The 3C's

Any election to integrate a policy into the financial planning process must be based on full disclosure and sound economic principles.

UL and VUL policy styles are provided in two choices of compensation structure, that of Commission and that of Fee-Engagement (No-Load or Low-Load).

The "old school" of requesting illustrations does not provide the ability to overview the primary components of these New Paradigm cash value dependent policy styles. The trusted Advisor should be concerned about the Cost Efficiencies and Capital Efficiencies that are presented by the carrier.

When considering the use of a Universal Life (UL) or Variable Universal Life (VUL) policy style, there is a need to follow a particular methodology.

(1) Death Benefit and policy costs - which have a direct impact and relationship to the Purchasing Power of capital. (Cost Efficiency)

(2) Cash Value asset accumulation account - which has a direct impact and relationship to the Earning Capacity of capital. (Capital Efficiency)

These two efficiencies will create a third efficiency; that of policy continuation in the event of premium interruption (Continuation Efficiency). It is important to consider what would happen to the proposed policy should there be an event that changes the financial environment of the client in a way that future planned premiums have to be suspended completely. In other words, what is the "safety net" of policy continuation for risk management control?

Most consumers purchase life insurance policies in a commission transaction environment. This commission (and related loads), represent the "acquisition" cost to the purchaser. This is not a disclosed cost, but "bundled" into the policy premium.

How are these commissions treated and how do they affect the two efficiencies stated above? The paid commission is "borrowed" from the general assets of the insurance company. This loan has an interest rate attached to it and is booked as an asset (DPAC). The recovery period of this outlay is usually amortized over a 10 to 30 year period. The policy serves as a lien or collateral support against this loan. The surrender charge period (surrender charges) represent the "at risk" exposure to this acquisition cost. This structure greatly reduces cash value liquidity, which in turn reduces the flexibility and control necessary for unexpected future events.

Due to the structure of these "bundled" premium policies, only first year premiums should be reviewed to "force out" the efficiency disclosures. Fee-based policy structures do not have these commissions and loads and provide fully disclosed "unbundled" premium allocations. Such disclosure is useful in developing an understanding as to the impact on efficiencies when compared to the commission-acquisition cost scenario.