FEE ADVISORS NETWORK

A Trusted Resource Partner in Life Insurance & Annuity Planning

New Paradigm of Life Insurance Planning

How to integrate this concept into your practice

Proprietary Material for Network Members Only

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<u>Fee-Engagement Insurance Planning: Getting Started</u>

It is our belief that the Advisor must have an understanding of the insurance product and it's function in order to bring value to the client. Those who opt to have the Home Office staff of a provider company run illustrations for the client, without giving informed instructions on <u>planned premium design</u>, are negating their advisor-client relationship and fiduciary responsibility. Therefore, it is imperative that you become familiar with this material, even if you prefer to have the provider Home Office staff facilitate the implementation (application / underwriting / issuance) of the actual policy

1) Read all of your membership material so that you get an understanding of the core issues to this new Paradigm of insurance design/planning. This will save you time whenever we have a case consultation session.

2) If you are an Independent RIA, use your planning document. If you are not sure if your documents will work, call us for discussion.

3) If you are a registered representative of a B/D that is not a sponsor of the Network, you should use your firms' fee/financial planning agreement. Check with your RIA administrator for compliance.

4) <u>It is important that you discuss your first few cases with us before proposing to the client!</u> There are certain techniques and information that should be developed in the presentation that are usually omitted. This learning process is what has accounted for our members having a 96% closing ratio.

Remember, we are here to serve our members. This is YOUR Network.

Joseph W. Maczuga
Executive Director

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Summary Index Points

1) Determine your first market entry for this concept.
   If you have not discussed insurance to your clients, they represent your best market, as they have eroding policies that are usually not cost effective, or under performing.
   If you have sold them policies, but it has been some time ago, you can still approach them with this concept.
   Promote the idea to the outside market (prospects) via seminars, centers of influence, and/or other campaigns that have worked for you.

2) Primary markets for this concept are stated on the bottom of page 5.

3) Read this material and make any notes, comments, or questions for discussion.
   Your membership provides Initial One-on-One Coaching for orientation of fiduciary concept - NOT to cover the basic contents of this material.

4) Spend some time reviewing the material on our website, and in the members-only section.
   This information will keep you informed, and the planning strategies in the members-only section have been helpful to many of our members.

5) Evaluate the separation between policy design and an advanced financial planning strategy.
   Policy design concepts are provided in the Initial One-on-One Coaching activity. However, advanced planning strategies are consultative and fall under our **LIFE 180°**® process.

6) Most of our members attend our scheduled events for ideas and techniques.
   A high percentage of members attend these sessions/meetings/webinars regularly as there are always new ideas and techniques within the agenda (as well as basic refreshers). Always highly rated in evaluations, you should make every effort to attend them, schedule permitting.

7) The use of the New Paradigm 3C's format is essential for understanding and education.
   This provides the basis of your presentation for client education, and produces a high initiative by the clients to move forward in analysis/design work.

8) Integrate the environment of our **LIFE 180°**® process into your practice.
   Members can attest to the value of this service - how it has benefited their clients, created referral sources, and established a new dimension of professional standing to their practice. References are available upon request.

We are happy to welcome you to the Fee Advisors Network and look forward to seeing your practice flourish!

Introduction

In the past, basic segments of the financial services industry were well defined, separated in client function, and easily identifiable. Today, the lines of distinction have shaded gray or vanished completely with each segment making inroads to the others.

The "blending" of professional disciplines in the financial services industry is a constant activity that is primarily due to the following factors:

- Mergers & Acquisitions
- Competitive pressure to gain market share
- Diminishing spreads for profit
- Cost cutting mechanisms
- Synergistic marketing enhancements
- Controlling distribution sources

These fundamentals hold true today:

1) The compensation climate is changing
2) Full Disclosure is becoming a reality
3) Competition for the same market share is intensifying
4) Image marketing is essential for success
5) Mergers & acquisitions develop marketing advantages
6) Fee / Advisory planning activity is a growing practice

Additional affects that are changing the financial services environment are:

- Studies published by several industry publications over the last two years show that an increasing percentage of consumers recognize the need for advice and are willing to pay a fee for it.

- A growing trend of fee-based planning practices is now a matter-of-fact, but the terminology and methodology can
- be misleading or untrue.

- Although Fee-based AUM is the advisors focus, it has transitioned from a "visionary" distinction to that of being commonplace.

- Major brokerage firms are heavily marketing fee advisor services.

- Insurance companies are committed to changing compensation structures, test-marketing 'level' commissions.

- Regulators are pushing for "Full Disclosure" - including commissions.

- The NAIC Model Illustration Guidelines have forced insurance companies to remove life insurance products from the marketplace.

- Codes of Conduct are under scrutiny by regulators.

- Fiduciary standards are being pressed forward for advisor responsibility.

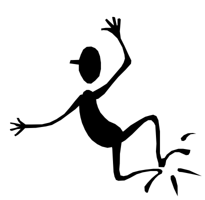
No one can predict the future or give concrete answers to every change that may take place. However, the fact is that the only constant in life (and your practice) is change.

HOW DOES THIS AFFECT YOU?

- How do you define yourself to your clients & prospects?
- What is your market?
- Who else is marketing to your market?
- Who has client control?
- Who is your competition?
- Do you work in association with, or in competition to other financial disciplines?

ADVANTAGES OF FEE-ENGAGEMENT INSURANCE PLANNING:

- Most advantageous for client.
- Full Disclosure.
- Fee-revenue generating activity.
- Advisor image.
- Sets you apart from everyone else.
- Puts you in a 'No-Compete' environment.
- Maximizes your time-value activity.
- Real tax advantages.
- High liquidity for asset accumulation.
- High client acceptance ratio.
- Removes the negatives usually associated with life insurance.
- Cost efficient death benefit.
- Expanded planning capabilities.
- Protects against losing equity clients to commission-only insurance planners.
- Door opener to centers-of-influence.
- Great seminar subject.
- Creates planning opportunities for corporate clients.
- Identifies the "Smoke & Mirrors" of traditional illustrations.
- Puts you ahead of the planning/advisor curve.
- Sustains advantages in "Full Cycle" planning.



Some facts about using no-load life insurance…….

(1) <u>You must take the time to understand the product and the proper way to introduce it to the client!</u> Otherwise, you will end up spending a lot of unnecessary time, have more discussions then warranted, and lower your probability for success.

(2) <u>The biggest mistake made, is when a planner thinks that the product is simply life insurance with major reduction of loads and commissions.</u>

(3) <u>Working with no-load insurance is a more complex process than working with a commissioned policy.</u> First, you need to have a better understanding of how the theory of UL and VUL is to function. Second, you need to educate the client. Third, you have much greater flexibility in premium variances for conceptual design and strategy development.

(4) <u>Do not maintain a 'narrow-focus' that the product is "just" life Insurance - as you normally think of life Insurance.</u> The product is much more flexible from a financial planning perspective. By expanding the methodology of your thinking process and perceptions, you will find increased situations where you can use the concept.

(5) <u>Advisor fees will be less than the commissions that would be generated with a traditional UL or VUL commissioned policy</u>.

(6) <u>Differentiate the fact that *Commissions* are paid for "*selling"* a policy, whereas *Fees* are charged for advisory services and educating the client as to the efficiencies of policy structure.</u> This includes providing the client a "choice" of insurance policy selection.

(7) <u>This approach protects the client and reduces the credibility of a competitor, while establishing your 'trusted-advisor' image with the client.</u> The advisor should understand the weaknesses of a commission-only agent's presentation. This includes the following: (a) lack of full disclosure, (b) unexplained illustration or policy caveats, and/or (c) integration of the policy into a planning technique that creates confusion.

(8) <u>Advisor fees are at your discretion. However, as more education, understanding and experience is gained, your fees should be higher or increased.</u>

WHAT ARE THE PRIMARY MARKETS FOR NO-LOAD INSURANCE?

* High Income / High Tax Bracket Clients

* Corporate Executives / Business Owners

* Estate Planning Strategies

Having fee-engagement insurance planning in your portfolio increases your value as an advisor to the client, while maintaining expanded asset control.

ADVISOR FEES AND LIFE INSURANCE PLANNING

The question of how to establish the appropriate fees for a fee-engagement process of life insurance work is a constant question in the advisor community. The first item to address is that of client education and expectation. There is a fixed perception that all insurance work, analysis, design, quotes, illustrations and proposal presentation should be done for free…. without charge. This has been well grained into the consumer's mindset and must be liberated. The client needs to acknowledge that working for free is based on the initiative of making a sale. Such an environment dramatically reduces the impartiality of the activity to that of completing the transaction…sale. If the client wants that environment, they cannot expect to receive a totally objective proposal based on their best interest.

How to charge fees in relation to the use of No-load Life Insurance has also created a conundrum to the advisor community. This quandary involves several dynamics that addresses the basic three fee *styles:* (1) hourly fee, (2) flat fee, or (3) percentage of something. It has been our experience in working with advisors that we need to drill deeper into the elements that create the fee practice environment. Although our members are free to use any style of fee schedule they choose, the difference between success and failure is completely dependent on the client's perception of cost and value received.

In both of these situations, it is important to define what are you providing as a value for the fee charged.

Without the advisor having a total understanding of the changes that have taken place in the transition between "Old Paradigm of Insurance Selling" and the "New Paradigm of Insurance Planning", the advisor will never recognize, and therefore educate the client to the full value of what they are providing as a value-added service. Hence, the discussion of charging fees will be similar to performing a victory dance in the end zone without first learning how to catch a football.

The first consideration: How are the fees related to the activity being performed?

We find that there are different stages, or projects, in which the advisor is functioning:

1) Discussing an insurance need developed in your financial planning analysis, or one that had been developed by another advisor. This is referred to as a Development Phase and the fee should relate to that function.

2) Are you reviewing and analyzing a current portfolio? This is referred to as an Analysis Phase.

In either of these cases, the client now has to make the choice of obtaining a policy, or correcting those that are not fulfilling the targeted objective. We are now entering what is referred to as the Facilitation and Implementation Phase.

In any of these phases, should you charge an hourly fee, flat fee, or percentage of something fee?

A percentage of something fee should never be considered because everything is case specific and there are too many variables in design. A percentage of something may relate to a percentage of the face amount, premium or premium differential, cash value spread, etc. This approach will constantly be inconsistent due to the variety of activity and design for each client. And, if you charge a different percentage to different clients, you are voiding out several fiduciary standards of fair practices. The most important negative is that you are re-setting your clients thinking paradigm to an economic number spread which is a disaster, should someone present a little better premium/cash value/death benefit proposal. This is NOT the focus of value-added.

Some advisors are more comfortable with an hourly fee, which is fine. The only problem is that you have to quantify your hourly rate and will often end up shorting yourself between a small case and a large case. Your value-added can be easily justified foe a higher flat fee than that of a small case, but an hourly rate will not provide that universe.

We recommend a Flat Project Fee for all Phases and all work done. This fee will have a range established that is case-specific. By acclimating yourself to our systems and presentation tools, you will soon find a comfort level in determining this range of fees.

When creating the fee-engagement universe for your client, you need to clearly express the competency, qualifications, designations, tools, procedures, etc. of your firm, or the firm to which you outsource the work. The less confidant you are in your proposal and fee structure, the weaker you will come across in the presentation. Or, you will under price your value. Under pricing your value is common at the beginning, but experience develops more confidence in what you are providing.

<u>If a no-load policy is recommended:</u>
The advantages of a no-load policy seem evident; it should be less expensive and/or create more cash value in the first year. In this scenario, what style, or how much should your fee be? For what…running illustrations? That may have taken an hour, two at the most (if you didn't call the home office). OK, so we will charge a flat fee of X dollars. The client wants to know (whether they ask or not) how you arrived at that amount.
Percentage of Face Amount> this doesn't work because the client cannot associate the value received for the fee charged.
Percentage of Premium> same mine field. The failure rate with these approaches are very high.
So that leaves us with percentage of assets, right? Well, what if the policy has an annual premium design of $3,000 with a first year cash value of $2,400? If you manage assets at 1%, that represents $24… wow. How about 10%? Ok, now you're at $240 - but the client is thinking, 10% is pretty steep! Even if we raise the figures by a multiple of 10 for the big hitters, we still have a problem. Can you justify your fee?

Our experience is that the client must first be educated on the concept of universal life and variable life insurance. How was it designed to work; the theory behind the structure; the key components; the fact that illustration comparisons of future values have no credibility, and why; the risk exposure to return and cost variations; software manipulation; and the protection of full disclosure. The next step is to discuss the need for proper design of premium strategy, annual review and management, and the interrelationship of the insurance plan to the portfolio as an asset. The advisor needs establish the efficiencies of the no-load UL or VUL policy as compared to the commission UL or VUL policy. Members should use our 3'C's Cash-Allocation Analysis template to accomplish this final step. Once completed, the advisor announces the fee for implementation, should the client decide to move forward. Using this method, we have a 97% success ratio.

Benchmarking your fee is a function of combining both economic and non-economic factors in a manner that is instrumental for the client to easily see the value-added benefit you have brought to the table. The technique takes you away from the hourly/flat fee/percentage of assets mentality and allows you the freedom of working on a case-by-case basis of developed efficiencies. <u>Success in this market niche' is not product, it is your comprehensive presentation to the client.</u>

- END -

CONSIDERATIONS: BENCHMARKING THE FEE

Type of Planning Activity Involved

____

____

Type of Fees

1) Face Amount
2) Premium Strategy
3) Premium Comparisons
4) Cash Surrender Value Comparisons
5) Complexity of Case
6) Category of Prospect
7) Category of Client
8) Centers of Influence
9) Your Time Value

1) ____

2) ____

3) ____

4) ____

5) ____

6) ____

7) ____

8) ____

9) ____

The Fee Advisors Network approaches advisor fees in three stages (for consideration):

Development Fee: For the development of a proposal or policy design suggestion.

Implementation Fee: To define the policy premium strategy applicable for the stated objectives, and to suggest the sources for policy application.

Continuation Fee: For annual review and monitoring of the policy or asset management.

Advanced planning issues, concepts, and policy analysis are provided through* LIFE 180°® *.

LIFE 180°®

(**L**ife **I**nsurance with **F**iduciary **E**thics)

Our industry is in a state of significant change. Regulatory oversight is tightening and the mandate for fiduciary responsibility can no longer be ignored. Influence from key organizations, government, and the global economic crisis will have lasting impact on us individually and upon our firms in the following ways:

1. The Financial Planners Association is deeply concerned with the lack of fiduciary responsibility.
2. Certified Financial Planners must soon comply with new Code of Ethics fiduciary language.
3. Government regulators are forming alliances to address fiduciary compliance.
4. The Global Economic Crisis has challenged the 'Assets Under Management' practice model.

Existing problems with life and annuity products have been exposed and targeted for correction:

-Unmanageable Risk

-Fiduciary Malfeasance

-Product Failures

-Company Instability & Downgrades

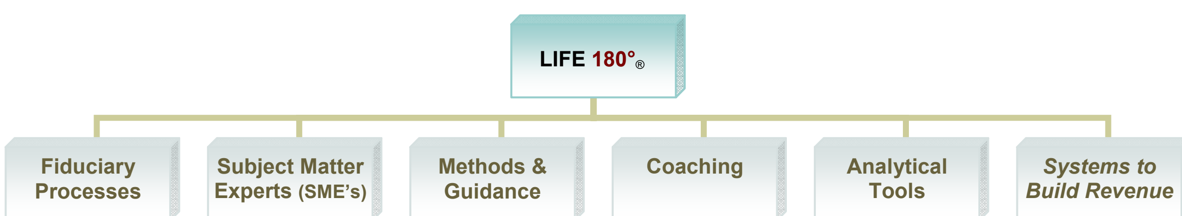
Finally, there is a comprehensive solution . . . LIFE 180°® !

LIFE 180°® represents a major change – a 180° turn in the risk management component of financial planning.

LIFE 180°® is the result of a joint-venture between Comprehensive Analytics, Subject Matter Experts and the Fee Advisors Network. It was developed after years of research and providing fiduciary consulting and insurance analytical work to Independent RIA's, Wealth Management firms, and Fee-Only Advisors. This turn-key system incorporates a new paradigm of risk management analysis in life insurance and annuities, including: policy style, premium design, strategy integration, facilitation and monitoring.

Fiduciary ethics demand an unbiased "clean room" environment that is client centered!
This is what motivated us to invest significant time and resources into the development of proprietary analytical tools, processes, methodology, and expertise. We took on this challenge to help the profession of financial planning reach a higher bar of excellence in the area of risk management.

LIFE 180°® offers:



1. Fiduciary Processes to differentiate your firm from among your competitors.
2. Nationally recognized Subject Matter Experts (SME's) to provide deep skill sets and unique strategies.
3. Methods, guidance, and coaching to cultivate and capture increasing market share.
4. Proprietary Analytical Tools to provide Best-in-Class service to your clients.
5. Systems that develop and sustain new sources of revenue and cash flow.

Question: Can you employ a fiduciary process in this area of practice when there may be a lack of experience, expertise, staff, resources, knowledge, methodology, and/or tools to meet client expectations? Specifically:

- Are the policy styles in harmony with the desires of the client?
- Are they the correct policy style for the stated objective?
- Are policies performing as projected?
- Which policies have to be monitored and which do not?
- Have those policies been monitored annually?
- Are there cost efficient alternatives?
- Should a policy be considered for a secondary market of Life Settlement?
- Is there a strategy that can leverage capital more efficiently?
- Are maturity dates problematic?
- Are there 'linkage' problems to or within the planning strategy?

LIFE 180°® overlays your practice to provide value-added services and protection for you and your clients. It also provides differentiation, referrals, and new sources of revenue.

How to access **LIFE 180°**® :

LIFE 180°® is a benefit available through membership with the Fee Advisors Network. Every practice model is different, therefore we designed **LIFE 180°**® to be customizable for your practice.

The Fee Advisors Network offers three levels of membership. You have the option as a member of the Network to upgrade to a higher level of member services as your clientele and firm grow. We provide increasing levels of value-added support and we can discuss which level would be most effective for you and/or your firm at that time.

Welcome to the Network!

Joseph W. Maczuga, LIC, CFIS