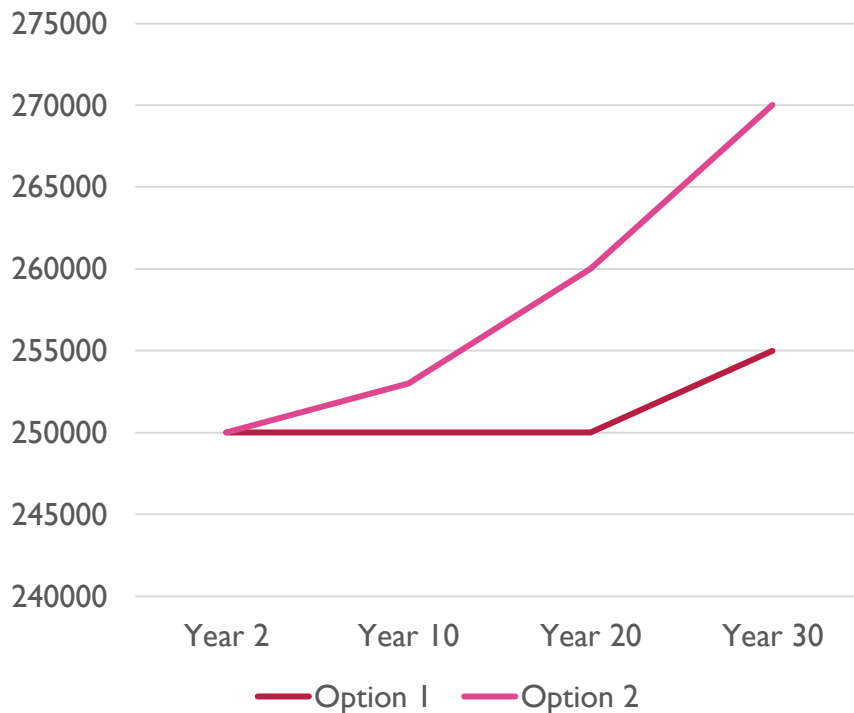
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UL DEATH BENEFITS – OPTION 1 VS. OPTION 2

UL Death Benefit Choices



- Option 1 – net death benefit level until “corridor” is reached
- Option 2 – net death benefit increases as CV increases
- Insurance charges higher in Option 2 because of higher “net amount at risk”
- Thus, at a given premium level, Option 2 cash values are typically lower

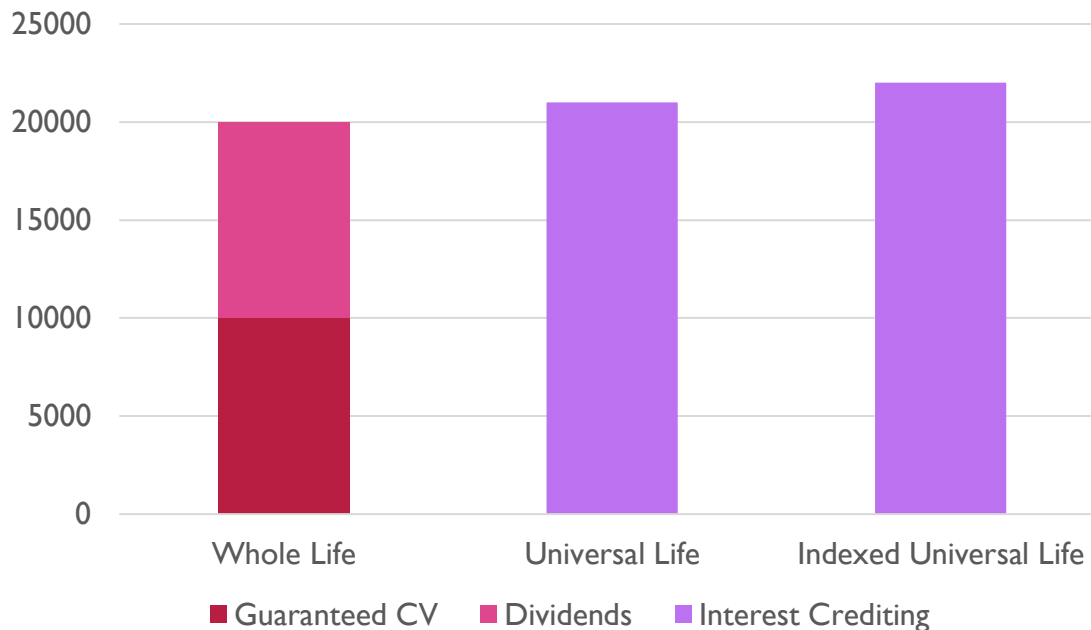
HOW DO POLICIES BUILD CASH VALUE?



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Cash Values @ 20 Years



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KNOWLEDGE CHECK:

WHAT IS THE BIGGEST ADVANTAGE OF PERMANENT LIFE INSURANCE?

- A. LOWEST INITIAL PREMIUM OF ALL THE DIFFERENT TYPES OF LIFE INSURANCE
- B. EASIEST LIFE INSURANCE TO QUALIFY MEDICALLY FOR
- C. THE INCOME TAXABLE DEATH BENEFIT WHEN PAID TO A CHARITY
- D. THE ABILITY TO BUILD EQUITY, RESULTING IN A LOWER TOTAL LIFETIME NET COST VS. TERM INSURANCE

HOW DO UL POLICIES CREDIT INTEREST?



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- Traditional UL
 - Base guaranteed interest rate (e.g. 2%)
 - Current interest rate (e.g. 4%)
- Indexed UL
 - Base guaranteed rate (e.g. 1%)
 - Current rate based on “Index” (e.g. S&P 500)
 - Upside potential – but NOT as much as Variable UL – with limited/no “downside risk”
 - Caps/Floors – max/min. interest in any given year
 - Participation rates - % “participation” in Index chg.



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THE POWER OF A GUARANTEED FLOOR

FLOORS

Index changes may be positive or negative. However, with the FFIUL, you have the security of knowing you will never be credited less than the guaranteed minimal interest rate, or "floor." A floor is the minimum rate of interest guaranteed by the insurance company. The floor is the minimum interest credited to the account option and ensures the index account options will always be credited with positive interest.

AVOIDING LOSS CAN BE AS IMPORTANT AS REALIZING GAINS

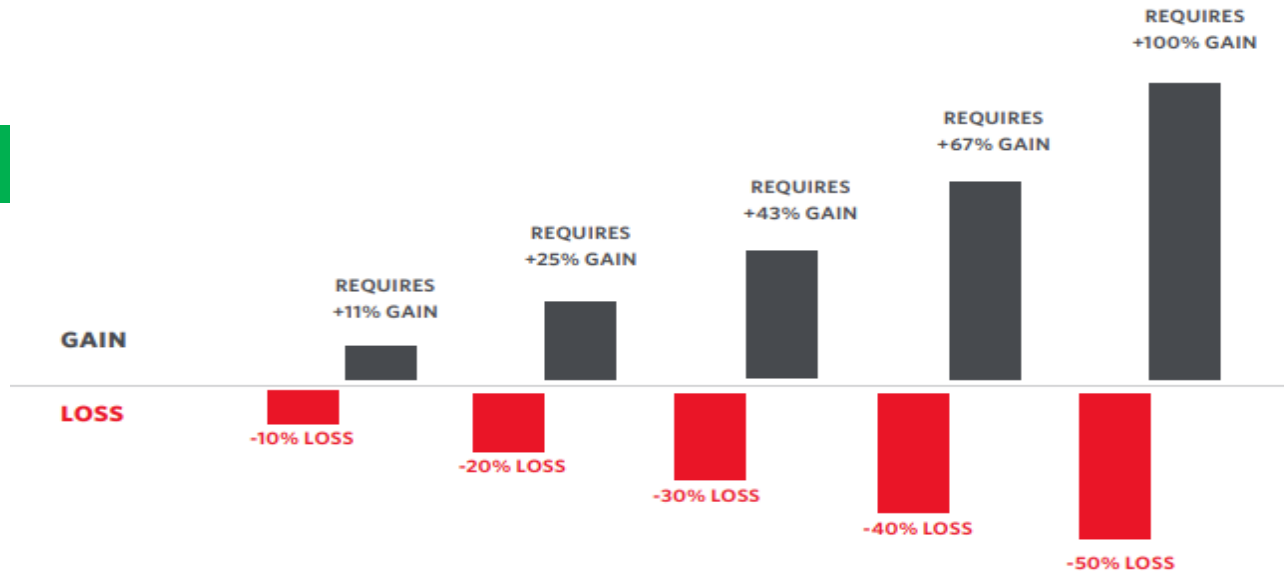
This example helps illustrate the effects of a loss and what it takes to recover.

For example, a 10% loss requires an 11% gain.

A 20% loss requires a 25% gain, and so on ...

A case for

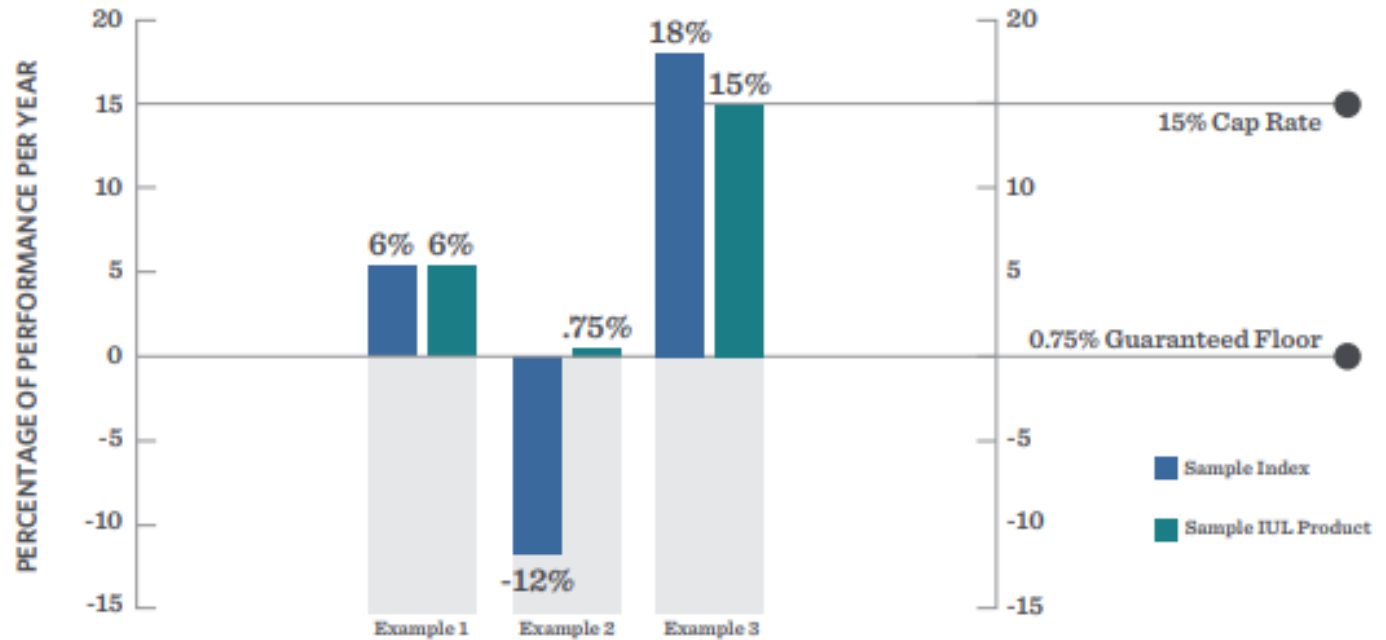
IUL?



GUARANTEED FLOOR

A HYPOTHETICAL EXAMPLE OF HOW INDEX UNIVERSAL LIFE WORKS

The sample index universal life policy shown below has a 100% participation rate, a 15% cap rate, and a 0.75% floor rate.



**A case for
IUL?**

Based on this hypothetical example, your policy would be credited interest in the following way:

Example 1: 6% (because of the 100% participation rate)

Example 2: 0.75% (because of the guaranteed 0.75% floor rate)

Example 3: 15% (because of the hypothetical 15% cap rate)

LIFE INSURANCE – WHICH ONE WHEN?



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- Term insurance – “sweet spots”
 - high face amount need; short term need; lower cash flow capability
- Permanent insurance – “sweet spots”
 - Longer term needs; higher cash flow capability; maxed out TQ plans
- Does it have to be all one or the other?
- Final Expense life:
 - easier underwriting; may be “graded” death benefit
 - Typically lower face amounts

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IMPORTANCE OF POLICY REVIEWS



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- Has client's coverage kept pace with needs?
 - Proper amount?
 - Proper type?
 - New riders?
 - Coordination with other financial planning
- AIB Life Policy Review system



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CASE I



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- A40 H/W; spouse stays home; moderate income
- Concerned about family “remaining in their own world” if early death
- Mortgage
- Desire for college self-completion
- Solution(s):
 - Likely all or mostly term, perhaps with a permanent base



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CASE 2



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- A45 successful single Mom; high income; mortgage
- Teenage daughter; desires college self-completion; death benefit to supplement assets
- Maxing out TQ retirement plan; would like to save more for retirement
- Solution(s)?
 - Overfunded permanent life for accumulation/retirement supplement; term rider or standalone term policy for large death benefit need



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SO – NEXT STEPS?



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- Consider your book of business
- Current life insurance penetration?
- Demographics
- Begin a communication & policy review campaign
- Work with an experienced partner to support your efforts

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