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# Voices How to prevent a client's life insurance policy from expiring prematurely

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I recently met a senior partner at a small CPA firm who was adamant about letting me know he never gets involved with a client's life insurance, almost as if it were taboo to do so. I say to him and to others of a similar mindset: Since you are your client's most trusted advisor and meet with your client at least once a year, you are in the best position to alert your client to the actions they need to take to prevent their life insurance from expiring years earlier than anticipated.

For those who purchased a life insurance policy between 1983 and 2003, there's a 45 percent chance they purchased a "flexible premium/universal life" policy. Unlike its more expensive predecessor, "whole life insurance," flexible premium life insurance was not guaranteed to last for the rest of one's life.

Today approximately 23 percent of these policies are expiring prematurely due to reduced, sustained interest rates and neglect on the part of the amateur trustee. Usually a client's eldest son or daughter who wasn't aware that life insurance needed to be actively managed just like any other stock, bond or real estate portfolio. The American Bar Association referenced this situation in a Flagship book it published earlier this year, "The Life Insurance Policy Crisis."

A recent Harris poll found that 65 percent of the insurance-buying population mistakenly thought the price initially established with an insurer for a universal life policy was set in stone and would last for the insured's entire life. However, 70 percent of this group hasn't reviewed the performance of their life insurance portfolio, including their expiring term policies, for more than 12 years. Lastly, over 90 percent of the trustees of all irrevocable life insurance trusts and special needs trusts are managed by the insured's eldest son or daughter acting as the "amateur trustee," often to avoid paying a fee to an institutional trustee. While these amateur trustees may be well intentioned, they rarely if ever have the skills or knowledge to do what's in their beneficiary's best interest, primarily because no one is advising them what needs to be done.

To make matters worse, many insurers are now exercising their contractual right to increase the internal cost of insurance, or COI, further exacerbating an already deteriorating situation for many insureds and their beneficiaries.

Why haven't CPAs focused on this insidious growing problem that can so adversely affect the families and businesses they've been protecting for years? Why do many choose to draw the line at providing guidance concerning a client's life insurance portfolio, when their values exceed upwards of 40 to 50+ percent of a client's net worth?

There are many reasons why accountants have decided against including the subject of life insurance when counseling their clients about various financial matters.

Perhaps it's the complexities and unique workings of a product many CPAs may not fully understand nor have the resources in place to refer a client to. Perhaps many accountants are under the misimpression that the agent or broker who sold their client a life insurance policy, or the insurance company itself, was monitoring the policy to make certain it would remain in force. However, that's not the case. The agent is contracted with and obligated to the insurance company, not the insured. It's the agent's or broker's job to merely market and deliver the insurance policy to customers. It's the insurance company's responsibility to merely provide coverage and an annual statement, not to manage the policy. Putting that aside, the insurer benefits significantly when a policy lapses, as it can keep the premiums and never have to pay a death claim.

It's the responsibility of the insured, owner or trustee to manage the performance of their life insurance policy, but most aren't aware there is an underfunding problem or an expiring term life insurance policy that requires attention. That's where a client's CPA can advise that the sooner a problem is discovered and addressed, the more options the client will have available, and the less costly it will be to fix the problem.

The accountant should first determine if the client's policy is a non-guaranteed flexible premium universal policy, and if so suggest the client retain a trusted independent insurance consultant or their former agent or broker to order and review the policy's "historic projection" to determine how much longer the current contract will remain in force based on the current and past premiums paid. They can then determine how much in additional premiums will be necessary to keep the policy in force for the duration desired.

There are three variables attributable to any universal policy: death benefit, premium and duration. Below are several alternatives to obtain the desired effect using a combination of options:

1. Clients can pay a higher premium to keep the same death benefit in force for a longer duration.

2. Clients can reduce the death benefit to maintain the same premium to keep the coverage in force to a specified time period.

3. Depending on the clients' health, they can purchase a new policy, with various updated benefits as well as the ability to extend their guarantees until a later date.

4. If over age 70, they may be able to sell their life insurance policy as a life settlement in which case they may receive more than if the policy was merely surrendered for its cash value

5. An arbitrage strategy, where all or part of an existing life policy is sold in conjunction with the purchase of an additional life policy, at a reduced cost.

For more information, see this article in the August 2017 New York State Society of CPAs' Tax Stringer publication.

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