Under Control

Five experts discuss how annual reviews can realign clients' insurance portfolios...and calm their nerves.

by Ron Panko

Annual reviews of clients' insurance portfolios may seem like a formality, but they may be even more important following a year and a half of economic upheaval.

For clients, the reviews can help them take inventory of what coverages they have, how well their policies are performing and whether an objective, professional assessment can lead to improvements. According to the five insurance professionals featured in the following pages, the recession has prompted many clients, for example, to ask about ways to cut insurance costs.

For professionals, this has been a time to empathize with clients and to show what they can do to improve their clients' situations. Sometimes a review can uncover important gaps or deficiencies.

"It's what clients expect from experienced advisers," said Adam Sherman, chief executive of Firstrust Financial Resources. "And it can also represent meaningful opportunities for advisers."

"Even though we do annual reviews, sometimes clients will call in because they get worked up after watching or reading the news," said Cynthia Block-Taylor, president and co-founder of Taylor & Turner Financial Group. "They are just looking for reassurance. They want to know that we still feel confident that their plan is still the right plan for them."

Here are five accounts of best practices and of how annual reviews have helped clients.

▶ **The Trend:** Insurance advisers are finding that clients can benefit from an annual review of insurance portfolios.

▶ **Behind the Trend:** Many clients have been shaken by economic events of the past 18 months and need both reassurance and guidance.

▶ **The Payoff:** Reviews can benefit both the client and the adviser by correcting errors, inadequacies or missed opportunities.

Emphasizing the Personal, Revealing the Unexpected

Cynthia Block-Taylor, a financial professional with Axa Advisors, said performing annual reviews with clients has been part of her company's practice for years.

"They're an absolute essential part of any good practice," said Block-Taylor, president and co-founder of Taylor & Turner Financial Group in Charlotte, N.C. "We wouldn't have the practice we have today without those."

Cynthia Block-Taylor

These reviews can turn up the unexpected. One client of many years started talking about changes she wanted to make in her legal documents. Block-Taylor's review of those documents revealed that the client had never signed her will and that her trust documents were incomplete.

A few months later, the client became so sick she nearly died. She survived—but had she died without the review, the problems caused by the incomplete legal documents would have been enormous, Block-Taylor said.

Similarly, a review of a business owner's buy/sell agreement showed that it was funded by term life insurance that was about to expire. Block-Taylor was not his adviser when he put the agreement into place. She helped him buy permanent insurance to fund the agreement.

"He wasn't giving the issue the time it deserved," he said. "He obviously spends a lot of time on his business, and the insurance plan was less important to him than the process of growing a business."

Block-Taylor's clients in the past year had many questions linked to the recession: Are we in a depression? What will happen to the economy in the next 12 to 24 months? Will the stock market recover? Will taxes go up? Will inflation flare up? Can I actually retire as planned? She said clients are mainly looking for reassurance, to know that their adviser feels confident that the plan is still appropriate. A minority has ratcheted down portfolio risk, and a few have to postpone retirement, she said.

Updating personal information is important, she said. She always asks about family, jobs, income, and changes in health and retirement-income goals as part of a long checklist.

Bringing Accountants Into Annual Reviews

Life insurance agents may be limited in the amount of objectivity they can bring to an annual review. That is why CBIZ, one of the largest accounting firms in the world, offers what it calls a Forensic Life Policy Audit through its Wealth Management Group.

Michael 'Woody' Wodchis

"Historically, many agents have represented a single or a small spectrum of life insurance carriers, so their ability to show the 'best alternative' to an existing product was somewhat limited," said Michael "Woody" Wodchis, vice president for national business development.

"In addition, our business model has our wealth management consultants working closely with our certified public accountants to identify current client needs and issues, and then working together to bring solutions way beyond a simple product comparison."

The accounting side particularly values the inventory step, Wodchis said. "At this stage, we provide a snapshot of the client's life insurance portfolio including all policies, purpose, ownership and beneficiaries. This creates an opportunity for the accountant to evaluate and tidy up the structural integrity of the portfolio."

The team then evaluates whether policies are doing what is needed. The recommendation stage may update beneficiaries, amend trust (irrevocable life insurance trust or ILIT) documents, adjust coverage to fund buy/sell agreements, and address any other current needs not already covered.

Also, CBIZ underwriters know to direct certain kinds of business to carriers with an appetite for particular risks, Wodchis said. "We know where to go and how to position a case with those carriers," he said.

In one case, a CBIZ accountant was contacted in early 2008 by an important client who had a significant amount of life insurance inside an ILIT, said Wodchis.

"A life agent recommended a switch from fixed-interest products to variable life products with a company that later nearly went out of business," he said. "Someone looking at the industry and market carefully would have known there were red flags not only with the carrier in question, but with the suitability of the product recommendation. Our approach was to hold the horses, understand this was a significant amount of insurance, drill deeper on the client's tolerance for risk, and consider a strategy to diversify by carrier and product."

As a result, Wodchis said the client rejected the life agent's recommendation and went with CBIZ's advice in late 2008 to stick with highly rated companies with strong, long-term guarantees.

Reviews Uncover New Risks, Reduce Premiums

The economic environment has caused affluent and high net worth clients to reconsider how much they are paying for insurance. That is particularly true for homeowners coverage, according to ACE Private Risk Services, a part of the ACE Group of Cos., based in Madison, N.J.

John Paolini

A client's need to reduce premiums provides the independent agents working with ACE the perfect opportunity to review coverages, said John Paolini, chief operating officer responsible for field sales and marketing. "The insurance review has become a multifaceted tool. Commonly, agents would conduct a full review every other year, even every few years, but the reality today is that the insurance review is being used to help address the current pricing pressures that clients feel."

ACE's affluent clients typically pay more than $5,000 a year for homeowners insurance, while wealthier high net worth clients may pay more than $25,000. Often the way to lower these premiums is for homeowners to choose a higher deductible of at least $2,500. To encourage this strategy, ACE offers what it calls a "deductible reserve," under which the company will credit 10% of the deductible to a reserve account for each year with no claims. This reserve is used to reduce the deductible payment on the first claim.

Paolini said there is a good chance the program will reward participants, since the typical policyholder only files a claim every 11 years. "And all the while, they are getting the full benefit from the premium reduction," he said.

ACE also is working with agents to alert clients that the recession may spawn new liabilities that policyholders may want to address with their premium savings. In dual-income households, for example, if one spouse is laid off, the couple may no longer afford or need a nanny, he said. A terminated nanny, however, may file a wrongful-termination lawsuit.

"The suit may be frivolous, but our policyholders may become targets because of their assets," Paolini said. "The insurance review uncovers the need and helps an agent engineer specific coverage to protect that liability."

Similarly, wealthy clients may serve on nonprofit boards. While boards usually provide directors-and-officers insurance, coverage may not be adequate. Uninsured or underinsured neighbors or strangers also pose a threat. Due to the recession, some people may have chosen to discontinue their liability insurance. "We want to make sure third-party liability coverage is in place, along with their uninsured/underinsured motorist, to protect our policyholders."

Addressing Client Worries Over Insurers' Financial Health

What has worried life insurance clients in the past 18 months? According to Adam Sherman, chief executive officer of Philadelphia-based Firstrust Financial Resources, it has been the financial health of the carrier, followed by the performance of the policies the clients own. Also on their minds during annual reviews: minimizing the out-of-pocket expense to maintain policies.

Adam Sherman

As leader of the life insurance division of the company, Sherman has worked to ease fears and improve financial plans.

Sherman said that in the past 150 years, no legitimate death claim in the United States has ever gone unpaid. "If carrier X was in trouble, carriers Y and Z and others would come to the rescue and buy up that book of business. I would hope that would continue, but people are feeling they don't want to take the risk. There's a flight to quality. They are looking for solvent carriers."

However, Sherman says there is a strong probability that all clients will receive their death benefits. Large cash values—those that exceed state guaranty fund limits—could be compromised. Guaranty fund limits vary from state to state. For more information, see the Web site of the National Organization of Life and Health Insurance Guaranty Associations, *www.nolhga.com*.

Sherman said that in an extreme situation, switching to another carrier may make sense. But for most, "the best bet would probably be no move at all," he said.

In conducting annual client reviews, Sherman has found some types of permanent insurance policies are not performing as had been projected. He said variable life policies in the past two years have underperformed dramatically, while universal life has "modestly underperformed as interest rates continue to come down to the guaranteed contractual minimums."

But whole life policies have performed as projected, and sometimes better, as companies have maintained healthy dividend scales. "I've been doing this for 25 years, and whole life over that time has done the best," he said.

There is good news for those clients with strong cash values, Sherman said. "Some clients are now able to put policies on a premium-payment alternative mode, meaning the premium can be absorbed by the carrier," he said. In whole life, dividends fund the contract, he said. In universal life, interest rates may be high enough. And in variable life, premiums can be paid when cash values are high.

The annual review is important to clients because for many of them, a life policy is an esoteric item. "We're the face," said Sherman.

"They don't know who AIG, Prudential or Met are. We're usually the people who brought the horse to the water. Our advice and wisdom is something they want to hear," he said.

Questions to Consider in Annual Reviews

Which topics should an insurance adviser address during an annual review? Depending on the adviser's expertise and resources, here are the bases to cover:

For life insurance:

- Does the client need reassurance about the plan in place?
- Do existing policies adequately protect clients?
- Should coverages be increased or can they be reduced?
- Are life insurance policies performing up to expectations?
- Are any life policies underfunded and if so, what options are available?
- Is a term policy about to expire? Can it be converted to a permanent policy?
- Should any policies be replaced? Does the client qualify for a new policy?
- Has the client lost a job, received a raise or inheritance, become a parent or become responsible for caring for extended family members?
- Has the health of the client changed?
- Is the solvency of a carrier worrisome?
- Do cash values or death benefits exceed the limits of the client's state guaranty fund?
- Should a client diversify coverage among carriers and types of policies?
- Would a client do better with a different type of policy?
- Can a client with a cash flow problem temporarily forgo paying premiums?
- Should the client consider long-term care insurance or disability income insurance?
- Have beneficiaries been updated on policies and investment accounts?
- Would the client benefit from a review by an attorney or accountant?

For estate-related documents:

- Is the client's will in order and up to date?
- Does (or should) the client have a living will?
- Has the client executed a power of attorney or health-care proxy?
- Has the client set up a trust, or would the client benefit from one?
- Is the trust properly funded and managed?

For property/casualty insurance:

- As a result of the recession, can clients still afford premiums?
- If not, would clients benefit from higher deductibles or reductions in coverage?
- Are clients more exposed to recession-induced liabilities, such as lawsuits?
- Do clients need umbrella insurance, or should coverages be increased?
- Are clients' assets protected by third-party liability coverage from claims by uninsured or underinsured neighbors or strangers?
- Would clients benefit from loss-prevention services?
- Do business owners have or need a buy/sell agreement or key-person insurance?
- If so, are these coverages appropriate and functioning well?

Clients Want Safety, Security and Guarantees


Brian Large

Brian Large, senior vice president of Lenox Advisors, has a clientele primarily of Wall Street executives and business owners, including the employees and owners of investment banks, hedge funds and private equity firms. So when the economy took its precipitous fall, annual reviews became even more important.

Lenox, a unit of Fifth Avenue Financial, is a MassMutual general agency in New York.

A 49-year-old client, for example, lost $3 million in the market meltdown—about 25% of his portfolio, said Large. The money was supposed to fund his retirement and college for four children.

Risk appetite has changed over the past couple of years. Large said that previously, investing new money in stocks was something many of his clients did without question, "because everyone thought that's where the value was to grow portfolios." Now, a lot of clients are looking for safety, stability and investments with guarantees. Large said some clients that owned variable life insurance through inattentive or retired advisers, for example, "were absolutely hammered by the markets." Many have replaced their variable life policies with whole life.

"Variable life clients, especially those who are so heavily tied to the stock market, want to make changes," he said. "As long as they are in good health, and the changes make some sense, variable life is something that needs to be reviewed. The unfortunate thing is that variable life is an insurance policy, but also an investment account." BR

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