

FINANCIAL PLANNING

Restructuring Insurance Policies Offer Huge Savings

By Anthony Freeman

Cost savings is like candy for CFOs, CPAs and their clients. Yet one of the easiest ways to save a client or company money is often overlooked: Restructuring existing life insurance policies.

Whether the policy is for an individual client or for a company's executive compensation plan, most insurance agents will steer you toward replacing these policies when restructuring can actually accrue greater cost savings.

Why? Because from the agent's point of view, there's money to be made in replacing a policy, but no incentive for restructuring an existing policy.

It's the classic *churn and burn*. An agent knows he can always find a less expensive policy through a different provider. By switching you to a new policy from a new provider, the agent can earn new commissions that would not otherwise be available to him if you simply opt to restructure the existing policy.

And more often than not, an independent, third-party analysis of the existing policy will find a variety of ways to restructure that policy to save real dollars, while protecting the coverage amount and avoiding the need to switch providers or agents. This means there's no need to get a medical exam, and the insured can be any age.

Among the things a life insurance policy analysis should look for: whether the right type of policy was purchased in the first place; how the premiums are paid; and if the policy includes benefits that either aren't needed or can't be used. For example, some policies enable the policy owner to reduce or eliminate the "build-up" of cash within the policy and can save the owner a substantial amount of money over the life of a policy. In other cases, a policy that might have made sense five years ago simply doesn't meet today's needs.

Additionally, changes in tax codes, or even in the insurance providers' own policies and procedures, may offer more opportunities for savings; a good reason to suggest that life insurance policies be reviewed periodically.

A Real-Life Example

Consider the amount that can be saved. A 61-year-old business owner needed \$10 million of personal life insurance. He had taken the required medical exam when his CPA firm called for a third-party review of the proposal. The analysis revealed the proposed premium of \$110,000 misrepresented the true cost of providing the coverage. A reexamination of the proposal was requested, and it showed the premium to be \$197,000, nearly twice the amount quoted by the agent. The client canceled his application and a new program was designed, which resulted in a \$78,000 *annual* savings, an amount that exceeded the annual fee charged by the CPA firm. You better believe that business owner was very pleased with the results.

Individuals and businesses alike are operating on razor-thin margins in today's competitive environment. CPAs, CFOs and controllers can become the client's or the company's hero simply by recommending an objective analysis of the existing life insurance coverage by an independent third party.

The best part about this? You can tell them it won't cost them a dime.

About the Author

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