

HOW TO REDUCE DEALERS' PREMIUMS ON EXISTING LIFE INSURANCE POLICIES ... A SERVICE YOUR DEALER CAN USE

By Anthony A. Freeman

Most individuals, businesses and trusts pay a substantial amount each year to maintain their life insurance coverage. So what options are available when it becomes necessary to reduce the annual premiums? Traditionally an agent or broker would suggest moving the coverage to another company or reducing the death benefit. The *Life Insurance Expense Reduction Analysis* reduces the cost of maintaining existing life insurance without policy replacement or decreased financial protection. This cost reduction technique provides three advantages.

- There is no need to apply for a new policy from a different carrier or change agents.
- The premium reduction does not result in the assessment of surrender charges that may occur when an existing policy is terminated.
- The premium reduction can normally be accomplished regardless of the insured's age or medical history.

Why are life insurance companies willing to reduce premiums?

Life insurance companies require sufficient income from both premiums and investments to meet their contractual obligations to their policy holders. Unfortunately during the last 15 to 20 years their return on investments have been much lower than expected, which has resulted in the need to maintain their current cash flow from premium payments. The pressure to maintain cash flow has led insurance carriers to be more willing to negotiate premium reductions.

Additional savings can be provided on new policies

The *Dealers Participation Program*, introduced at the 1999 AICPA National Auto Dealership Conference, enables the dealer and his/her key employees to purchase personal, estate planning and corporate owned life insurance themselves, without an agent. The use of this proprietary program permits the dealership to sell the insurance and receive all commissions, bonuses and renewals.

How successful has the technique been?

Over 90% of the clients that have utilized this service have experienced a reduction in the cost of maintaining their existing life insurance coverage. Those savings can be expected to continue for the life of the policy.

Recently completed projects

The Proposal Review. A 61-year-old dealer needed \$10 million of personal life insurance. He had taken the required medical exam when his accounting firm called Premium Advisors to review the agent's proposal. The resulting analysis revealed the proposed premium of \$110,000 misrepresented the true cost of providing the coverage. Premium Advisors requested a re-proposal, which showed the actual premium to be \$197,000, nearly twice the amount quoted by the agent. The client canceled his application and retained Premium Advisors to design a new program which resulted in a \$78,000 annual savings.

Negotiation Strategies. An agent recently replaced an existing \$5 million life insurance policy with a new \$5 million "investment grade" policy. Both policies required the same annual premium of \$132,000. The dealer incurred a loss of \$110,000 in surrender charges to terminate the original policy. Premium Advisors reviewed the transaction and recommended the reinstatement of the original policy to recover the lost \$110,000 and then negotiated a new, more cost effective policy with the original insurance carrier. This approach reduced the annual premium to \$73,640, for an annual savings of 58,360.

Beware of strangers bearing gifts

With fewer life insurance policies being sold nationwide, insurance agents are looking for new ways to drum up business at your expense. One of the latest marketing techniques is the buying and selling of existing insurance policies, but the practice could have significant privacy and identity theft ramifications.

For example, let's say a father turns the family business over to his son, and son decides to carry on the old life insurance policy...until someone suggests he can sell Dad's policy and use the proceeds of the sale to buy a new, less expensive policy. Sounds like a deal, doesn't it? The problem is, there is some question about whether it is even legal to buy and sell policies like it's just another commodity. And even if it is legal, consider this: who is it that is buying these policies? When you sell a policy, that means that there is some stranger out there who is essentially waiting for you to die.

Beyond that creepy thought, however, there are very real privacy and identity theft issues at stake. When you sell a life insurance policy, you are asked for a lot of information (Social Security Number, Driver's license number)... all the information a would-be thief needs to steal your identity. How can you be sure where that information is ending up and how it will be used?

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