Shaking Up Sales Concepts in 2015

BY AMY BELL

In the wake of estate tax changes and record low interest rates, the life insurance industry gets creative.

If the life insurance industry had to choose a theme song for 2014 and 2015, it would likely be Bob Dylan's "The Times They Are A-Changin." Thanks to continued downward pressure on interest rates and changes to estate tax law, carriers, BGAs, and advisors are being forced to adapt, evolve, and innovate.

Keep reading to learn how these tectonic shifts are impacting the life insurance business and discover which emerging sales concepts are proving to be successful in these tumultuous times.

Rock-Bottom Interest Rates

In recent years, consistently low interest rates have had a major impact on the life insurance industry. Unfortunately, experts do not predict any major interest rate increases in the near future. In October 2014, the Federal Reserve Chair forecasted the first potential rate increase will take place in the spring of 2015—but that boost depends on the strength of the economy. If inflation levels remain weak (below 2 percent), the Federal Reserve will continue to keep interest rates low.

Joe Ross, ChFC, CLU, CRC, Vice President of Sales Productivity and Business Development with AIG, says low interest rates are continuing to squeeze insurance company profit margins. "Insurance companies are reluctant to accept very much single-premium business because we don't have places to invest the excess premiums to generate enviable investment returns," he explains. He points out that insurance companies are under significant pressure to increase premiums, especially on guaranteed death benefit universal life policies.

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"There is no doubt that the low rates have depressed sales for accumulation purposes thus driving a lot of our attention over to the protection side, using GUL products," says Brad Gordon, CLU, ChFC, President of MAF Companies, Inc.

Ross notes that there continues to be a transition away from interest-rate-driven Universal Life in favor of Indexed UL. As a result, life insurance premiums are on the rise for the first time in recent memory. "Because many buyers now own guaranteed universal life policies with very little cash value, 1035 exchanges are also slowing down," he adds. "This trend will make it more and more challenging for life insurance agents to keep their sales volume at previous levels. In fact, life insurance company statistics are indicating that many companies are selling markedly less life insurance year-over-year."

However, the news is not all bad. Ben Nevejans, Chief Marketing Officer, LifePro Financial Services, says this challenging climate is inciting carriers to create innovative life insurance solutions. "In today's harsh interest rate and market environment, life insurance and annuity manufacturers have been forced to build contracts that will perform under extreme economic pressures," he says. "Once the economic storm passes, the products of today will not only be left standing, they will thrive while far exceeding consumer expectation."

Estate Tax Obstacles

In addition to low interest rates, life insurance professionals are also grappling with significant changes to the estate tax law. "The increases in the estate tax exclusion limits were so significant, and over such a short period of time, that millions of Americans in the net-worth range of $2 to $10 million may have previously positioned a survivorship life insurance policy inside of irrevocable life insurance trusts (ILIT) to pay estate taxes," Ross explains. "However, their estate tax liability is now essentially gone."

Ross explains that these clients' policies are now "trapped" inside of the ILIT. "Clients face a new dilemma: Do I continue to pay the premiums? That entails continued usurping of my annual gift exclusions, requires ongoing Crummey notices to my children, and requires ongoing trust administrative expenses. Or do I stop paying premiums? Then what happens? The policy lapses? Is that the best thing? Can I get it out of the trust? What happens to the trust? Is there any liability?"

While the increased estate tax exclusion limits have created significant estate tax savings to investors in the $2 to $10 million range, Ross says the changes have caused major headaches for clients who did ILIT planning in prior years. "The word 'irrevocable' has come back to haunt many," he says.

Of course, this in turn is having a major impact on life insurance advisors. Life insurance revenues generated by positioning life insurance policies in ILITs has essentially "dried up," Ross says. "Advisors that have made their primary living doing estate tax planning with life insurance in ILITs need to reinvent themselves to find new strategies where life insurance can provide financial solutions for their clients," he emphasizes.

Emerging Sales Concepts

There is no question that continually low interest rates and changes to the estate tax law have sent shockwaves through the life insurance industry. However, as the old saying goes, challenge begets opportunity. In the wake of these major shifts, many life insurance professionals are tapping into creative new sales concepts to grow their business, including the following:

Cash Value Life Insurance

According to Ross, there's been a resurgence of ideas around cash value life insurance, particularly Indexed UL—especially in the more sophisticated strategies such as split-dollar and premium financing. "Also, many Indexed UL policies emphasize their ability to leverage their distributions by using Variable Rate Loan strategies," he explains. "In these strategies, the possibility for upside potential exists if the Indexed earnings are greater than the loan costs. However, like any form of leverage, buyers need to be aware that it works against them if the indexed earnings are lower than the loan interest rates."

Many advisors are pointing out to clients that if they purchase cash-value UL instead of guaranteed UL, the client has options to make 1035 exchanges in the future. "Without that cash value, the buyers' options become more challenging," Ross points out. "The cash value can dramatically reduce the required premiums on policies purchased in the future, whereas an exchange of a policy that had no cash value means the insured will have a higher premium on the new policy they purchase, simply due to advancing age."

Living Benefits

Carriers are also seeing growing demand for living benefit riders, which give the policy owner the opportunity to access the death benefits prior to their death. "The most common living benefit riders are long-term-care and chronic illness riders that allow access to the death benefit in the event of severe cognitive impairment or inability to perform activities of daily living," Ross explains. "Living Benefits are becoming a significant aspect of life insurance design. Life insurance buyers are shifting to a belief that they don't want life insurance that **only** pays a benefit to beneficiaries **after** the insured dies. Their sentiment is, 'If I'm going to pay this much into this policy, I want to get something out of it before I die.'" To offer clients this option, Ross says insurers are getting creative with their new policy designs, offering features like guaranteed ability to access death benefits and guaranteed lifetime income streams from cash value UL policies.

"We have had success with linked benefits as well as living benefit ideas such as put forward by AIG with their campaign of 'Die too soon; Live too long; Get sick along the way,'" says Gordon. In this campaign, AIG promotes universal life as a solution to help clients protect assets from these three common post-retirement risks. The life insurance policy protects clients if they die too soon with the death benefit; if they get sick along the way with the chronic illness rider; and if they live too long with "longevity insurance."

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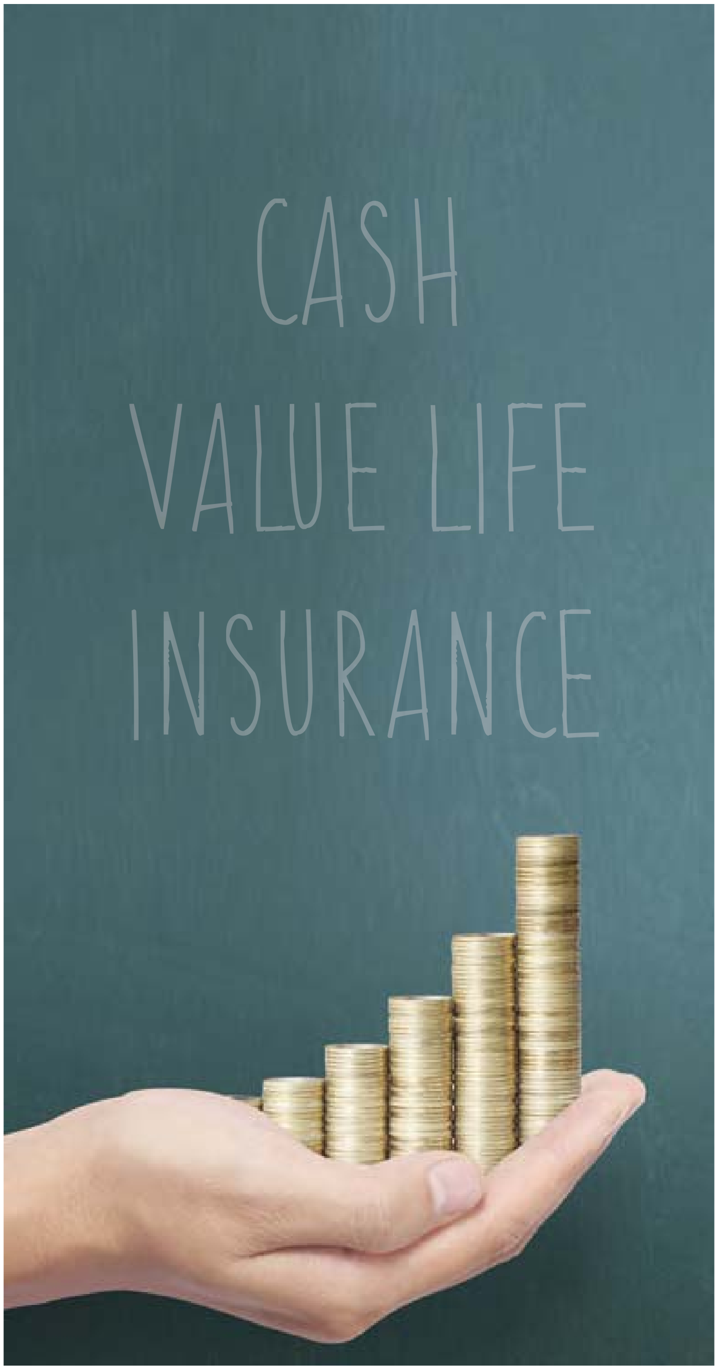

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With this unique "longevity insurance" feature, if the client reaches the age of 85 and has not used their chronic illness benefit, he or she can spend 10 percent of their policy's death benefit each year until the entire death benefit is gone. "This level of liquidity is a remarkable change, and has the ability to revolutionize the way life insurance is sold going forward," Ross says.

Accumulation Products

Gordon says his agency also continues to work with "Life Income Strategy" (LIS) for deferred compensation cases. "We offset the concern for low returns by max-funding an indexed UL with strong down side," he explains. "The beauty of LIS is the use of immediate liquidity to counter the concern in Section 162 Bonuses that the employee has a tax to pay. We have the insurance company pay the tax through a loan against the death benefit, which allows the full premium to earn the indexed return."

Life Insurance as IRA Value Preservation

According to Ross, the rising estate tax exclusion limits effectively reduce estate taxes to the decedent investor's estate but eliminates a significant income tax deduction to the beneficiaries. "As a consequence, when an investor owns a significant IRA, they save significantly on the estate taxes attributable to that IRA," he says. "However, the IRA beneficiaries give nearly half of the estate tax savings back to the IRS in the form of increased income taxes due to the lost deduction."

Additionally, for clients who take only their required minimum distribution (RMDs) from their IRA, more than 90 percent of their IRA value will likely be taxed to their children—and at a rate higher than the rate used when the investor initially made the contribution. "This means the entire concept of tax-deductible tax-deferral backfires for these investors," Ross explains. "If they knew the taxes on distribution would exceed the deduction on the contribution, they would never have contributed in the first place."

Ross points out that advisors who understand these issues can help their clients use life insurance to restore and preserve IRA values for their beneficiaries. "This is one way that planners are reinventing themselves in the face of the reduced estate-tax-planning market," he explains. "This is a great opportunity for investors worth between $2 and $10 million that own significant IRAs for which they only plan to take out RMDs."