WHAT TO EXPECT FROM A POLICY REVIEW

IS YOUR LIFE INSURANCE POLICY KEEPING PACE WITH LIFE?

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1. Are you concerned about preserving the assets that you spent years accumulating?

2. Have you recently had a life changing event?

3. Are you adequately protecting the economic value of your life?

4. Have you properly planned for the unexpected?

A yearly review of your life insurance policy(ies) will alleviate the stress of not knowing the answers to these questions. Make sure your policy(ies) are keeping pace with your life; Call your financial professional today and ask for a Personal Policy Review Analysis.

When your life insurance policies were purchased, certain assumptions were made about policy charges, interest rates, planned premiums, etc. Perhaps the original reason for your purchase still exists, or your needs might have changed, requiring more or less coverage. It is important to periodically review the status of your policies so that the life insurance you need will be there when you need it. This Personal Policy Review will help determine your current needs.

The benefits of keeping your life insurance up to date:

- Provides the appropriate amount of survivor income
- Insures that the debt you have accumulated is paid
- Supplements your retirement income
- Insures your spouse's retirement
- Protects your estate
- The ability to leave the legacy that you always imagined
- Protects your business
- Attracts or retains key employees

THE PERSONAL POLICY REVIEW PROGRAM

This program is designed to give you a better understanding of your life insurance policy performance with an aim towards reviewing actual policy performance against the original projections of policy performance.

WHY CONDUCT A PERSONAL POLICY REVIEW?

Life insurance is one of the largest most valuable assets within an estate – whether it is owned by an individual, a business, or a trust – as part of an overall estate plan. When your life insurance policy(ies) were purchased, certain assumptions were made, such as policy charges, interest rates, planned premiums, etc. Perhaps the original reason for your purchase still exists, or your needs might have changed, requiring more or less coverage. That being said, this valuable asset should be evaluated, reviewed, and analyzed on a periodic, comprehensive basis. The life insurance industry has undergone many transformations in the past decade, making it more important then ever to re-evaluate your policy(ies) so that your life insurance will be there when you need it.

REASONS YOU SHOULD CONSIDER A LIFE INSURANCE REVIEW

- Your need for life insurance may have increased or decreased.
- Extended periods of low interest rates may have affected policy performance, and more premium dollars may now be needed to meet policy charges.
- Your health might have improved, qualifying you for a better rating.
- Your family or business situation may have changed.
- Loans, withdrawals, or other policy activity may have affected the policy performance.
- Premiums may not have been paid as planned.
- More favorable medical underwriting classes are now being offered compared to years ago.

Your life insurance policy(ies) may be greatly improved upon once a thorough, detailed, and unbiased analysis has taken place. If you are considering making changes to your existing life insurance plan, it is important to weigh the implications of your choices. There is no “right” answer, only the need to determine what is most important to you.

BENEFITS TO YOU

The Personal Review Program allows you and your financial professional to review your current policy(ies) to determine if there are any new opportunities and to analyze the policies’ performance against original projections.

- An in-depth analysis will offer options for you to consider if modifications or alternatives need further discussion
- The program may result in helping to maximize the value of your policy(ies) and help keep your estate plan in line with your original goals.
- Possible improvements to your underwriting class can be considered
- Valuable new riders that might be available

FREQUENTLY ASKED QUESTIONS

- **What does Section 1035 mean?**

  A Section 1035 exchange is the process of directly transferring accumulated funds in a life insurance policy to another life insurance policy or to an annuity policy, or from one annuity to another, without creating a taxable event. A Section 1035 exchange allows you to exchange outdated contracts for more current and efficient contracts, while preserving the original policy's tax basis and deferring recognition of gain for federal income tax purposes.

- **What is an "inforce" ledger?**

  Your present life insurance company will enter current cash values of your contract and "re-project" those values into the future based on premium levels and other variables such as current interest rates. This will enable you to compare this "future projection" to the original projection when the policy was issued. Of course, this is based on non-guaranteed assumptions (so actual results may vary).

- **What can affect the performance of your life insurance contract?**

  1. **Interest rate return –** the interest rate on the underlying investments that is currently being credited to the policy.
  2. **Expenses –** Including acquisition costs (commissions, administrative fees, etc.)
  3. **Mortality Charges –** The current, non-guaranteed charge for mortality within the policy.

  Interest rate return is the factor that will most affect the policy performance. In illustrations, there is an "assumed", non-guaranteed or current interest rate projection and a "guaranteed" projection. The "guaranteed" projection uses factors that are guaranteed by policy contracts. The "assumed or current", non-guaranteed projection is a "guesstimate" of how the policy will perform in the future based on current non-guaranteed interest rates, mortality, and expense projections. Any future changes would again affect policy performance. This is another reason why periodic reviews are strongly recommended.

- **Have there been changes in the current expense and mortality charges in new life insurance contracts?**

  Generally speaking, the expense and mortality costs for life insurance policies have declined in the last 10-15 years. The expenses have been lower due, in part, to the mergers and acquisitions within the insurance industry. This has resulted in a more efficient marketplace and lower associated expenses with a policy. Also, mortality charges have been reduced as medical and health improvements have helped contribute to people living longer.

REASONS TO KEEP AN EXISTING POLICY

- **New contestable Period**
  Any time a new policy is purchased, a new contestable period begins. Policies can be contested within the first two years after issue to discover if any material information was not revealed on the application that would have affected the insurer's decision to issue the policy. For replacements with the same insurer, some companies apply a new contestable period only for an increase in the face amount of insurance.

- **New suicide Period**
  A new 2-year suicide period also generally begins with a new policy. It is important to be fully aware of this provision. For replacements with the same insurer, some companies apply a new suicide period only for an increase in the face amount of insurance.

- **Existing loans**
  Some policies offer favorable loan interest rates or wash loans after a policy has been in force for a period of time, often 10 years. In some situations, loans are not transferable from one policy to another. Additionally, some insurers do not recognize the transfer of a loan as a tax-free exchange, even if the receiving company can accept a loan.

- **New acquisition costs**
  New life insurance contracts contain sales charges and acquisition costs that must be recouped via the payment stream. Older policies may already have accounted for these charges.

- **Guaranteed crediting rates**
  There may be a higher guaranteed minimum interest crediting rate on an older policy.

REASONS TO KEEP AN EXISTING POLICY (continued…)

- **Surrender period is less**
  Beginning a new life insurance policy also means a new period for surrender charges. It could be that the existing policy is almost out of, or completely out of, the surrender period.

- **Special internal exchange rules**
  Some insurers have special internal exchange rules that may apply in the event the policy needs to be changed. This might include favorable underwriting, or waiving surrender charges on the transfer.

- **Change in underwriting status – for the worse**
  If you have experienced an adverse change in health, a new policy might have a higher rating. It may be best to consider paying additional premiums into the existing policy to keep it in force.

- **Legislative benefits – pre TAMRA, cash rich testing**
  Tax laws can change the definition of a life insurance policy and how it is taxed. If a contract was issued before June 21, 1988, it may have some tax benefits that are not available with a new policy. Older policies are not governed by the rules for Modified Endowment Contracts (MECs). This rule severely reduces the amount of money that can be deposited in a life insurance policy in the early years without losing the "first in, first out" (FIFO) provision for life insurance. If a policy is a MEC, any money withdrawn is considered interest first and subject to a 10% penalty if withdrawn before age 59½. In addition, the life insurance "corridor" amounts were much higher on policies issued before June 21, 1988, so that there were much higher funding limits than for policies issued after that date.

  Another date to remember is December 31, 1984, which relates to cash-rich testing, also known as the Recapture Ceiling Test. This usually occurs when there is a reduction in benefits under the contract (face reduction, PUA surrender, etc.). Policies issued before December 31, 1984, are not subject to this test.

REASONS TO EXCHANGE A POLICY

- **Secondary Guarantees**
  One of the newer policy design features for universal life policies includes the ability to have the carrier guarantee the death benefit based on a fixed premium structure. This guarantee applies even if there is a sustained drop in interest rates or if the current cash value declines or disappears. The real benefit of this type of policy is that you can be assured that the death benefit will be guaranteed by the carrier, as long as the premium is paid according to schedule.

- **Loan Treatment**
  Having a significant loan on a policy may seem insurmountable, but this does not have to be the case. Under the Sec. 1035 exchange rules, the IRS allows for the transfer of a loan along with the cash value from an existing life insurance policy to another life insurance policy, as long as the owner of the new policy is the same. Some new insurance policies offer attractive loan interest rates that might not be available on the existing policy. There may even be an option of a “wash loan”, meaning that the interest that is credited on the loan amount is the same as is charged for the loan. This could be important if it is not planned to pay back the loan. Another potential benefit is the ability to use a cash withdrawal to completely or partially pay back the loan. However, there may not be favorable tax treatment on the transfer if the purpose is to pay back the loan. If the loan is to be paid back via a cash withdrawal, it may be desirable to consider paying back the policy loan in a different policy year. Remember, loans and withdrawals will reduce cash values and death benefits, and surrender charges and taxes may also apply.

- **More Competitive Plans**
  Whether it’s a TV, a computer, or an insurance policy, product improvements are inevitable, and prices tend to decrease because of new innovations. In relation to life insurance products, insurers are cutting expense and distribution costs. This combined with other pricing improvements can lead to a much more competitive product, with lower costs and/or features and benefits not available on earlier plans.

- **Preferred and plus underwriting**
  When universal life was introduced 25 years ago, only two classes of standard underwriting were available, smoker and non-smoker. Since that time, these classes have been subdivided into Preferred, Preferred Plus, and in some instances Preferred Select Plus (the actual names of underwriting classes may vary from carrier to carrier). This occurred fist for the non-smoker class and later for the smoker class. If you fall into one of the preferred classes, there could be benefits from the lower mortality charges resulting from the exchange. If you fall into the standard class, however, it is possible that the mortality charges on the current policy could be lower than for the same underwriting class on a new policy.

- **Company strength**
  One of the most important factors you should consider is the strength and stability of the issuing life insurance company. This is particularly true with policies that have secondary carrier guarantees. The higher the rating of a company, the more likely it is that this company will keep its promises to policy owners. Ratings are reviewed annually by third parties and vary by criteria.

REASONS TO EXCHANGE A POLICY (continued…)

- **Special Underwriting Programs**

  If you are currently rated, and the existing company will not remove the rating, it is possible that you could qualify under a special underwriting program. This is a program where rated cases up to a certain table rating, often Table 4, will automatically be issued a standard rating. If your health has improved from a previous rating, or your health is currently viewed more favorably, a program like this could be of significant benefit.

- **Life Settlements**

  A life settlement is an innovative wealth and estate planning tool that involves the sale of an inforce life insurance policy in the secondary market, generally to institutional investors. It is typically used when the coverage is no longer needed or has become too expensive, or when a more attractive new policy is being obtained and the sale price is in excess of the policy's cash value that would otherwise be rolled over in a Sec. 1035 tax-free exchange. Put another way, it enables policyowners to get cash out of their policies in excess of the policies' cash value (if any) while they are still alive. Convertible term policies on older insureds that would otherwise lapse are excellent candidates for life settlements.

- **Extended Maturity**

  Many existing policies have an age 85, 90, or 95 maturity date. When a policy matures, the policy cash values could become payable to the owner of the policy and taxes could be due on any gain. If that occurs, the insurance contract will be deemed completed, so that the face amount will not be paid.

  If you live to the maturity of a policy, another issue could arise related to loans. One of the real benefits of universal life policies is the ability to withdraw cash value up to cost basis tax free, then switch to loans, also tax free. However, if a policy matures with an outstanding loan or lapses, any previously untaxed gain that was received will become taxable. Paying income tax at that time could be devastating to a policyowner, as the taxes that are due could significantly exceed the net cash value received from the policy.

  This problem is avoided with some new policies that have no maturity date. They are designed to continue the death benefit as long as the insured lives. At age 100, most charges are discontinued, and any cash value continues to accumulate at the current interest rate. If loans exist, as long as there is a positive cash value, no tax will be due. At death, the net death benefit is paid (i.e., the face amount minus loans and withdrawals).

- **Legislative benefits – pre TAMRA**

  Previously we mentioned that if a contract was issued before June 21, 1988, it might have some tax benefits that are not available with a new policy. If one of these plans is exchanged to a newer plan via a Sec. 1035 exchange, it is quite likely that the new plan will not be a MEC despite the large initial cash dump-in. When cash is transferred from one policy to another and the transaction qualifies under Sec. 1035, the transferred cash value does not generally cause the new policy to be a MEC.

- **Better Mortality**

  Along with dramatic improvements in medical science comes a corresponding increase in life expectancies. Because of this, many new policies have lower mortality expenses than existing policies, sometimes significantly lower.

THE PROCESS

Determine your current needs and purpose for life insurance.

Does the existing amount and type of insurance meet your current requirements?

Discuss your needs and objectives with your agent and complete the **Life Insurance Quick Needs Estimator**

Review and evaluate your current policy(ies) with the **Client Policy Summary, &** **Current Policy Performance Assessment**

Compare the current policies to alternative solutions using the **Policy Comparative Analysis Chart.**

If the existing policy is performing as expected or better and if needs have not changed, no further analysis is needed

Continue to review periodically to be sure policy is on course.

If the existing policy is not performing as expected, or if needs have changed, determine the action required to reach your goals within the existing policy.

If funding needs to be increased to reach your goal, or if the goal has changed, work with your agent to correct the situation within the existing policy.

If appropriate, consider other polices

If appropriate, consider replacement with new policy.

AUTHORIZATION FOR THE AGENT

[Date]

[Insurance Company]
[Street Address]
[City, State Zip Code]

[Re: Policy #]
        [Insured]:
        [Owner]:

Please accept this letter as authorization for the below named individual to be provided with pertinent information regarding the above policy(ies). This information may include copies of my most recent statements as well as inforce ledgers as needed in order to analyze my policy.

(NOTE: Regardless of Authorization, some carriers will send all requested information directly to the policy owner regardless of who has requested the material.)

[Agent Name]
[Street Address]
[City, State Zip Code]

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AUTHORIZATION

I hereby authorize the above-named agent to obtain all information, including any statements and inforce ledgers, that may be needed in order to provide me with a complete current review of the above listed policy(ies).

____   ____________________________
Signature of Insured (required by some carriers)   Date

____
Printed Name of Insured

____   ____________________________
Signature of Policyowner   Date

____
Printed Name of Policyowner

AUTHORIZATION FOR PROVADA

[Date]

[Insurance Company]
[Street Address]
[City, State Zip Code]

[Re: Policy #]
[Insured]:
[Owner]:

Please accept this letter as authorization for Provada Insurance Services, named below, to be provided with pertinent information regarding the above policy(ies). This information may include copies of my most recent statements as well as inforce ledgers as needed in order to analyze my policy.

Provada Insurance Services
101 Montgomery Street, 13th Floor
San Francisco, CA 94104

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AUTHORIZATION

I hereby authorize Provada Insurance Services, named above, to obtain all information, including any statements and inforce ledgers, that may be needed in order to provide me with a complete current review of the above listed policy(ies).

____ ____________________________
Signature of Insured (required by some carriers) Date

____
Printed Name of Insured

____ ____________________________
Signature of Policyowner Date

____
Printed Name of Policyowner