FAN Member PowerPoint Presentation - Script

Slide:

1: Planning Tool

2: With Term and traditional Whole Life, the published rate book premium is widely accepted as the "cost" of the policy. This is due to the fact that the premiums are actuarially bundled as a common component, and there are no other options.

Dividend paying policies (Participating), Universal Life and Variable Universal Life do not have the same characteristic. Premium is a designed strategy and does not reflect "Cost".

3: When you look at the progression of term insurance, the longer the term, the more the policy takes on the characteristic of traditional whole life. You can see the overcharge of premium in the earlier years that is needed to offset the undercharge in the later years. The longer term policies have a cash value reserve, but it is not shown, nor does the client have access to it.

4: Traditional Whole Life had guarantees to the three economic components of the policy: Death Benefit / Premium / Cash Value. These components were contractually established between the company and the insured. Premiums were established by the company, published in the rate book, and the company took all the risk. This approach allowed the client to control future increases in the rising cost of mortality by self-insuring via the cash value, which lowered the "Net" amount of death benefit at risk to the company.

5: Participating (Dividend Paying) Whole Life added a new dimension. By increasing the rate book premium (overcharge), the company could protect itself against future unexpected adverse economic conditions. This overcharge allowed them a cushion. If such negative events did not occur, the company would return part of that overcharge as a "dividend". This dividend was a return *of* capital, not a return *on* capital. This style of policy also allowed the company to "project" assumed dividend returns. What has evolved today is an illusion of projection by designing a leveraged spread between the "base" policy and a "term rider" that cannot be sustained by these dividend assumptions.

6: Universal Life created an opportunity for the consumer to pay lower insurance costs based on current mortality experience (assumed) and earn potentially higher interest rates (assumed) than that which was offered through the old traditional whole life concept. The flexible style of this policy eliminated the rate book and created the illustration software for premium development. The only economic components that were left as guarantees were Maximum Costs and Minimum Interest Rates. This shifted risk to the consumer and gave the responsibility of premium design to
the advisor.

7: Variable Universal Life went further to reduce the guarantees and increase the assumptions. This added. more risk to the consumer and more responsibility to the advisor. Both the UL and

the VUL concepts have advantages for the consumer, if properly designed AND controlled as to the cost of acquisition.

8: (View the comparisons of guarantees / assumptions between the various policy styles)

9: In this sample case, we requested three illustrations to compare future cash values. Company A, B, and C. Which appears to be the best policy? All three came from the same company illustration software. The difference is that we selected different sub-accounts with lowest costs / medium costs, and highest costs. The point is that the "tweaking" of costs allowed the cash value to compound differently.

By working backwards (targeted future cash value), we developed three different "Level Premiums" that would accumulate the future targeted cash value assumption. Again, by tweaking costs, we could develop whatever was the most competitive.

The *Dark Side* of illustration software is that which hides all of the actuarial / marketing enhancements and unsubstantiated assumptions on future costs. These are undisclosed.

10: Using a New Paradigm of illustration analysis technique, we can force out the economic components of cost and capital efficiencies. All data has to be referenced to the first year premium / one premium deposit only. This allows us to review premium strategy against cost and equity accumulation.

The concept of UL and VUL is to pay insurance cost and have excess premium deposits build cash value equity. By using a no-load, fee-based and fully disclosed policy, we can "unbundle" the premium and compare the economics side-by-side. *Target Premium is that amount which generates the full commission and loads (Acquisition costs).* Hence, the more premium deposited by the client in a commission product, the higher the acquisition costs. The commission structure not only reduces efficiencies, but also removes the so-called "flexibility" of the product, should anything change in the future (surrender charges control the options, not the client / no liquidity).