

## DEALER BUSINESS BRIEFING

Best practices for dealerships CFOs, Controllers and Office Managers

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## NEWS YOU CAN USE

*Dates to save, trends to watch*

**New fax rules.** Amended facsimile advertising rules became effective on Aug. 1. The new rules codify an established business relationship (EBR) exemption to the prohibition of sending unsolicited fax ads and provide a definition of EBR. Senders are required to provide a specified notice and contact info on faxes allowing recipients to "opt out" of future fax transmissions. To learn more, go to [www.fcc.gov/cgb/policy/](http://www.fcc.gov/cgb/policy/).

**Revised registry fees.** As of Sept. 1, the annual fee for each area code of data accessed for the National Do Not Call Registry will be \$62; telemarketers can still obtain the first five area codes of data for free. Telemarketers – who are required to renew their subscriptions to the National Do Not Call Registry once a year and "scrub" call lists once every 31 days – can visit [telemarketing.donotcall.gov](http://telemarketing.donotcall.gov) to see when their subscription account numbers (SANs) expire and to get renewal instructions.

**E-filing mandate.** Pension and employee benefit plans must file Form 5500 Annual Return/Report of Employee Benefit Plan electronically beginning with 2008 plan year filings due in 2009, says the U.S. Department of Labor's Employee Benefits Security Administration (EBSA) recently announced.

**New record.** Japanese automakers produced more cars abroad than at home last year.

*Life insurance's little-known secrets***Don't pay another life insurance premium until you read this article!**

Learn about the tool every dealer should be using to monitor policy performance, plus other policy pointers.

**Y**ou've been paying your life insurance premiums for years, never missed a payment, and it's easy to sleep nights because you think you've got the coverage you need. But unless you've been keeping an eye on the performance of your policy assets, you may be in for your scariest nightmare.

Your life insurance policy could be running out of cash despite your faithful premium payments. Without adequate funding, that policy could soon lapse – and at that point it could be too late for you to do anything about it.

"If you ignore your policies, you can pretty much bet you're going to have a problem," says Tony Freeman, president of Premium Advisors LLC, a fee-based life insurance advisory firm in Chicago. Mr. Freeman has just spent nearly a year helping an auto dealer who unexpectedly found himself in such a dilemma get back on track.

Sixteen years ago, the dealer took out a \$20 million Second to Die life insurance policy through a major life insurance company for him and his wife, now both in their mid 70s. Like many dealers, he had taken out the policy – which sported a

\$95,000 annual premium – largely to pay estate taxes.

When the dealer changed attorneys in 2005, the new law firm reviewed his insurance coverage. "Much to everyone's chagrin it found that over the years the policy had been falling further and further behind in its funding requirements – but the dealer had continued to pay his premiums each and every year," Mr. Freeman tells us.

The policy would've lapsed in eight or nine more years because it didn't have funding. At that point, the dealer would be over 80 years old and would have a hard time getting a new policy. "If he had been monitoring his policy's performance every couple of years, he would've realized he'd have to boost his premiums," he says.

Monitoring is easy with an inforce ledger, the tool that helped the dealer's attorney uncover his client's problems. Just a couple of pages long, it looks like a typical proposal but starts in the current year, says Mr. Freeman. "It shows what will happen from this point on based on what has already happened...Based on this dealer's inforce ledger, everyone became

*see Life insurance on page 2*

*Life insurance continued from page 1*

extremely alarmed,” he says. He suggests contacting your insurance company every year or two to request this easy-to-get but seldom-requested document.

## Fighting back

What happens when an inforce ledger raises a red flag? In this case, the dealer’s attorney immediately contacted the insurer and asked how much his client would have to contribute to the policy to make sure he was covered until at least age 95. Everything would be just fine, said the insurer – if the dealer increased his premium from \$95,000 to at least \$585,000 a year, says Mr. Freeman. The dealer didn’t want to spend this kind of money. When his attorney tried to discuss a better solution with the insurer, he was basically told this was a take-it-or-leave-it proposition.

The dealer’s insurance agent, an independent broker who originally sold him the policy, also made an attempt to figure out a less costly way to continue the coverage and came up empty handed. The agent went out into the marketplace while the dealer recruited a second agent to explore more options.

The agents drew in a total five insurance companies to bid on the dealer’s coverage, says Mr. Freeman, and each insurer went to the shrinking reinsurance market to try to get reinsurers to share the risk. The reinsurers wondered why there was so much activity concerning this dealer and when it became apparent that the agents were shopping his coverage all over town, the reinsurers started retracting some offers. The agents couldn’t get an absolute offer from anyone, says Mr. Freeman, who was called in at this point.

Mr. Freeman performed a due diligence study and asked why the

## Life insurance lifesavers

- ◆ Request an inforce ledger at least every two years from your insurer. This simple document, about two pages long, comes with an instruction sheet. For an illustrated example, click on “Free Stuff” on the DealersEdge homepage.
- ◆ Pick an insurance company, agent, or independent consultant you want to work with and think you can trust. They shouldn’t go to the reinsurance market until they’re ready or it could backfire (see accompanying story). “Don’t just turn this over to the guy you met at church who sells \$1 million to \$5 million policies. You need someone who has been through this before,” says life insurance consultant Tony Freeman.
- ◆ Renegotiate your current situation before looking to jump ship. “There’s always a way to save money on any existing program if you know what to look for,” says Mr. Freeman. However, “99% of agents who want to save you money will move you from A to B because they get paid on commission.”
- ◆ Look for a guaranteed no lapse policy. Go to “Free Stuff” at [www.dealersedge.com](http://www.dealersedge.com) to see a sample policy with typical wording.

Source: Tony Freeman, Premium Advisors LLC

dealer didn’t go back to the original insurer. The fact that the attorney and agents had been turned down didn’t discourage him from trying – this time with someone from the insurance company’s business retention team.

“The policy had almost \$1.5 million in cash surrender value. If another insurance company took over, the insurer would have to cash in assets to transfer the \$1.5 million to the new company,” says Mr. Freeman. The business retention department, whose job is to hold onto clients to avoid such transactions, was glad to renegotiate with him, he says.

Mr. Freeman helped the dealer obtain a new \$20 million policy with the original insurer at a substantial savings without taking a new insurance exam. The premium is \$119,000 a year, but the policy won’t lapse until the dealer’s 96<sup>th</sup> birthday. “We wanted to make sure the client’s family always has ample cash to pay the estate taxes” he said. He also showed the dealer how to take advantage of a seldom used technique that provided a \$250,000 discount on the purchase.

It took nearly a year to set everything up, says Mr. Freeman. “It was the toughest situation I’ve ever worked with in my life. A tremendous amount of time was spent negotiating the terms of the new policy and elimination of most of the underwriting requirements with the insurer and the reinsurers.”

Mr. Freeman made sure to get everything in writing – including the stipulation that the dealer’s policy will remain in force even if the insurance company’s investments don’t perform. Although insurers call these policies by different names, they’re generically referred to as guaranteed no lapse policies, he says. ◆

*Premium Advisors, which provides independent second opinions, gets more than 95 percent of its business from auto dealers. Mr. Freeman can be reached at 312-807-3700 or [tony@pa-llc.com](mailto:tony@pa-llc.com).*