fi360® global fiduciary insights

A Fiduciary Approach to Risk Management / Life Insurance Planning

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Introduction

Basic fiduciary principals include:

- Transparency
- Avoidance or proper management of conflicts of interest
- Full disclosure

Practice SA-3.4

- "A due diligence process is followed in selecting service providers, including the custodian."

Joe Maczuga – Guest Speaker

- 1973 – started insurance and securities industry career; consistent top producer for various financial service organizations
- Transitioned to a fee-engagement for life insurance analysis and design
- Expert witness in matters related to insurance litigation
- Trusted advisor to independent RIAs and Wealth Management firms for outsourcing life insurance issues

In the financial services industry, financial planning advice is offered by various persons in various roles. Conflicts often emerge when the interrelationships between the client and those involved in the planning process are not clearly delineated and disclosed. There are several questions to consider in that regard.

Question:

Of all the services that you provide to the client, which ones require an ‘Agreement of Engagement’ document? And, which ones do not?

- **Constructing a Financial Plan**
- **Providing Comprehensive Financial Planning**
- **Managing Assets**
- **Managing Risk (Life Insurance)**

Definition of Risk Management:

1) To ascertain exposure . . .

2) To analyze impact . . .

3) To recommend options . . .

4) To use insurance . . .

2.1 Risk Identification

- **Current Risk / Future Risk**
- **Real Risk / Perceived Risk**
- **Risk / Wants**

Life Insurance: **A Planning tool for the management of risk . . .**

- **The only vehicle that can provide immediate capital to offset loss (risk)**
- **Must identify what assets are at risk**

Industry lateral direction:

Point A $\longleftarrow$ Point B

Point B:

Concepts & Strategies

Products

Marketing

Commission driven distribution system / channel

Knowledge

Deep skill sets

(Full Disclosure and Transparency)

(Full Horizon of Product Venue)

Solution:

Select the best components from the industry, peel off the negatives, and take full advantage of the positives.

Point A: Client

Current objectives and targets / Current policies / Current net worth, income, tax bracket / etc.

Point B:

Recommendations for Resolve / changes / reductions / increases / shifts / best execution / etc.

Fiduciary lateral direction:

Point A $\longrightarrow$ Point B

Spot

Seek

Select

Solve

Required:

Full Disclosure and Transparency
* Knowledge

Full Horizon of Product Venue
* * Deep skill sets

Concepts & Strategies

Integrity

Integrity transcends compliance.

Compensation should never be the <u>initiative</u> or an <u>obstacle</u> !

Paradigm Shift of Life Insurance Risk & Fiduciary Impact

Traditional Policy Styles: Premium Dependent

- **Term Life**

  Risk – Insuring Company

- **Whole Life**

  Risk – Insuring Company

- **Participating Whole Life – No Term Blends**

  Risk – Insuring Company

  Fiduciary Responsibility – Advisor / Agent

Transitional Policy Style: Dividend Dependent

- **Participating Whole Life - with Term Blends**

  Risk – Shared by Client & Insuring Company

  Fiduciary Responsibility – Advisor / Agent

(The Higher the amount of term blend, the higher the amount of Risk that is shifted to the Client. This also increases the Fiduciary Responsibility of the Advisor/Agent).

Paradigm Shift Continued . . .

Non-Traditional Policy Styles: <u>Cash Value Dependent</u>

- **Universal Life**

  Risk – Client

  Fiduciary Responsibility – Advisor / Agent

- **Variable Life**

  Risk – Client

  Fiduciary Responsibility – Advisor / Agent

- **Indexed Universal Life**

  Risk – Insuring Company

  Fiduciary Responsibility – Advisor / Agent

Non-Traditional *Hybrid* Policy Styles: <u>Premium Dependent</u>

- **No-Lapse Guarantee Universal Life**

  Risk – Insuring Company

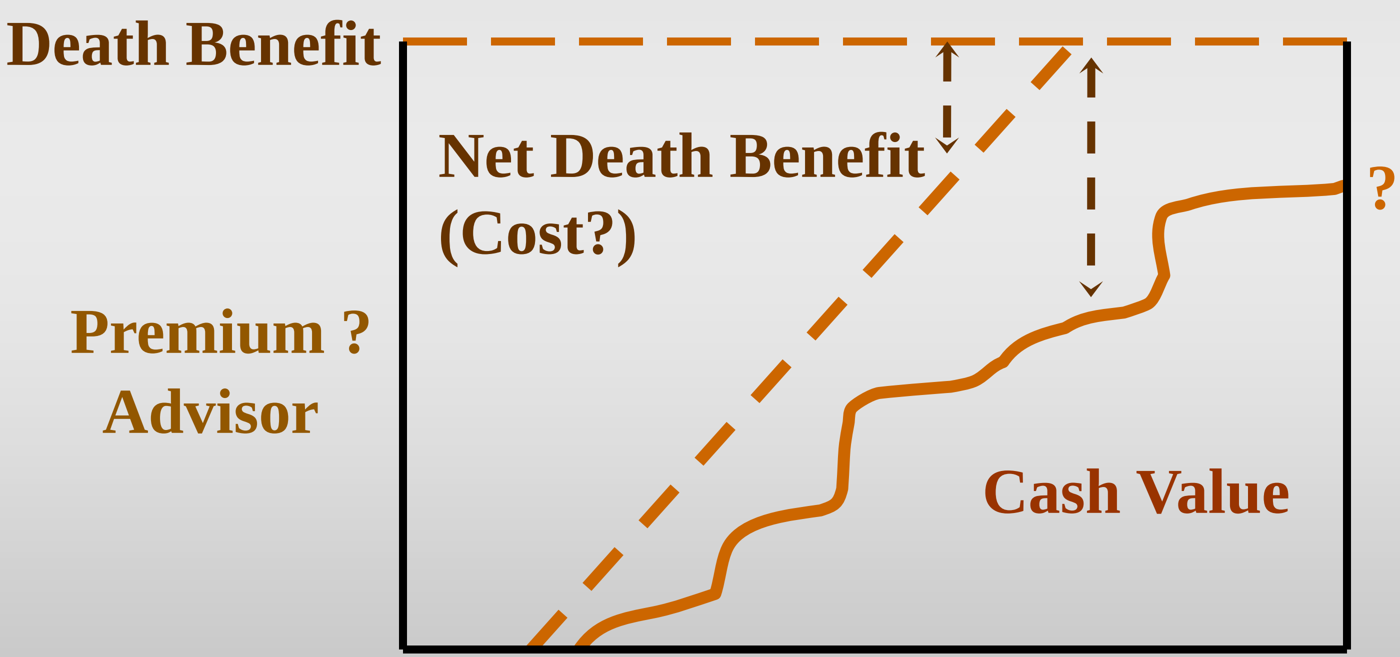
- **No-Lapse Guarantee Variable Life**

  Risk – Insuring Company & Client

Variable Life

<u>Guarantees:</u> Maximum Costs

<u>Non-Guaranteed:</u> Everything else = creating hypothetical projections



Fiduciary Risk Management Through Policy Design

Universal Life & Variable Universal Life

Premium & Cost

Premiums

Policy Costs

Fixed Costs:

Policy Administration (UL) or Maintenance (VUL) Charges >

Variable Costs:

Cost of Insurance (COI’s) >

Premium Taxes >

Mortality & Expense Charge (VUL only) >

Fund Management Fees (VUL only) >

{Insert Your Logo}

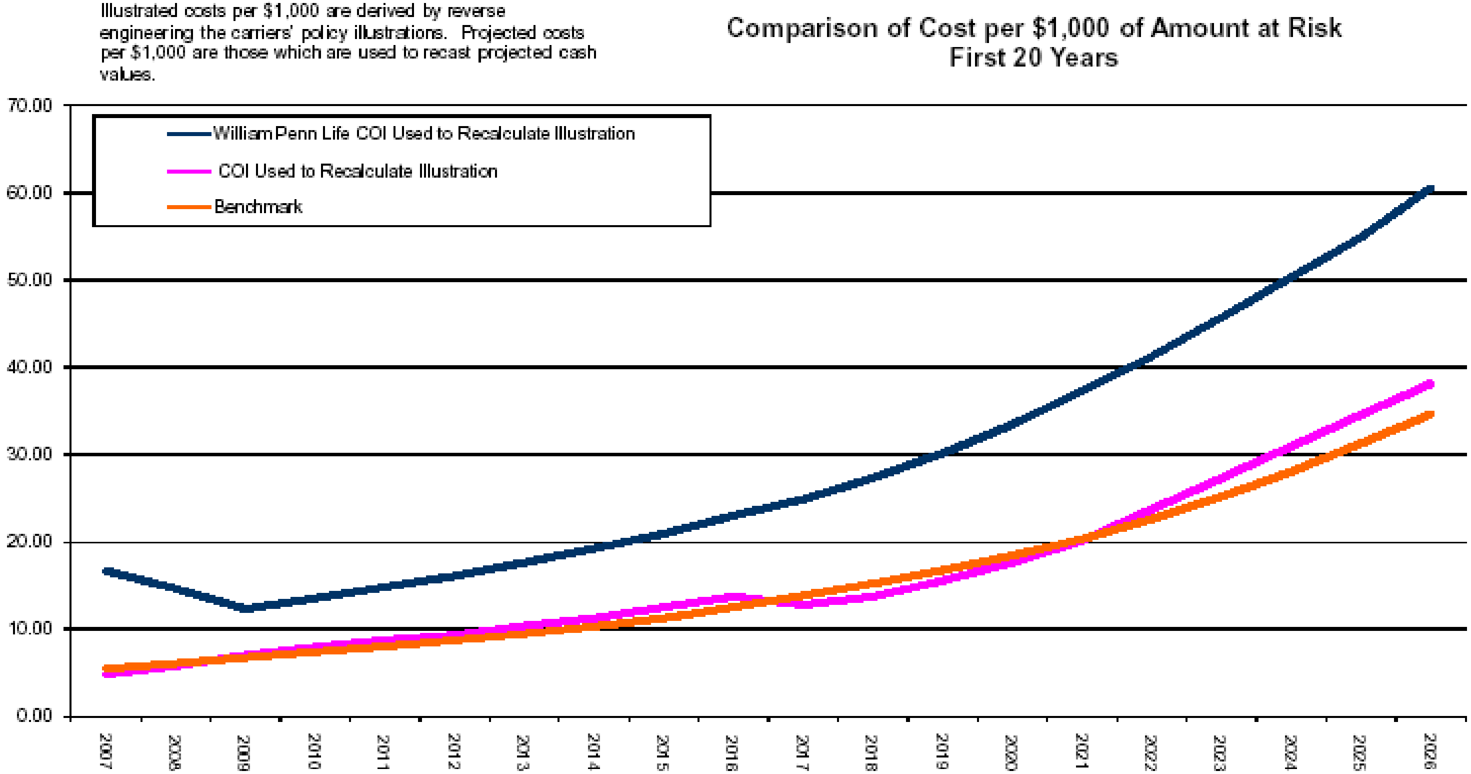
Universal Life Analyzer

powered by financeXpert.com

FEE ADVISORS NETWORK

Client Name
August 31, 2007

Illustrated costs per $1,000 are derived by reverse engineering the carriers' policy illustrations. Projected costs per $1,000 are those which are used to recast projected cash values.



Illustrations:

<u>Sample Case</u>: Male / age 55 / NS / $1 Million policy

Four annual premiums of $60,000 / No additional premiums

Three policy illustrations to review for Projected Cash Values @ age 100:

Policy A: *$13,498,410*

Policy B: *$17,877,813*

Policy C: *$23,303,830*

Based on these projected values, which policy would be recommended?

Using our sample case, we establish a future cash value target to endow at age 100 in order to search out the level premium.

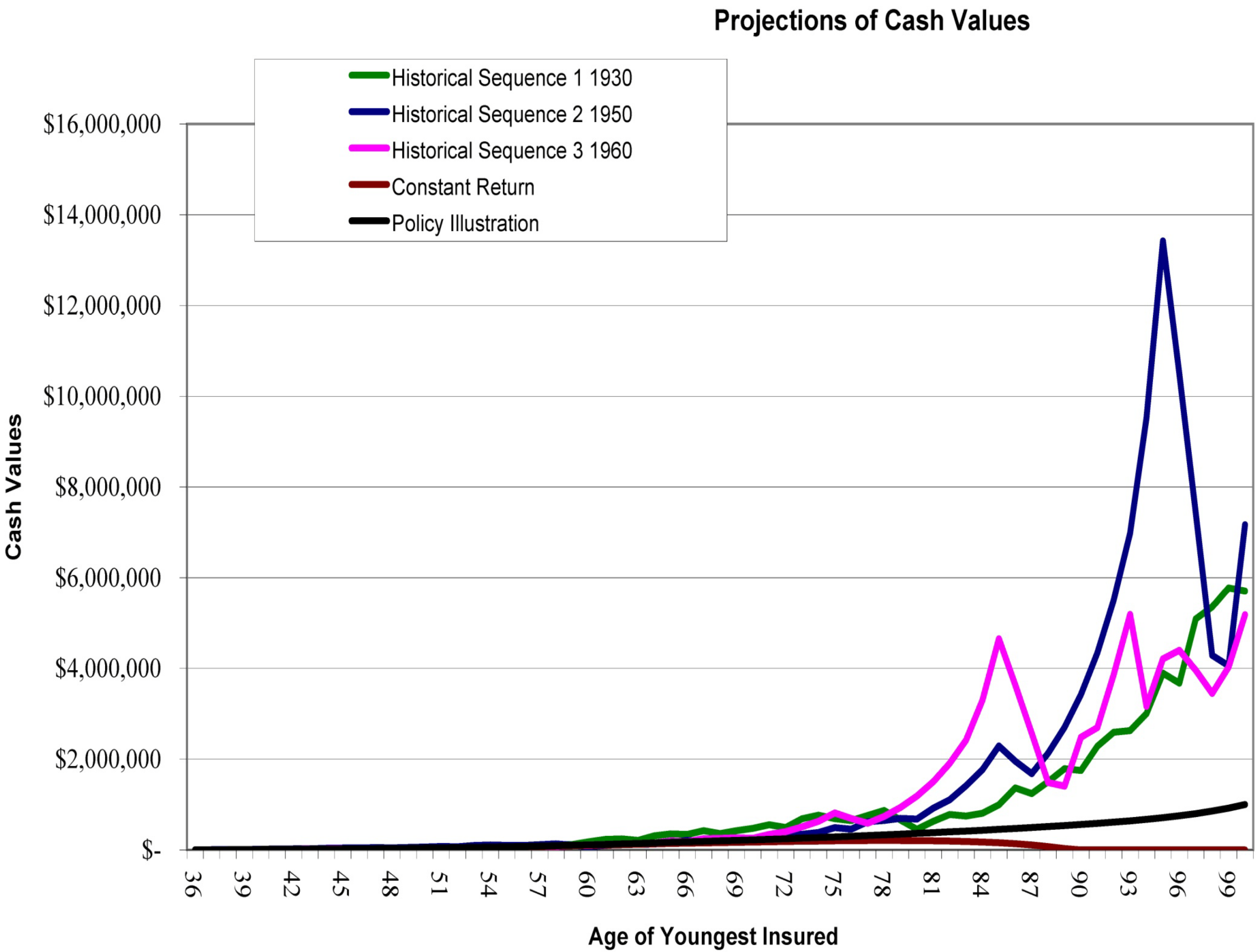
Our result is . . .

Policy A: *$14,942*

Policy B: *$13,234*

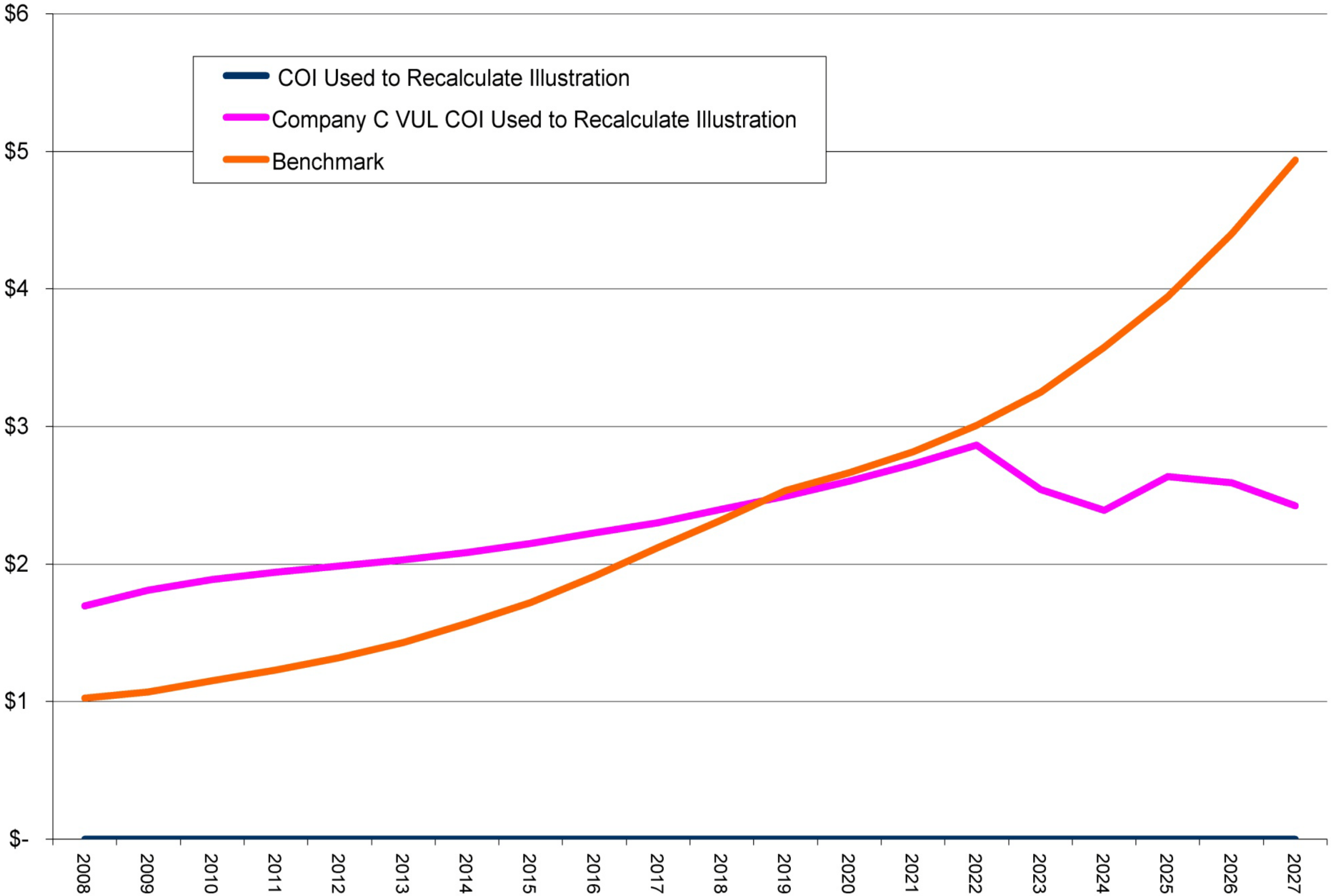
Policy C: *$11,251*

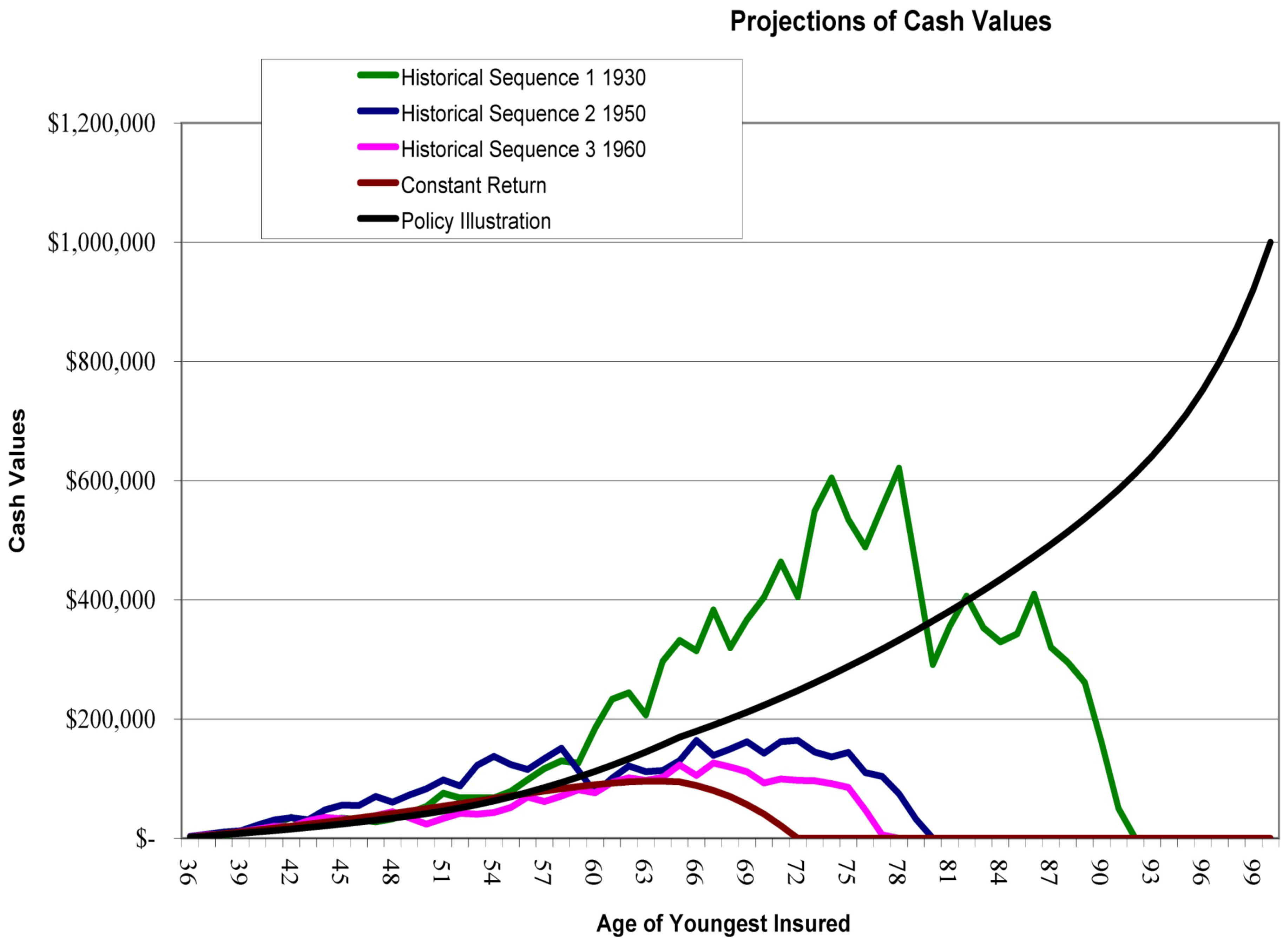
Based on these projected values, which policy would be recommended?


Projections of Cash Values
Historical Sequence 1 1930
Historical Sequence 2 1950
Historical Sequence 3 1960
Constant Return
Policy Illustration
$16,000,000
$14,000,000
$12,000,000
$10,000,000
$8,000,000
$6,000,000
$4,000,000
$2,000,000
$-
Cash Values
36
39
42
45
48
51
54
57
60
63
66
69
72
75
78
81
84
87
90
93
96
99
Age of Youngest Insured

Illustrated costs per $1,000 are derived by reverse engineering the carriers' policy illustrations. Projectec costs per $1,000 are those which are used to recast projected cash values.

Comparison of Cost per $1,000 of Amount at Risk First 20 Years





Projections of Cash Values
Historical Sequence 1 1930
Historical Sequence 2 1950
Historical Sequence 3 1960
Constant Return
Policy Illustration
Cash Values
$1,200,000
$1,000,000
$800,000
$600,000
$400,000
$200,000
$-
36 39 42 45 48 51 54 57 60 63 66 69 72 75 78 81 84 87 90 93 96 99
Age of Youngest Insured

Universal Life with No-Lase / Death Benefit Guarantees (GNLUL)

The no-lapse or guaranteed death benefit universal life (UL) policy is no longer a true UL policy in structure or function, but has shifted from a policy structure that was *cash value dependent* to a policy structure that is *premium dependent* .

Policy Selection and Design

Death Benefit Focus

Asset Accumulation Focus

Blended Focus

Maximum Control and Flexibility

Monitoring Policies

Thank you

- Continuing education credit for the AIF and AIFA designations and CFP® certification will be reported by fi360.
- Visit http://feeadvisorsnetwork.com/ for more information and http://blog.fi360.com for a webinar follow up
- A recording of this webinar will be available soon in the archive: www.fi360.com/webinars
- Email resources@fi360.com for any follow up questions

Announcements

- For upcoming AIF Designation Training opportunities, including July programs in San Francisco, email carl@fi360.com
- Sign up for a 30-day free trial to the recently upgraded fi360 Toolkit for Advisors at www.fi360.com/freeToolkitTrial