

MANAGING TRUST OWNED LIFE INSURANCE

twentyfirst



— STRATEGIC —
WEALTH ADVISORS
— NETWORK —

So What?

Assumptions	
Number of Policies	100
Average Face Value	\$ 2,150,000
Total Face Value	\$ 215,000,000
Average life expectancy (LE) in years	15
Average Annual Premium Per Policy (4% of Face Value)	\$ 86,000
Aggregate Premium to LE for all Policies	\$ 129,000,000
Percentage of Policies that will Lapse prior to LE (Policy Coverage Risk)	25%
Percentage of Policies that would benefit from optimization (Policy Return Efficiency)	15%
Percentage of Policies where more competitive products are available	50%
Percentage of Policies where the insured will qualify for more competitive products (Product Competitiveness)	25%
Per Policy - Average annual TwentyFirst Fee (5 Insight Comprehensive & 10 Base Reports)	\$ 700

So What?

	Policies	Current Face Amount at Risk	Premium Amount at Risk
Policies at risk of Lapsing	25	\$ 53,750,000	\$ 22,274,000

	Policies	Current Premium to LE	Premium Savings		
			Rate	Amount to LE	Avg Amount Per Year
Optimization Savings	15	\$ 19,350,000	12%	\$ 2,322,000	\$ 154,800
Competitive Product Savings	25	\$ 32,250,000	30%	\$ 9,675,000	\$ 645,000
Projected Savings				\$11,997,000	\$ 799,800
TwentyFirst Fee for 100 Policies				\$ 1,050,000	\$ 70,000
Net Projected Savings				\$10,947,000	\$ 729,800

Life Insurance – the unwatched asset

- People manage their Investments:



- Stocks, Bonds, Real Estate

- Life Insurance – they buy it, and then rarely look at it again



- “Hands off” approach may create an underperforming policy that can expose clients to significant unforeseen financial risks



Life Insurance – the unwatched asset

Think of a policy as a Bathtub

What goes into it

- Premium
- Interest
- Policy earnings that will be credited



Just like the faucet pouring the water into the policy.

The Drain

What Runs out

- The charges – the cost of insurance
- Policy fees
- Expenses



Life Insurance – the unwatched asset

What Happens? **The perfect storm!**

- Interest rates are low and have been for some time
- People are living longer

These policies that were purchased for the purpose of lifetime coverage – now are in **extreme** danger of lapsing.



Leaving you in the bathtub with no water

Coldly exposed to having a failed policy that might have negative effect on your clients financial, business, or estate plan.



Client Expectations of Trustees

- Help Them understand what they have and what they have to do
- Notify them timeously when a premium is due and request trust funding
- Send Crummey letters to beneficiaries
- Call the carrier to ensure premiums have been properly credited to the account
- Have real time access to:
 - Policy information including current values and status
 - Premium obligations and payment history
 - Policy and trust documents

Legal Expectations (Uniform Prudent Investor Act -UPIA)

- **Have well-developed risk management practices to evaluate and administer accounts with insurance policy holdings**
 - Evaluate life insurance in terms of risk and return objectives
- **Consider preservation of capital by keeping policies in force and by preventing unintended lapses**
 - Monitor carrier ratings and financial condition
- **Determine whether current premiums are sufficient to maintain the policy to maturity or to meet the insured's life expectancy**
- **Determine whether an alternative policy would be more appropriate to meet the needs of the grantor and beneficiaries**
- **Only incur costs that are appropriate and reasonable.**
 - Are you analyzing the costs of each policy by comparing the competitiveness of the policy to other products available in the market?
 - Discuss funding alternatives to maximize performance?
- **Consider appreciation of capital.**

Legal Expectations (Uniform Prudent Investor Act -UPIA)

The UPIA allows you to delegate investment and management functions (Section 9).



21Insight – Life Insurance Reporting & Analysis



21Insight – Life Insurance Reporting & Analysis

- **Policy Coverage Risk**
 - What is the probability that the policy will be in force based on current annual premium and life expectancy
- **Product Competitiveness**
 - Is there a better product available
- **Carrier Strength**
 - Carrier financial stability
- **Policy return efficiency**
 - Premium funding analysis to determine if IRR is maximized

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