



**LONG ROAD**

RISK MANAGEMENT  
SERVICES, LLC

# Options for Mature or Neglected Insurance Policies



**Presented by:**

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*President & CEO*

**5/9/2024**

# WHAT ARE COMMON COMPLAINTS WITH THE LIFE INSURANCE INDUSTRY?



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# PRE SALE

- Too Salesy/Aggressive
- Policies don't perform as illustrated
  - Design issue
- Compensation
- Not a fiduciary

VS

# POST SALE

- Policies don't perform as illustrated
  - Management Issue
- Agent disappears
  - No ongoing service/support
- Not a fiduciary



# PARTNERSHIP DECISION CRITERIA

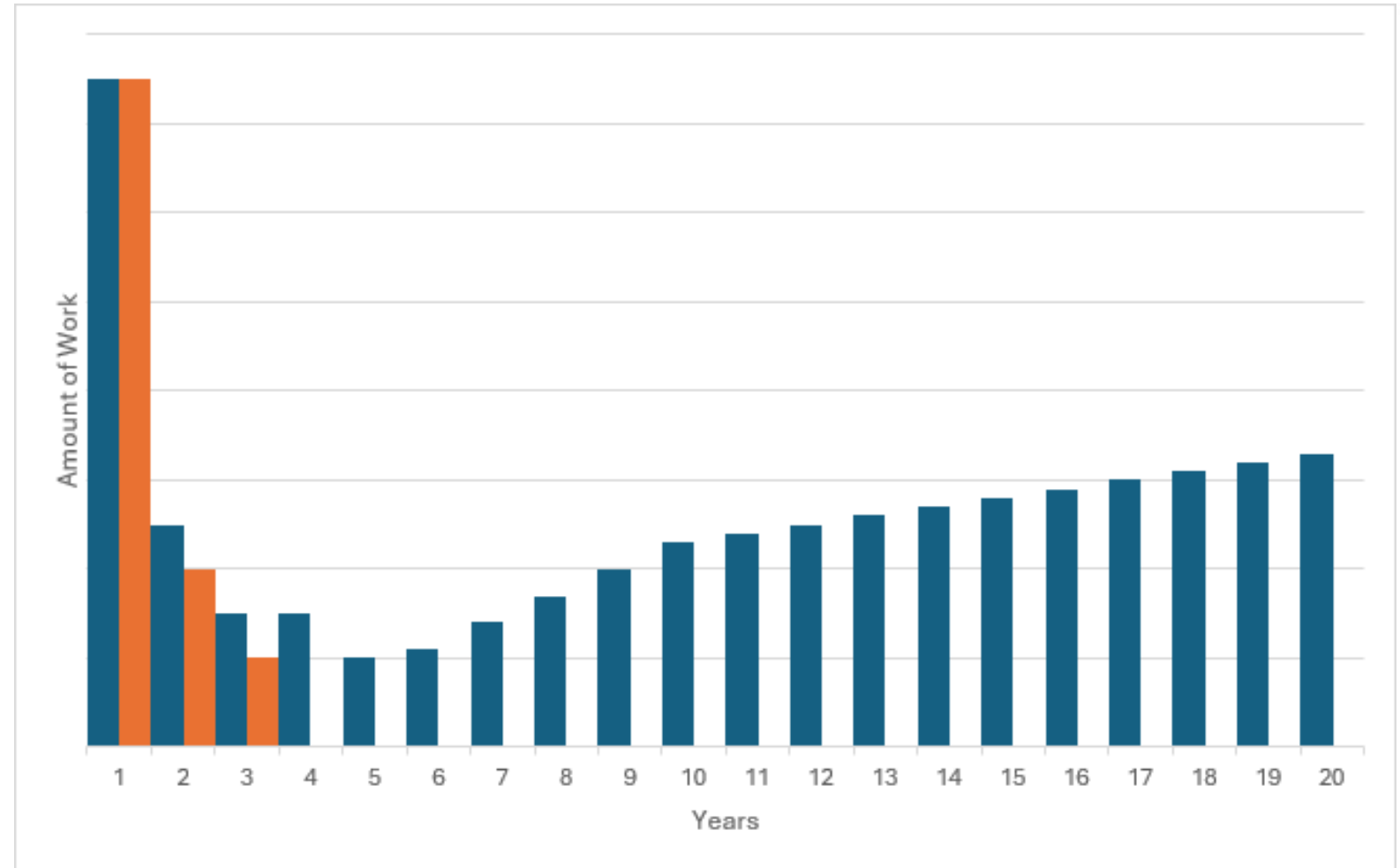
- Find a trusted, fully vetted partner
- Do an Request for Proposal (RFP) or at minimum use a checklist to source your partner!

Decision Factors: Weigh each decision factor by scoring their "relative importance" to running your insurance business.		Importance to YOU		Score where you see Long Road in each area		Score where you see your current Insurance Provider	
		(a)	(b1)	Multiply	(b2)	Multiply	
		3 - High 2 - Medium 1 - Low	3 - Best 2 - Average 1 - Inferior	(a) x (b1) = Score	3 - Best 2 - Average 1 - Inferior	(a) x (b2) = Score	
<b>Essential to Running your Insurance Business</b>							
<b>Education</b>							
Education for Clients and Advisors (Brochures, Continuing Education, Team Meetings, One-on-Ones and more)							
Support Staff (Client facing Insurance Specialist and internal insurance Client Service Associate)							
Insurance Specialist available to attend client meetings							
Seamless integration of insurance planning with financial planning process							
<b>Design</b>							
Access to over 20 highly rated insurance companies offering life, long-term care and disability insurance							
Option to use commissionable and/or fee-only policies							
Credentialed and highly experienced team of insurance planners available to customize insurance recommendations							
Centralized design and output of recommendations provides a consistent experience for the client and advisor							
<b>New Business</b>							
Concierge team (trained staff available to complete applications, schedule exams and follow-up for outstanding items directly with clients)							
Confidential program to privately assess underwriting risks before going to insurance carriers							
Underwriters and Medical Director on the team to negotiate offers							
<b>Policy Management</b>							
Annual reporting available for all policies under RIAs care (including policies issued prior to provider relationship)							
Client Service Associate available to facilitate all policy service requests							
Fulfillment of all policy management recommendations							
<b>Management Reporting</b>							
Real-time customizable reports available for management and advisors to provide insight into the business							
Access to a website to gain visibility into insurance business, including: Pipeline Management, Inforce Business, Service Requests, Underwriting Updates, and Annual Policy Reviews							
<b>Total Score</b>							

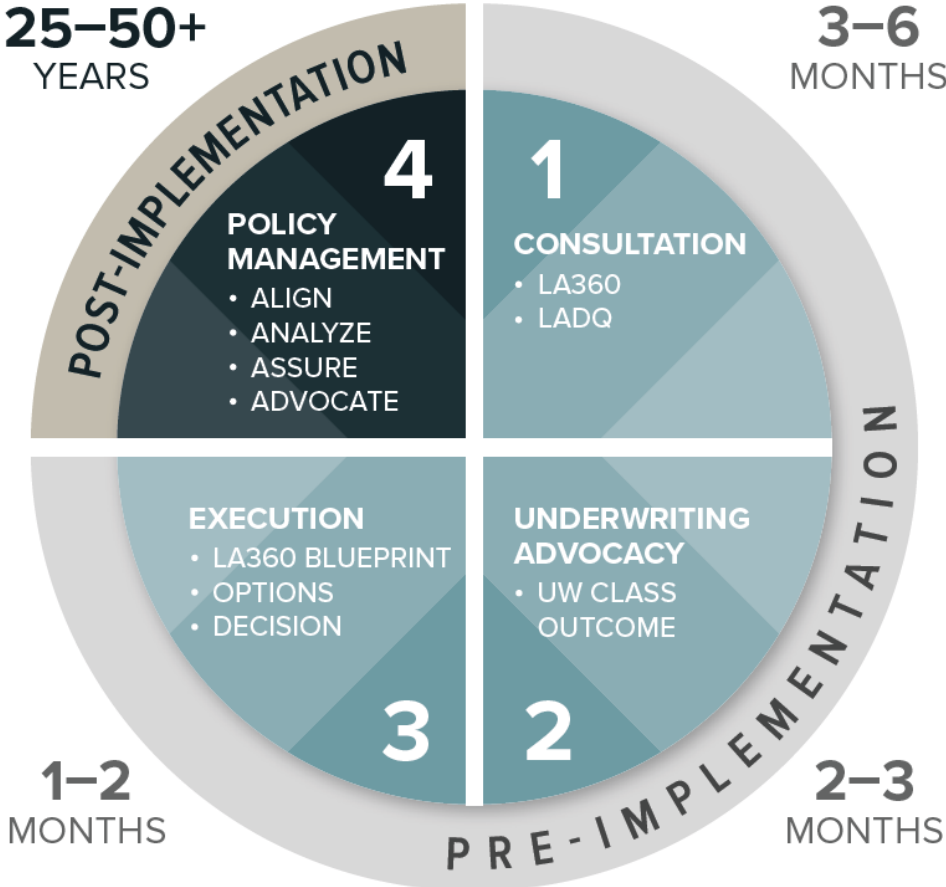


# CLIENT ENGAGEMENT TIMELINE

- Traditional Focus of an insurance agent
  - 3-6 months – Design
  - 2-4 months – Underwrite
  - 1-2 months – Implement
- Traditional Focus of a Financial Advisor/Planner
  - 20+ years of work



# DELIVERING ON CLIENT EXPECTATIONS



**WHO IS FLYING THE PLANE?**

# ENTER FINANCIAL PLANNER

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# **A CLOSER LOOK – CASE STUDY**

# A CLOSER LOOK – CASE STUDY

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- You have a client who is 84 years old.<sup>1</sup>
- She purchased a \$2M Variable Universal Life policy 30 years ago, held in an Irrevocable Trust (ILIT).
- No previous reviews...until now.
- We uncovered the policy will lapse within 2 years if no action is taken.



<sup>1</sup>Client name has been changed to protect client confidentiality

# A CLOSER LOOK – CASE STUDY

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## ? QUESTIONS TO CONSIDER

- Policy objectives and client needs?
- Current health status?
- Is new underwriting an option?
- Policy surrender strategy?
- Tax considerations?



**WHAT ARE THE OPTIONS  
FOR THIS CLIENT'S POLICY?**

# KEEP

- Keep policy as is
- Restructure
- Alternative funding
- Gift or Transfer

VS

# CANCEL

- Surrender
- Exchange into new policy
- Exchange into annuity
- Life settlement

# A CLOSER LOOK – CASE STUDY



## KEEP

## CANCEL

1. Continue the coverage at \$40k/yr.  
*Policy will lapse in 2 years at age 86.*
2. Increase premium to \$218,783/yr.  
*5X increase, extends coverage to 91.*
3. Decrease death benefit, maintain current premium.  
*Reducing DB to \$600k extends coverage to age 88 at \$40k/yr.*
4. Pay Cost of Insurance each year – year 1 premium \$135k/yr.  
*Annual cost will increase each year.*

1. Replacement coverage.  
*Age and health likely prohibitive.*
2. Surrender policy for the current value of \$123,571.  
*Potential tax issues and the loss of the cost basis.*
3. Sell policy via a Life Settlement.  
*\$350K – \$633K offer estimate. Need 4-6 months to determine final offer.*
4. Exchange into variable annuity.  
*Tax-deferred growth, avoid tax on surrender, higher expenses.*



## RECOMMENDED ACTIONS

- Keeping policy as-is is not the best option.
- Review client's health and obtain accurate Life Expectancy Analysis to better consider "end policy" options.
- Review and match remediation options with client's objectives.
- Present final options and help client determine best action plan.



**SEEING THE BIG PICTURE**

**WHY REVIEW  
YOUR POLICIES NOW?**





## **WHY REVIEW YOUR POLICIES NOW?**

1. There are a variety of risks that affect the performance of policies.
2. Product developments with added features has created complexity.
3. Clients have a need for options based on their changing objectives and goals.
4. Trustees, accountants and other professionals need help with their clients' insurance policies.





# RISKS THAT CAN BE CONTROLLED

## 1 | RISKS AFFECTING POLICY PERFORMANCE

### POLICY ADMINISTRATION

- Premium payments and timing
- Withdrawal and loan payments
- Non-enacted planned events
- Use/termination of riders and conversion options
- Beneficiary, address or trustee changes



# RISKS THAT CANNOT BE CONTROLLED

## 1 | RISKS AFFECTING POLICY PERFORMANCE

### INSURANCE COMPANIES

- Insurer strength and stability
- Administrative and servicing errors
- Limited communication to owners and trustees
- Changes to products and features
- Private equity acquisitions and companies exiting the business

### INDUSTRY / ENVIRONMENT

- Low interest rate environment
- Changing laws and fiduciary requirements
- New products and solutions in the marketplace
- Tax and estate plan implications

### POLICY PERFORMANCE

- Crediting rate and dividends
- Subaccount allocation and performance
- Guarantee and shadow account challenges
- Cost of insurance increases



# A CLOSER LOOK – CASE STUDY

## REVIEW FINDS ROUNDING ERROR CAUSED REDUCED GUARANTEE



### THE SITUATION

Bill and Helen Stuart<sup>1</sup>, ages 72 and 74, purchased a \$10 million Survivorship Variable Universal Life policy with a secondary guarantee to provide coverage to age 100. Bill had recently sold his manufacturing company and wanted to provide an inheritance for his adult children. The couple's policy was held in an Irrevocable Trust and was to be paid in five annual premium installments of \$500,309.



### WHAT WENT WRONG

In Year 4 (after the fourth premium installment had been paid), the policy's guaranteed coverage age was reduced from age 100 to age 81 which was significantly below the couple's life expectancies. Further, the policy's cash value and projected coverage age were behind due to the policy performing less than originally illustrated.

When the Policy Management Company (PMC) was brought in to review the policy, they discovered that the trustee had mistakenly sent a check in Year 4 for \$500,000 instead of the full premium amount. With only one premium payment remaining, the Stuart's were unaware that the policy's guaranteed coverage age had dropped by 19 years because of a mere difference of \$309.



### SUMMARY

GUARANTEED COVERAGE AGE

### ORIGINAL DESIGN

AGE 100

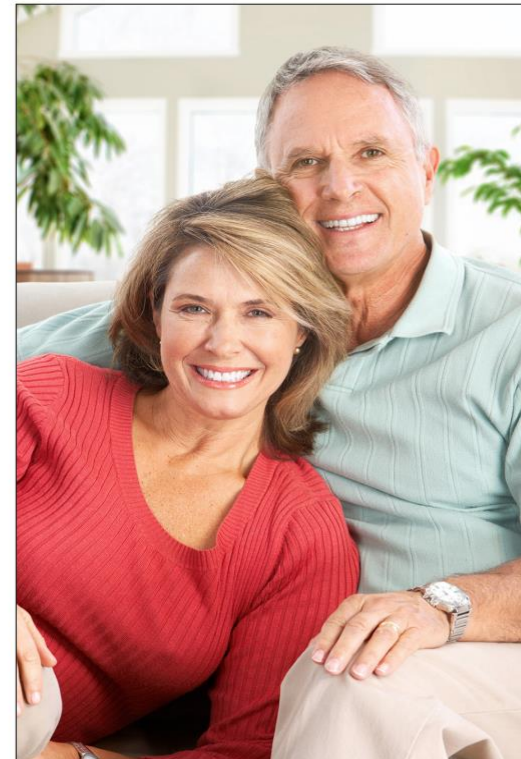
### CURRENT POLICY

AGE 81



### THE OUTCOME

The PMC worked with the insurance carrier to resolve the issue. A premium check for \$500,750 in Year 5 made up the shortfall and brought the policy back to the original design and guaranteed coverage duration. The policy was subsequently scheduled for performance monitoring and annual reviews by the PMC.

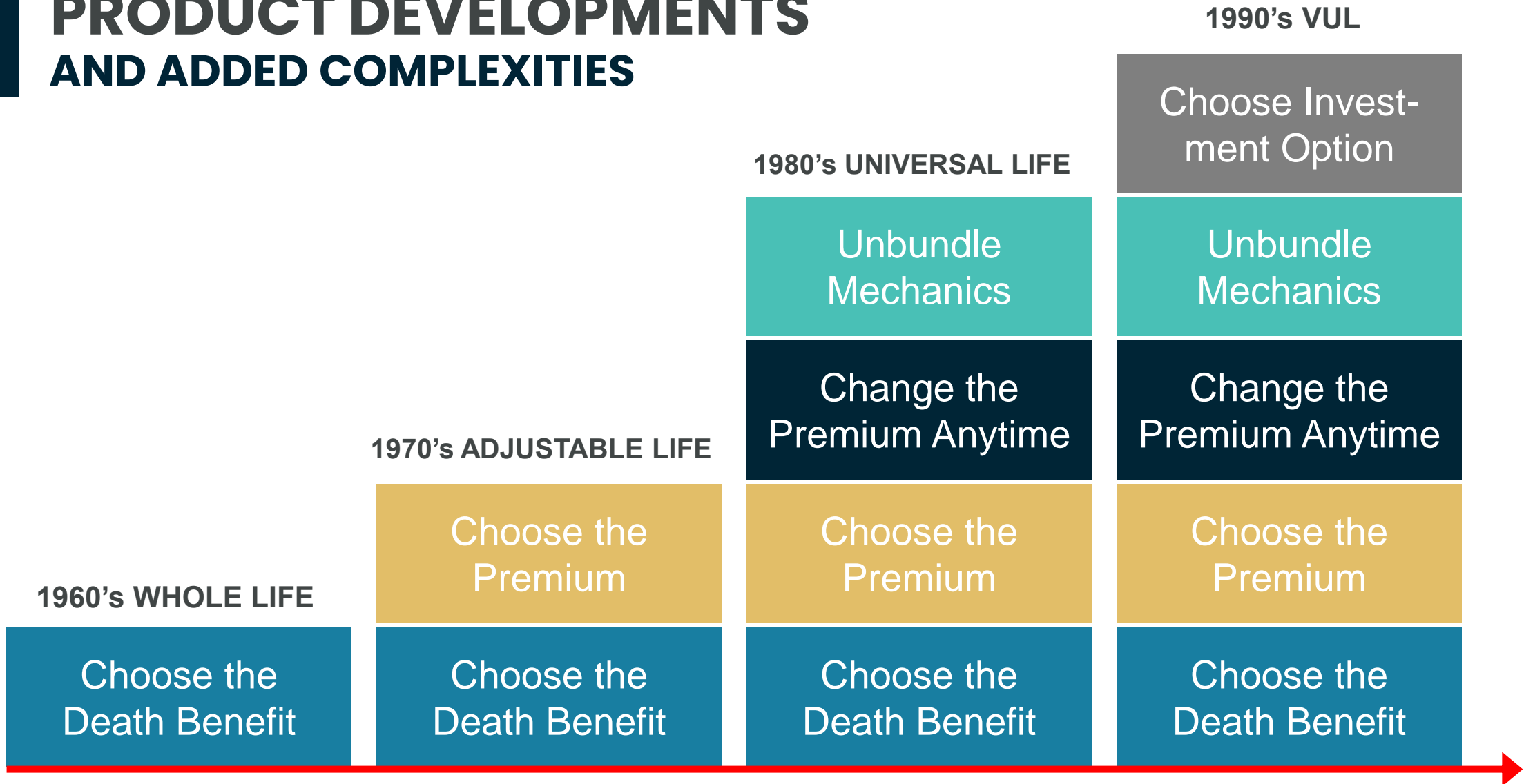


<sup>1</sup>Client name has been changed to protect confidentiality.

The information presented here is for educational purposes only and actual results may vary. Variable Universal Life Insurance products are sold by prospectus. A prospectus is available from your insurance professional. Clients are advised to read the prospectus in full before investing.

# 2

## PRODUCT DEVELOPMENTS AND ADDED COMPLEXITIES



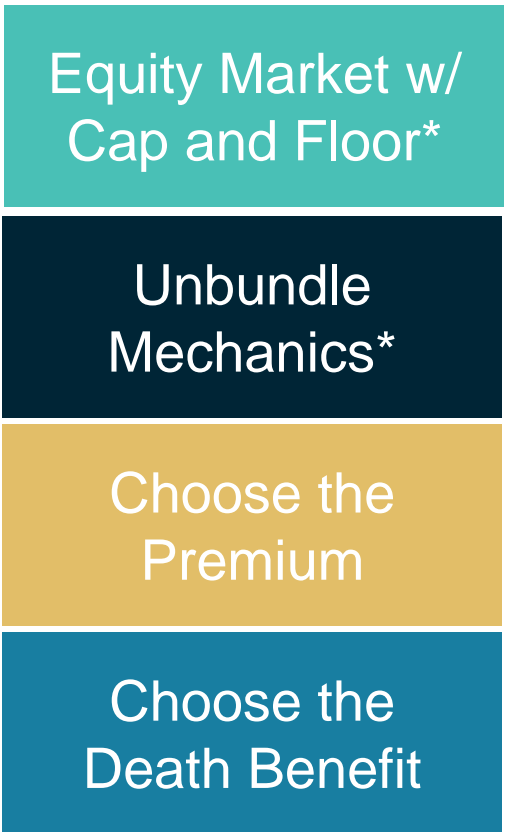
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# CONTINUED

## CURRENT VUL HYBRID



## 2010 INDEX UL



## 2005-11 NO-LAPSE GUARANTEE UL





3

## RISKS BEING PROTECTED AGAINST NO LONGER EXIST

### PERSONAL CIRCUMSTANCES HAVE CHANGED

- Kids are grown and independent
  - College cost covered
  - Mortgage paid off
  - Retirement accounts are funded
  - Alimony/child support obligations fulfilled
- Financial picture has changed (inheritance, changes in income, or tax rates)
  - Changes in the business (partners retired or exited, business sold)
  - Changes in estate tax law



## CHRIS' STORY | AGE 64

Wanted to convert his Key Man Term policy to leave money to his wife, but couldn't afford the conversion premium

Client name has been changed to protect confidentiality. | Each client's experience varies and there is no guarantee that a life settlement will generate an offer. This material is intended for informational purposes only and should not be construed as legal or tax advice or investment recommendations. Consult a qualified attorney, tax advisor, investment professional.

## KEY MAN TERM POLICY: CONVERT THROUGH A LIFE SETTLEMENT

### EXISTING LIFE INSURANCE

Policy Type	\$5M Term Life
Term Premium	\$7,925 / year
Conversion Premium	\$164,778 / year
Life Expectancy	11 – 13 years

### SITUATION

- Health had declined, but couldn't afford conversion premium
- Desire for coverage for his wife and kids

### OUTCOME

- \$1.54M life settlement offer on \$5M death benefit
- Able to invest \$1.54M of life insurance with proceeds from life settlement



# SIX OPTIONS TO CONSIDER BEFORE SURRENDERING



	Surrender	Restructure	Exchange to New Policy			Life Settlement
			Life Insurance	Long Term Care	Annuity	
Individual Profile	Need Short-Term Liquidity.	<p>Desire to maintain some form of coverage.</p> <p>Objectives have changed since the original policy was issued.</p> <p>Health has declined since the policy was issued.</p>	<p>Desire to maintain some form of coverage.</p> <p>Objectives have changed since the original policy was issued.</p> <p>Client is still insurable.</p>	Need or desire Long Term Care Insurance.	<p>No longer need the death benefit.</p> <p>Desire or need guaranteed income.</p> <p>Desire to continue tax deferral and preservation of the life insurance cash value with no immediate income need.</p>	<p>Individuals 60+ who have experienced a health decline.</p> <p>No longer able or willing to maintain the premium required to continue the policy.</p>
Overview	Upon surrendering, the policy owner will receive the cash surrender value which is policy cash value less any surrender charges and outstanding policy loans.	<p><b>Restructure the existing policy to allow for:</b></p> <ul style="list-style-type: none"> <li>• Reduction or elimination of premium.</li> <li>• Increased policy longevity.</li> <li>• Withdrawals and or/loans from the cash value to create an income stream.</li> </ul>	A new policy may be more cost effective than restructuring the existing contract to align with the client's goals.	Cash value of existing policy can be used to purchase a policy that provides LTC benefits.	<p>Full preservation of basis upon transferring the cash value to the annuity.</p> <p>Loss of tax favored treatment of the life insurance cash value.</p>	A settlement provider may offer an amount in excess of the policy cash value providing an alternative to surrendering.
Considerations	<p>Gain in the policy is taxable.</p> <p>May incur surrender charges.</p> <p>Modified Endowment Contracts and/or policy loans could trigger additional tax liability.</p>	<p>Policy may be inflexible disallowing the changes.</p> <p>Original policy may not be the optimal contract given the new objectives.</p> <p>Reductions in the death benefit could cause the policy to become a Modified Endowment Contract.</p>	<p>Requires Underwriting.</p> <p>If executing a 1035 exchange, the new policy must have the same ownership structure.</p> <p>New contestability period.</p> <p>Watch for surrender charges and policy loans.</p>	<p>Requires Underwriting.</p> <p>If executing a 1035 exchange, the new policy must have the same ownership structure.</p> <p>New contestability period.</p> <p>Watch for surrender charges and policy loans.</p>	<p>No Underwriting.</p> <p>If cash value is being transferred through a 1035 exchange, the new policy must have the same ownership structure.</p> <p>Watch for surrender charges and policy loans.</p>	<p>Requires medical records and a life expectancy analysis.</p> <p>Carrier and product type impacts the marketability of a policy.</p>

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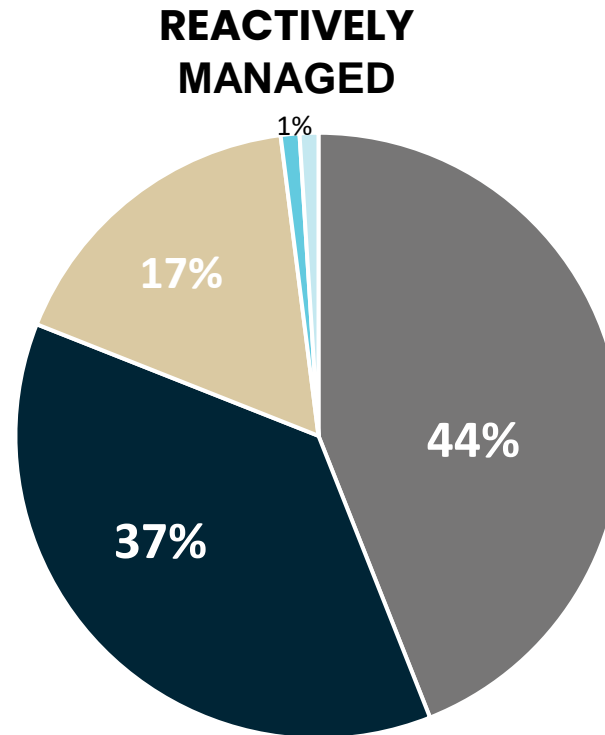
**The only person tasked with monitoring a policy is often the policy owner who, most of the time, is completely unequipped to fill this role.**

LIFE INSURANCE 10X, CH. 11

# 4

## RESULTS BASED ON MANAGEMENT

Over half of unmanaged permanent policies are not meeting client objectives



■ Monitor/ Manage   ■ Recalibrate   ■ New Coverage   ■ Replacement   ■ Life Settlement

Source: Results from reviews of permanent policies. Data as of March 2021 from the Policy Management Company.

**WHAT MAKES YOU DIFFERENT?**

POLICY PERFORMANCE REVIEWS

# POLICY PERFORMANCE EVALUATION

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Help you determine if a life insurance policy is meeting the needs of the policy owner



Assist in mitigating risks that cause a policy to lapse or underperform



Identify errors and prevent issues that can cause problems



Confirm premium payments and planned changes are made



Identify opportunities to maximize the value of the policies



Deliver timely reports on that underscore policy promises to clients

# POLICY PERFORMANCE EVALUATION



**Policy reviews  
designed  
to help meet  
client expectations.**

# INSURANCE POLICY REVIEW



POLICY MANAGEMENT COMPANY

**PREPARED FOR:** Client's Family Irrevocable Trust

**PREPARED BY:** Valmark Policy Management Company

## POLICY SUMMARY

Policy Information			
<b>Policy #:</b> #####Premium	<b>Insured(s):</b> Valued Client		
<b>Issue Date:</b> 5/4/2006	Valued Spouse		
<b>Policy Year:</b> 10	<b>Owner:</b> Client's Family Irrevocable Trust		
<b>Carrier:</b> John Hancock	<b>Beneficiary:</b> Client's Family Irrevocable Trust		
<b>Product:</b> Survivorship UL			
<b>Purpose:</b> Death Benefit Protection			
<b>Riders:</b> Additional Sum Insured			
Current Values (as of 07/21/2016)			
<b>Death Benefit:</b> \$500,000	<b>Cash Value:</b> \$121,309.44	<b>Loan Amount:</b> \$0.00	
<b>Annualized Premium:</b> \$9,598.00	<b>Surrender Value:</b> \$104,729.84	<b>Is Policy a MEC?</b> No	

## COMMENTARY

- Minimum premiums have been paid to date. In 2013, two annual premium payments were made.
- Assuming the client continues to pay the planned premium on time and in the correct amounts, the policy is guaranteed to age 120 of the younger insured as originally planned.
- Crediting rate dropped to 4.55% from original 5.25% but does not affect coverage guarantees.
- Current cash value is greater than projected due to an extra premium payment.

## RECOMMENDATIONS

- PMC Recommendation:** Recalibrate
- Consider reducing annual premium to \$8,492 per year through policy year 30 to guarantee policy to age 120 of the younger insured based on updated inforce illustration.
  - Discuss additional coverage if needed for estate preservation due to expired rider.
  - Complete a LADQ and market comparison every three years.

Carrier Ratings AM Best (1-16) S&P (1-20) Moody's (1-21) Fitch (1-19) STAR (1-5)  
(Best-Worst) A+ (2) AA- (4) A1 (5) AA- (4) 2 (4)

Prepared: 02/12/2019  
(1 of 3)

# INSURANCE POLICY REVIEW



POLICY MANAGEMENT COMPANY

## POLICY DESIGN

<b>Purpose:</b> Death Benefit Protection	<b>Design Date:</b> 5/4/2006
<b>Planned Changes:</b> No	<b>Design Source:</b> Original Illustration

## PREMIUM ANALYSIS

LAST PREMIUM PAID: 6/13/2016			
	Policy Design	Current Plan	Indicator
<b>Year 1 Lump Sum/1035:</b>	\$18,420.00	\$18,420.00	●
<b>Annualized Premium:</b>	\$9,598.00	\$9,598.00	●
<b>Premium Structure:</b>	Through Age 100	Through Age 100	●
<b>Cumulative Premiums Paid:</b>	\$123,998.00	\$133,596.00	●
<b>Difference (Paid - Planned):</b>		\$9,598.00	●

## COVERAGE DURATION ANALYSIS

Insured(s):	Valued Client	Valued Spouse
<b>Age:</b>	82	87
<b>Underwriting Class:</b>	Standard NonSmoker	Standard NonSmoker

	Policy Design	Current Performance	Indicator
<b>Guaranteed Coverage Age:</b>	120	120	●
<b>Projected Coverage Age:</b>	120	120	●
<b>Life Expectancy (Years):</b>		12.32	●
<b>Probability of Outliving Coverage:</b>		0.00%	●

## POLICY PERFORMANCE ANALYSIS

	Policy Design	Current Performance	Indicator
<b>Death Benefit:</b>	\$500,000	\$500,000	●
<b>Assumed Rate of Return:</b>	3.00%	4.55%	●
<b>Cash Value:</b>	\$105,747.00	\$112,510.00	●
<b>Cash Surrender Value:</b>	\$98,524.00	\$105,287.00	●

- - Desired
- - Acceptable
- - Unacceptable

Prepared: 02/12/2019  
(2 of 3)

SAMPLE  
REVIEW

# CASE STUDY



## REVIEWING YOUR ENTIRE BLOCK OF POLICIES

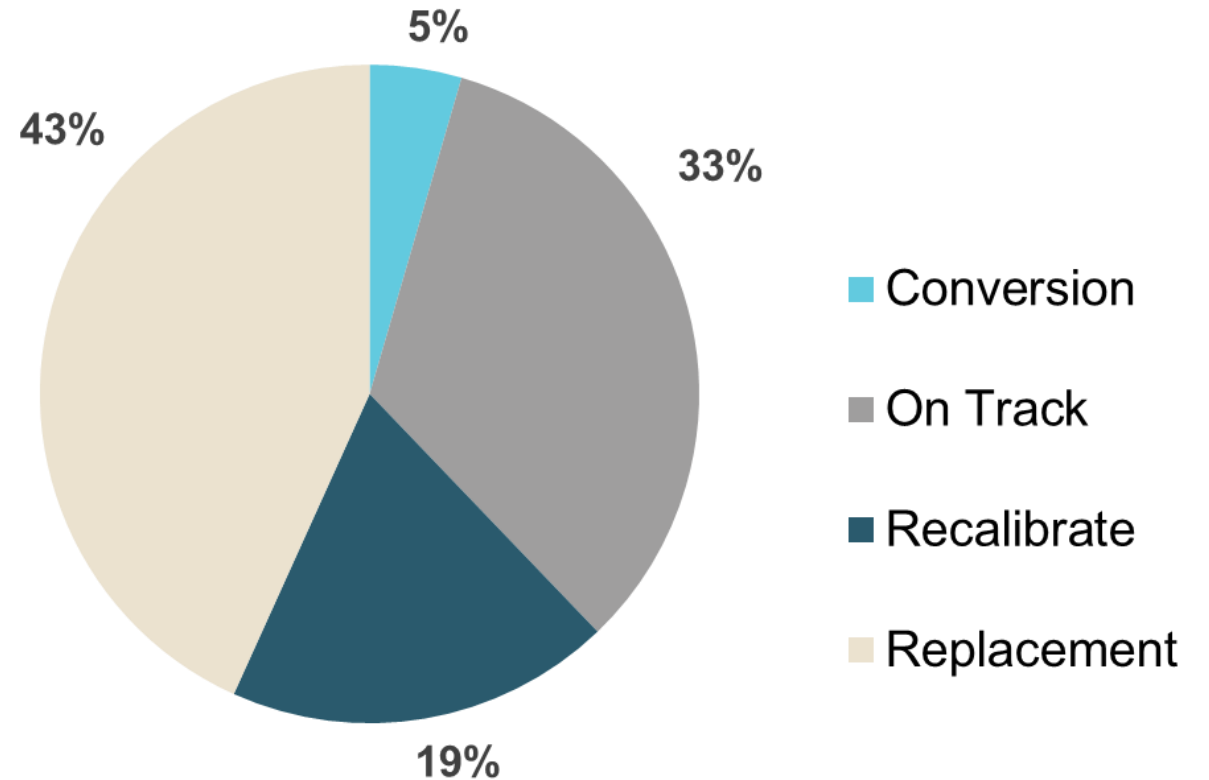
### AN INVALUABLE RESOURCE FOR TRUSTEES

SITUATION		
120+ LIFE POLICIES	26 INSURANCE COMPANIES	> \$260M DEATH BENEFIT

PROBLEM		
11 POLICIES LAPSED	33% MET OBJECTIVES	66% NEEDED ADJUSTMENT

SOLUTION		
\$23M EXISTING COVERAGE IMPROVED	\$46M OF NEW COVERAGE PLACED	72 INSURANCE TRUSTS IMPROVED

### Policy Performance Evaluation™ Findings

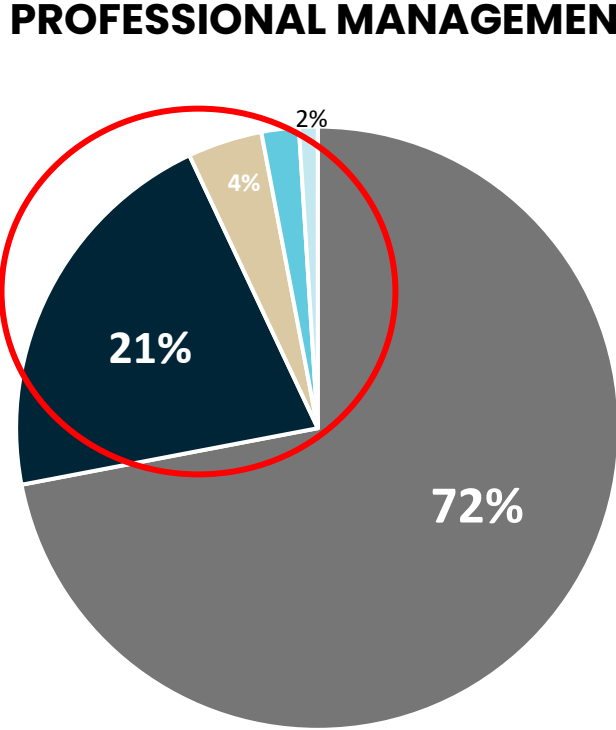
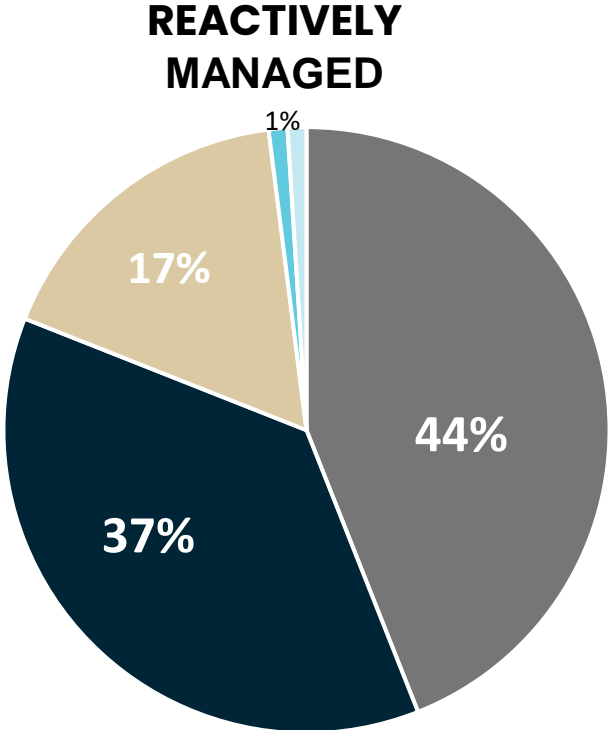






# RESULTS BASED ON MANAGEMENT

Over half of unmanaged permanent policies are not meeting client objectives



■ Monitor/ Manage   ■ Recalibrate   ■ New Coverage   ■ Replacement   ■ Life Settlement

Source: Results from reviews of permanent policies. Data as of March 2021.



## BENEFITS FOR TRUSTEES AND GRANTORS



Deliver on fiduciary responsibilities and client commitments



Detect issues and reduce the risk of policy lapse or underperformance



Identify opportunities to maximize the value of the policies

# TOP SITUATIONS FOR A POLICY PERFORMANCE EVALUATION

- Trustees who are responsible for a group of existing insurance policies
- Clients who have a change in circumstances: retirement, business/real estate sale, inheritance, medical issues, etc.
- Trust policies no longer needed for estate planning
- Term policies nearing term limit or conversion period
- Clients planning to surrender or lapse policy



# LANDING THE PLANE

# LANDING THE PLANE



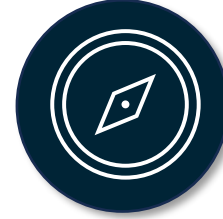
## REVIEW

Create a system to regularly assess policy performance.



## ANALYZE

Develop a method for evaluating policy reviews within the client's financial plan.



## IDENTIFY

Navigate the changing insurance landscape to find appropriate solutions.



## IMPLEMENT

Establish a process for delivering and implementing recommendations.

**QUESTIONS?**

Policy Management Company (“PMC”) is affiliated with Valmark Securities, Inc. and Valmark Advisers, Inc.

Any mention of guarantees in this presentation are limited to the claims-paying ability of the issuing company. Not all characteristics described in this presentation will be applicable to every client situation. Any forecasts contained herein are for illustrative purposes only and are not to be relied upon as advice or interpreted as a recommendation. Any tax advice contained herein is of a general nature. You should seek specific advice from your tax professional before pursuing any idea contemplated herein.

A policy owner should consider the continued need for coverage, and, if the policy owner plans to replace the existing policy with another policy, the policy owner should consider the availability, adequacy and cost of comparable coverage.

Securities offered through Valmark Securities, Inc. Member FINRA/SIPC. Investment advisory services offered through Valmark Advisers, Inc. an SEC registered investment Advisor. Valmark is located at 130 Springside Drive, Akron, Ohio 44333. (800) 765-5201.

## Life Settlement Disclosure

Valmark Securities, Inc. and its registered representatives act as brokers on the transaction and will receive a fee from the purchaser. Valmark supervises all life settlements like a security transaction.

Valmark markets policies only to Life Settlement Providers. Life Settlement Providers are generally responsible for maintaining the policy after sale and receive their funding from institutional buyers.

Valmark reviews Life Settlement Providers periodically to affirm that their funding sources are institutional buyers, carry errors and omissions insurance, and are licensed in the state of sale.

Institutional buyers include qualified institutions, accredited investors, hedge funds, pension funds, and other qualifying investors. Investors bundle policies to ease any concerns with strangers having access to view millions of death benefit on an individual.

In a life settlement agreement, the current life insurance policy owner transfers the ownership and beneficiary designations to a third party, who receives the death proceeds at the passing of the insured. As a result, this buyer has a financial interest in the seller's death.

A policy owner should consider the continued need for coverage, and, if the policy owner plans to replace the existing policy with another policy, the policy owner should consider the availability, adequacy, and cost of comparable coverage.

Policy owners considering the need for cash should consider other less costly alternatives to a life settlement.

When an individual decides to sell their policy, they must provide complete access to their medical history, and other personal information, that may affect their life expectancy. This information is requested during the initial application for a life settlement. After the completion of the sale, there may be an ongoing obligation to disclose similar and additional information to the buyer or servicing agent at a later date.

A life settlement may affect the insured's ability to obtain insurance in the future and the seller's eligibility for certain public assistance programs, such as Medicaid, and there may be tax consequences. Individuals should discuss the taxation of the proceeds received from a life settlement with their tax advisor.

A life settlement transaction may require an extended period of time to complete. Due to complexity of the transaction, fees and costs incurred with the life settlement transaction may be substantially higher than other securities.

Once the policy is transferred, the policy owner has no control over subsequent transfers.

Each client's experience varies, and there is no guarantee that a life settlement will generate an offer greater than the current cash surrender value. In such cases, the client can always surrender their policy to the carrier if the coverage is no longer needed.