



Life Insurance Portfolio Audit – Are You Sure You’re Sure?

When was the last time you advised your client to review their existing life insurance policies? Or for that matter, had your own policies reviewed? Just like the foundation of a house can develop cracks over time, outdated or under-performing policies that no longer serve the purpose they were originally intended for become cracks in an otherwise solid and well thought out Estate Plan. Periodic reviews of your client’s insurance portfolio should be a part of the overall maintenance of their Estate Plan.

Need more convincing? Did you know that 70% of existing life insurance policies are inappropriate for current circumstances and/or are underperforming? Are you sure that your clients fall into the 30% no-issues bucket? If you are not sure, here are some things a proper policy audit will discover.

Life changes; children are born, beneficiaries pass away, marriages dissolve in divorce, and partnerships expand or contract. As your life situation changes over the years, so does your insurance needs. A policy review can ensure that your client’s premium payments are purchasing insurance for its intended purpose. Policies may be owned “incorrectly” which could trigger significant adverse estate tax consequences resulting in the payment of thousands of dollars of unnecessary and unintended taxes.

Older policies, those in effect for more than 10 years, may no longer be performing as originally expected. Why? Good question! With each passing year, new advances in medicine result in increases in life expectancy and make more manageable certain illnesses. An older policy’s premium is based on mortality tables that were in effect at the time the policy was issued. Generally, over the last few decades, there has been a significant decrease in mortality costs based on the revised (increased) life expectancies. A proper policy review may determine that your client, if they have had no significant degradation in their health, may be able to purchase similar coverage at a reduced cost, or increased coverage at the same cost. Furthermore, today’s policies offer more options through riders to their life insurance policy to also protect themselves with coverage for Long Term Care, Chronic Illness, and Disability. These options weren’t readily available as little as 10 years ago.

Other issues that may turn up in a policy audit include the risk that a policy is underperforming from its original projection due to the current low interest rate environment. This could be eating into the policies cash balance or worse require additional premium dollars to keep the policy from lapsing.

We consider a periodic review of policies a best practice every trusted advisor should undertake for their clients. In a future issue, we will discuss fiduciary responsibility of Trustees of a Life Insurance Trust.

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