

Contents

Foreword xv

Preface xvii

Some Background on the Book xx

Acknowledgments xxi

CHAPTER 1

Introduction 1

CHAPTER 2

**Toward Understanding Life Insurance and the Risk Transfer Paradigm Shift—
Some Life Insurance Basics** 7

The Building Blocks of Life Insurance 7

Life Insurance Pricing 7

Lack of Transparency 9

Life Insurance Pricing and Costs Must Be Viewed Integrated
as a Whole and Not Separately 13

Pricing Assumptions of Life Insurance and Risk Transfer 14

Understanding Mortality Tables and Life Expectancy 16

Mortality Tables 16

Life Expectancy 17

Two Additional Points about Life Expectancy 20

Mathematics of the Cost of “Pure” Term Insurance 20

Characteristics of Term Insurance 20

“Pay as You Go” Life Insurance 22

Mathematics of the Cost of “Pure” Term Insurance 22

Mathematics of “Permanent” Types of Life Insurance—
Part 1: Fixed Guaranteed and Constant Assumptions 23
 Creation of Permanent Life Insurance 23
 Mathematics of Permanent Life Insurance Policies 25

Mathematics of “Permanent” Types of Life Insurance—
Part 2: Constant Assumption versus Reality 27
 Policy Interest or Earnings Crediting 27
 Effect of Rate of Return on Net Amount at Risk
 and Cost of Insurance 32
 Lessons Learned 36

CHAPTER 3

Risks of Life Insurance Policies 39

Background, History, and Perspective on the Risk Transfer 39

Trust-Owned Life Insurance Is an Example of Adverse Risk Transfer
Consequences 41

What Is the Definition of Risk and What Are Life Insurance Policy
Expectations? 42

Carrier Insolvency Risk 43

Purchasing Power Risk 45

Risks by Product Types 47
 Term Insurance 50
 Participating “Par” Whole Life 51
 Universal Life 52
 Variable Universal Life 55
 No-Lapse Guarantee Universal Life 57
 Indexed Universal Life 59
 Blended Base Whole Life with Combination Paid-Up Additions
 and Decreasing Term Insurance Dividend Option and/or Paid-Up
 Additions Rider 62

Product Suitability Risk 64

Diversification Risk 68

CHAPTER 4**Process of Managing Life Insurance Policies 71**

Traditional Investment Management versus Life Insurance Management 71

Life Insurance Policy Management Statement 73

Delegation of Life Insurance Management Duties 73

Best versus Predatory Practices in Life Insurance Trust Management 74

Duration Planning with Universal Life Policies and Using Personalized Life Expectancy Reports 75

CHAPTER 5**Creditable Evaluation of Life Insurance 81**

The Extreme Disconnect 81

Improper Policy Evaluation Methods 82

Monte Carlo Simulation and Actuarially Certified Policy Standards Analysis 82

Creditable Evaluation of Life Insurance in Perspective 87

CHAPTER 6**Practical Questions and Guidelines to Acquiring and Managing Life Insurance to Avoid a Client Crisis 91**

First Things First 91

Planning Horizon and Need for Either a Level, Increasing, or Decreasing Face Amount—The Nature of the Goals, Objectives, and Needs 93

Need for Cash Value Accumulation Considerations 95

Beneficiaries and Policy Ownership 96

Underwriting Considerations	98
Selecting the Appropriate Life Insurance Product Type or Types— Temporary or Term Insurance	100
Selecting the Appropriate Life Insurance Product Type or Types— Permanent Insurance	102
Selecting the Appropriate Life Insurance Carrier	110
Selecting Life Insurance Professionals	112
Ongoing Policy Monitoring, Risk Management, Verification, and Creditable Evaluation	123
Determining the “What Ifs”	127
Life Expectancy	141
Life Insurance Policy Management Statement	141
Summary	142

CHAPTER 7

Conclusion	145
-------------------	------------

About the Author	149
-------------------------	------------

CONTRIBUTED ARTICLES 151

Introduction 151

Format for the Contributed Articles 152

The BOX 153

Guy E. Baker, M.B.A., M.S.F.S., Ph.D., CLU®, ChFC®, CFP®, AEP® (Distinguished)

Introductory Comments by Gary Flotron 153

About Guy E. Baker 153

The BOX 155

What Is Life Insurance? 156

The Key to Understanding Life Insurance 157

Determining the Cost of Insurance 159

How Do You Determine The Cost of Life Insurance? 161

What Does Life Insurance Cost? 162

The Natural Consequences of Aging 163

Introducing The BOX 164

Are There Different BOX Designs? 165

A Quick Summary 167

The Factors That Impact Pricing 168

What Happens If the Assumptions are Incorrect? 168

A Closer Look at the Four Pricing Factors 169

The Dynamics of The BOX 171

How Much Can You Put in The BOX? 172

What is a MEC? 174

Retail Insurance Pricing 174

Putting Money in The BOX 175

Conclusion 177

**Between a Rock and a Hard Place: NAIC Regulators—
Life Insurance Intermediaries—State and Federal Regulators 179**

Ben G. Baldwin, Jr., M.S.F.S., M.S.M., CLU®, ChFC®, CFP®, AEP® (Distinguished)

Introductory Comments by Gary Flotron 179

About Ben G. Baldwin, Jr. 180

Between a Rock and a Hard Place: NAIC Regulators—Life Insurance
Intermediaries—State and Federal Regulators 181

NAIC Regulators Mandate Linear Paper Illustrations Be Used in the Sale
of Life Insurance 181

How You Ask for an Illustration for UL and VUL Policies Is Very
Important 182

Life Insurance Litigation Creates Pressure for New Regulation 183

Credible Life Insurance Advisors Agree—Today’s Regulated
Illustrations Mislead 183

NAIC Life Insurance Illustrations Model Regulation, Section 1 185

State & Federal Regulators and the Courts Can Impose Severe Penalties
for Using NAIC Regulated LI Illustrations 186

Life Insurance Intermediaries Are Between Regulatory Rocks 186

**Buying Life Insurance to Fund Estate Taxes:
Toward a More Objective Decision 189**

Jonathan G. Blattmachr, J.D., AEP® (Distinguished) and Marc A. Pasquale, CPA

Introductory Comments by Gary Flotron 189

About Jonathan G. Blattmachr 190

About Marc A. Pasquale 192

Buying Life Insurance to Fund Estate Taxes: Toward a More Objective
Decision 192

Why Large Policies? 192

Timing of Death 193

Other Factors 194

Buy Term Insurance Instead?	195
Other Limitations	196
Funding Estate Taxes	196
Role of Insurance	197
Type of Policy	197
Policy Comparisons	199
Weighing the Options	199

The Miracle (and Disaster) of Compound Interest— Universal Life Insurance Edition 201

Christopher H. Hause, FSA, MAAA, CLU®

Introductory Comments by Gary Flotron	201
About Christopher H. Hause	202
The Miracle (and Disaster) of Compound Interest—Universal Life Insurance Edition	203
Explanation of “On the Curve”	207
Explanation of “COI Leveraging”	207
“Middling” Universal Life Policy Specifications	208

TOLI Trustee Tread Tactfully 209

Donald O. Jansen, J.D., LL.M., AEP® (Distinguished)

Introductory Comments by Gary Flotron	209
About Donald O. Jansen	210
TOLI Trustee Tread Tactfully	211
The Days of Unmonitored ILIT Policies	211
Advent of Universal and Variable Life Policies	212
Enactment of UPIA	213
Conclusion	214

Adopting A Two-Dimensional Risk Tolerance Assessment Process

The Sorry State Of Risk Tolerance Questionnaires For Financial Advisors 215

Michael E. Kitces, M.S.F.S., M.TAX, CFP®, CLU®, ChFC®, RHU®, REBC®, CASL®

Introductory Comments by Gary Flotron 215

About Michael E. Kitces 218

Adopting A Two-Dimensional Risk Tolerance Assessment Process 219

 Executive Summary 219

 Separating Risk Tolerance From Risk Capacity 220

 Aligning Two-Dimensional Risk Tolerance And Risk Capacity 221

 Assessing Two-Dimensional Risk Tolerance And Risk Capacity
 (Separately) 222

The Sorry State Of Risk Tolerance Questionnaires For Financial
Advisors 226

 Executive Summary 226

 PlanPlus Searches For Global Best Practices In Investment
 Risk Profiling 227

 Breaking Apart the Risk Profile—Tolerance, Capacity,
 and Risk Perception 228

 The Challenge Of Designing Good Risk Profiling Tools
 And Assessments 230

 The Sorry State Of Current Risk Tolerance Questionnaires (RTQs)
 And Risk Profiling Tools 232

 The Future Of (Better) Assessments Of Risk Tolerance 233

When to Hold Life Insurance in Trust; What Type of Trust 235

Martin M. Shenkman, CPA, M.B.A., PFS, J.D., AEP® (Distinguished)

Introductory Comments by Gary Flotron 235

About Martin M. Shenkman 236

When to hold Life Insurance in Trust; What Type of Trust 238

Introduction	238
Trusts Should Still Own Life Insurance	238
Use of Grantor Trusts	239
Life Insurance and Grantor Trusts	240
Burgeoning Use of Non-Grantor Trusts	240
The Insurance Planning Complexity Scale	241
Conclusion	241

**Was Your Client Sold the Most Expensive Life Insurance Policy on the Planet?
High Net Worth (HNW) Access to Institutionally-Priced Life Insurance
for Personal Asset Diversification 243**

Charles M. “Mark” Whitelaw and E. Randolph Whitelaw, AEP® (Distinguished)

Introductory Comments by Gary Flotron	243
About Charles M. “Mark” Whitelaw	247
About E. Randolph Whitelaw	248
Was Your Client Sold the Most Expensive Life Insurance Policy on the Planet?	249
Equivalent Return Disclosure to the S&P 500 Total Return	250
IUL Interest Bonus/Return Enhancements	251
Applying AG 49 Principles to Consumer Planning Assumptions	251
MA-200—200 Day Moving Average management.	252
Best Interest	252
What’s Coming Down The Pipe?	254
High Net Worth (HNW) Access to Institutionally-Priced Life Insurance for Personal Asset Diversification	255
Overview	255
Evolution of the ILI Value Proposition	256

Agents/Advisors Can Finally Address Structural Suitability 257

Investment Container Comparison 258

Different Perspective of Dispute Defensible and Exposures 261

Conclusion 261

**The Lapsing Life Insurance Policy Crisis—The Need for Dispute Defensible
Advisor Practices And A Glidepath to Safety, Especially for Seniors 263**

E. Randolph Whitelaw, AEP® (Distinguished), and George P. Whitelaw

Introductory Comments by Gary Flotron 263

About E. Randolph Whitelaw 264

About George P. Whitelaw 266

The Lapsing Life Insurance Policy Crisis—The Need for Dispute
Defensible Advisor Practices And A Glidepath to Safety, Especially for
Seniors 266

How Could This Happen? 266

What is The Purpose of This Article? To Provide Practical Advice and
Explain the Obligations of the Parties. 267

What is “Illustration Abuse”? 269

Why is there a Lapsing Policy Crisis? 269

What is Actuarially Defensible Policy Evaluation? 271

The History of Flexible Premium Non-Guaranteed Policies (aka The Buy
Term and Invest the Difference Transition) 271

Life Insurance Distribution Channels 272

Policy Performance Review and Risk Management Process 273

Actuarial Evaluation (AE) Reports 274

New Department of Labor Guidelines 276

Conclusion 276

Index 279