

Buyer's Guide

» WHAT YOU SHOULD KNOW

Why life insurance?

Although it is not everyone's favorite topic, life insurance is a financial asset that plays a critical role in financial planning. Ultimately, life insurance should protect your financial plan and mitigate the risk associated with your death, at any age. If your life insurance has not been reviewed recently, it is prudent to do so.

Reasons to consider life insurance

- Insure future income for your family
- Estate liquidity
- Business succession planning
- Estate equalization between children in and out of the business
- Children with special needs

Setting your expectations

Economic factors have brought significant changes to the life insurance marketplace, altering the landscape dramatically. As a result, the process of adding life insurance to your planning portfolio should be well-informed and keyed to your specific goals.

Changes in the marketplace

Many insurance companies have changed their pricing models and their products. Why? Basically, in response to two key variables, the economy and mortality. The low interest rate environment has required that insurance companies make changes to their business models to contain costs as well as maintain and grow market share. Additionally, since we are living longer, healthier lives, life insurance companies have had to re-price and redesign their products to optimize their competitive position in their desired target markets.

Some market realities

POSITIVE:

- Many companies have aggressively managed changes in the economy and mortality, responding with improved products that are more "consumer centric" in specific target markets.
- Mortality charges are declining but only benefitting new policies; older policies have more expensive mortality charges.
- Companies are responding to medical risks differently, evaluating cancer situations, heart problems, obesity and other conditions in a manner more consistent with the latest medical data.
- Companies have become more competitive and selective in choosing their target markets in an effort to complement their existing blocks of business.

For example: Life insurance companies now

price their products to hit a defined “sweet spot,” which may be “females age 60-65” in one product but “males age 67-74” in another. This makes market research imperative in the client/product match.

Change in market share, 1992-2011:

Whole Life: declined by 43%

Universal Life: increased by 63%

Term Life: increased by 69%

NEGATIVE:

- Many companies (NY Life, Northwestern, Guardian, MET Life, etc) have only modified their pricing models and products in an effort to continue supporting “their” way of doing business, which is heavy with products that lean on historical performance without enough sensitivity to today’s economy. Those same companies are also driven by distribution systems that are contractually tied to selling more expensive products that may or may not be the best fit for clients
- Captive agents—who, by contract, sell almost exclusively one company’s products—may be biased, thus limiting their incentive to research the marketplace to find the most suitable match for their client. Instead, they are more likely to choose a match that is in their wheelhouse and drives their own bottom line. Many captive agents are paid a retention bonus to keep more expensive policies in place, rather than being replaced.
- Continued declining interest and dividend crediting rates will adversely affect existing and new life insurance products. The fallout? Higher future premiums and/or reappearing premiums that had previously “vanished.”



RED FLAGS

Have you outgrown your agent?

Historically, the life insurance industry has been a “gentleman’s business” (sometimes also called anesthetized marketing). Clients typically met an agent with whom they became comfortable and who represented a good company. Through that relationship they became familiar with that company’s products and would only look to that agent and company for future purchases.

Today, many advisors consider it a conflict of interest to represent a primary company—regardless of its name recognition.

How do you know if you’ve “outgrown” your agent? The answers to the following questions may raise some red flags:



Are all your policies with the same company?



Is your agent a friend or relative?



Have you been discouraged from Term in favor of Whole life insurance?



Has your advisors’ input been avoided?



Have you experienced pressure to complete the buying process?

Selecting the right insurance organization

How do you identify a broker who is properly aligned with your interests? Instinctively, you should feel the person is on the same team as you and your advisors. You should be comfortable with their depth of knowledge and expertise, which will translate into the ability to match the best product for your situation and negotiate the most cost-effective premium for you and your family.

What kind of life insurance to buy

Product	Types	Characteristics
Term	10 Year 20 year 30 year	Low cost; coverage for a specific period
Permanent (lifetime)	Universal Life Whole Life Variable Life	Lowest cost; minimal cash surrender values Expensive; higher cash surrender values Cash values invested in the stock market
Survivorship (2nd to die)	Universal Life Whole Life Variable Life	Guaranteed death benefit and premium Not guaranteed; death benefit and premium Not guaranteed; death benefit and premium

Key characteristics to look for in a broker:

- Exhibits the values that our parents taught us: they do what they say they will when they say they will. And they manage the relationships with all those involved in the process successfully.
- Clear about their core competencies, with a singular focus inside their practice that does not require them to be all things to all people. As an example, they do not sell investments.
- Experience in researching the marketplace in order to determine which companies and products are the best match for your needs and medical profile.
- Clear about the process the insurance companies use to evaluate your application so they can effectively negotiate the lowest premium.
- Completely independent, with no primary company affiliation, which ensures that the clients' needs are the primary interest.
- Utilize a well-defined and easily articulated transparent process of selecting the right company.
- Proactively communicate with advisors throughout the process to remain consistent with planning objectives.
- Commitment to ongoing client and policy service.

Sample rates for term and survivorship (2nd to die) life insurance:

Hypothetical rates based upon assumed age and health profile. Actual rates will vary by individual and insurance company product.

Term Insurance – Price per \$1M (Preferred non-smoker)

MALE			
Age	10-year term	20-year term	30-year term
45	\$850	\$1,460	\$2,470
50	\$1,260	\$2,231	\$3,810
55	\$2,120	\$3,520	\$6,800
60	\$3,330	\$5,970	\$11,640
65	\$5,880	\$11,750	\$19,790
70	\$10,140	\$22,470	N/A
75	\$19,030	\$44,040	N/A

FEMALE			
Age	10-year term	20-year term	30-year term
45	\$750	\$1,150	\$1,750
50	\$1,070	\$1,710	\$2,670
55	\$1,520	\$2,540	\$4,460
60	\$2,280	\$4,220	\$8,020
65	\$3,600	\$7,840	\$13,130
70	\$5,990	\$14,320	N/A
75	\$12,700	\$29,280	N/A

2nd-to-Die – Guaranteed Death Benefit – Price per \$1M (Preferred non-smoker)

Age (M/F)		Annual Premium
65	Lifetime coverage	\$11,032
70	Lifetime coverage	\$15,024
75	Lifetime coverage	\$24,229
80	Lifetime coverage	\$42,441
85	Lifetime coverage	\$73,697

About the author



Tom Bishop is president of The Bishop Company, LLC, a completely independent insurance broker that leverages its strategic relationship with ValMark Securities, Inc., a national independent insurance brokerage

firm that provides insurance products and support services to its independently owned 100+ member offices. Its commitment is to provide clients with thoroughly researched, individually tailored, and cost-effective insurance solutions.

Tom is a Chartered Life Underwriter (CLU), an Accredited Estate Planner (AEP), a Licensed Insurance Adviser (LIA), and a member of Forum 400, an invitation-only organization comprised of elite life insurance professionals.

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