Accordia Life: Get Back in the 1035 Market

The Q3 version of AIN Insights is really focused on competing for cases. While most of our attention in the prior two quarters was on ideas that could help a marketer recruit or find a new case, this time of year we are all looking to push as much premium across the finish line before the calendar flips to January.

Our first idea focuses on a proven source of premium: existing clients. In our usual fashion, we are coming at this a little differently, thanks to the Idea Lab series.

We all worked with producers who made a killing replacing old Whole Life, Universal Life or Variable Life policies that were falling apart. It was an easy sale, preying on the client’s experience in a non-guaranteed contract to get them to move to a new NLG contract. Of course, most of us neglected to think about the unintended consequences: premium timing issues and the fact that this new NLG contract was almost certainly the last policy we were going to be able to sell that client based on delivering a lower premium. Bad news for the producer’s future income for sure.

So here’s how to get back in that business and deal with both the premium timing issue and keep future sales in play via the presence of real cash value. Its all based on the behavior of some NLG contracts when they are placed in a reduced paid up status. If they have been funded by a combination of 1035 exchange funds and ongoing premium, one of two things is going to happen:

Either a huge reduction in the death benefit or a surprisingly modest reduction, and it is this last scenario that creates opportunities. In fact, by placing this type of policy into a reduced paid up status and allocating the ongoing premium to a new contract, three things happen:

* Premium timing issues are solved. There will be no further premiums paid into the existing contract, so no way to screw up the timing of premium payments.
* Premium savings for the client. The reduced face amount is high enough that the current premium commitment more than funds the new policy we want to sell that brings the client’s total line of insurance back to the original face amount.
* Last, we preserve future flexibility and sales opportunities using a contract that has real cash value as the product of choice for the new coverage.

You all know some of the favorites in that space, but with new illustrative rates hitting, that landscape may change. Accordia Life continues to be a “stealth” carrier for this kind of sale: great premiums, real cash and a conservative indexing story that we can all likely recite from memory at this point. Using a product like the Survivorship Builder or the Lifetime Foundation makes sure there is real cash value, just in case there is a new, more efficient product available at some point in the future. With these contracts, the client has some seed money to use via 1035 exchange if that ever comes to pass.

This idea won the John Hancock Idea Lab, and Adam DeMarco has identified a number of carriers, products and policy issue years that are ripe for this, but honestly, I would be grabbing a reduced paid up in force ledger on everything of a reasonable size that was funded by a combination of 1035 exchange and ongoing premium. The hit rate will be high enough to make it more than worth your while.

AIG: A Source of Guaranteed Retirement Income

Last quarter we started looking at AIG’s Asset Protector, which includes the Chronic Illness and Lifestyle Income Solutions Rider, as a way for clients to build a foundation of guaranteed income. We promised we would do some additional work on that in an effort to create longer income streams, and we have some results for you. As a refresher:

AIG has opened up the software for us to run illustrations with the income starting as early as age 65, but you need to know the secret handshake. Here’s how it works:

Using a PNS Male, age 45, $1MM face, run the AG Secure Lifetime with the Lifestyle Income Solution or the American General Asset Protector, which includes both the Lifestyle Income Solution and Chronic Illness Rider, depending on state approvals. Pay premiums to age 65, and set the income to run from 85 – 95. The resulting premium, just over $11,000 per year, totals approximately $220K over 20 years.

$1MM of income taken over ten years, over $780K more than the client paid in premium. The IRR on that would be 4.25%. Guaranteed. Remember, this is a contractually guaranteed income. Where else can you get that guaranteed rate of return over that long a period? Nowhere.

So here’s the big objection: I don’t want to wait until age 85 to turn on the income. Great, you don’t have to…all you need to do is use the secret handshake I mentioned when you run the illustration. You have to enter a secret code on the Access tab in WinFlexWeb: LIROPTIONS. This will allow you to turn on the income prior to age 85. That code will be included in our follow up email, and if you need help unlocking the software, just give me a call.

So here’s what we found when we kept digging around this issue of not only the income coming too late, but also not lasting long enough:

People instinctively want income over a period of time longer than ten years, but there are some significant barriers to accelerating the income over a period longer than ten years. While the explanation is really technical, is boils down to creating TEFRA or DEFRA violations and the force outs of cash and the like that they come with. Not good. So we solved this really easily: split the policy in two.

Design both policies identically, so the client has choices about managing the income from both policies right from the start of retirement on. In this case, we modeled turning on the income at age 75 on one policy and then turn on the second at age 85. The result is twenty years of income, and the second decade is significantly higher, creating a nice inflation hedge. Overall, the IRR is going to come in right around 4% on cash. Not bad.

Of course, you can do better than this in other vehicles, but remember, they need life insurance anyway, and the Chronic Illness Rider comes bundled with the Lifestyle Income Solution in most states, and that is insurance against the biggest threat a client’s retirement may face. It’s a variation on its not so much about what you earn, but avoiding losses in retirement.

Here’s a bonus idea for you: there are superior IRR’s to be had if you accelerate the death benefit even if the client does not need the money! By taking the cash out and investing it, you can see a net-after-tax gain and corresponding increased IRR. Bottom line? Always take the income at age 85!

One last design note: While we modeled the income beginning at age 75, consider submitting the issue illustration showing the income at age 65, or as soon as the premium payment period is over. It is the issue illustration that governs when the client has the option to accelerate income. Maximize their flexibility by building it in as early as possible, knowing that the plan is more than likely to take it much later.

AXA: The BrightLife SIUL Contradiction

So, remember that story about Accordia’s SIUL? AIN is well over $7MM YTD with Accordia. That’s the production level from all of 2014, so they are growing rapidly and one of the big reasons is their SIUL contract. AXA may be primed for similar growth and for a similar reason. With AXA, however, it is not based on their death benefit product, BrightLife Protect SUL. Instead, the BrightLife Grow looks to be the hot product of the two: Low costs, de-risked crediting options and a resulting price point that is far below that of the current NLG offerings. Again, its counterintuitive, but the Grow product may ultimately be the best survivorship death benefit product from AXA.

Sample Pricing: Protect vs. Grow

Its interesting to note that the guarantees on both contracts as far as death benefit duration are virtually identical. The result is that the greater upside potential as seen in the higher cap and illustrative rate make the Grow easier to sell, even in death benefit focused cases. Of course, comparing against a product from the same carrier isn’t really how the world works, so we also looked at this product versus the rest of the market.

Sample Pricing: Grow versus the market

Aside from the price, there are the story telling elements. The story with AXA is even simpler than the Accordia story. Two elements: low costs, and a high par crediting strategy that minimizes the reliance on the S&P to get the results we are illustrating. Last point: the targets are way, way better, and they roll!

On a forward looking basis, I would keep an eye on AXA over the next few weeks as they begin to roll out a number of resources that will make them a potential player in very specific segments:

* AXA’s Business Planning Admin Suite: Integration of business planning strategies with the business owner’s Estate Planning. Think of it as the marriage of business and personal planning rather than trying to do them both in a vacuum, and then being able to manage the entire structure, from an insurance standpoint, from one system.
* COIL: This is AXA’s oddly named GI platform for business cases. While it is already available, there is one very specific niche that they hit: the policies do not need to be employer owned! This alone has won cases for them.
* Premium Finance: If you are in this space, there will be good news from AXA shortly: a list of approved premium finance providers, both intermediaries and funding sources. In addition, while it is beyond the scope of our conversation today, their single life product has become the product of choice for finance cases at older ages for at least one of the providers many AIN Members use. If you want to find out more about this, reach out to Matt Tryon who is very familiar with the ins and outs of this business with AXA.

John Hancock: The Vitality Program in the Wild

John Hancock’s Vitality platform is starting to see broader acceptance, and while we focused on how significant the discounts are last quarter, in this quarter we are going to look at this platform from three different perspectives:

How to spend the discount

Clients who may be the perfect prospect for the program

A way to make a really cool program from John Hancock even more powerful

The first one is easy, as most people think immediately of dropping the premium with the Vitality discount, but if you have a client that is looking at adding an LTC rider to their contract, make sure you always sign them up for Vitality. If they actually use the program, they can use the discount to offset the cost of the additional rider, essentially recapturing their premium. The client would need to hit gold level or better at most underwriting classes for this to work.

The second is a bit more nuanced. Consider two groups of people:

Group 1 has something in their health history they simply can’t escape, like a coronary artery disease diagnosis.

Group 2 is already living a truly healthy lifestyle.

Where these two groups intersect, you have a perfect application of Vitality. The client is already doing everything they need to hit Gold or even Platinum, in no small part BECAUSE of their health history. They can use the discount to offset the additional premium they have to pay because of their history. This could also work with a diabetes diagnosis, or even family history. Any issue from the past that still carries an underwriting price tag. I did a quick study of the pricing, and a client can reclaim as much as 86% of the difference between their current class and the next best class. Take a client who received PNS based on family history. The Super Preferred rate, using completely made up numbers, comes in @ $10,000, and the Preferred @ $11,000, the Preferred with Vitality at Platinum would be $10,140, a savings of $860, or 86% of the $1000 increase. Make sense?

The last way we have started to see people talk about is using the Vitality Program in concert with the Quit Smoking Incentive. Not only is there a mechanism in place to give a client the benefit of the doubt around quitting, the Vitality Program will put resources to help them quit right at their finger tips. The ultimate savings from this could reach as much as 33% for these clients.

Male age 45, Preferred Smoker, Bronze, $1MM solve for $1000 @ 105: $12,228

Male age 45, Standard Non-Smoker, Gold, $1MM solve for $1000 @ 105: $8445, Save 31%

Male age 45, Standard Non-Smoker, Platinum, $1MM solve for $1000 @ 105: $8197, save 33%

Lincoln: Optimized LTC Benefits from Lincoln

One of the elements of actual LTC claims that is understood much more completely today than a few years ago is when LTC claims actually occur. What may have previously been thought of simply as a retiree problem has now been clarified as a problem facing retirees at age 70 and above, with a particular concentration over age 80. Based on this actual data around the age that most claims are initiated, we can now design coverage to maximize benefits at the time it is likely to be needed most. Ironically, this also provides a way for clients to save thousands of dollars on their coverage.

As mentioned above, the need for LTC coverage does not really begin to assert itself until well into retirement. According to the [American Association for LTCI](http://www.aaltci.org/long-term-care-insurance/learning-center/fast-facts.php), over 89% of all claims are on clients over age 70, with 63% involving clients older than age 80. What this tells us is that risk management strategies need to focus on this period of a client’s life. Seems obvious, but the designs we see are almost all based on today’s economics rather than optimizing coverage at these older ages. As an example, consider a 51-year-old male who qualifies for the spousal discount:

The bottom line? An “Optimized Design” can deliver either 42% savings versus a level benefit design or 73% greater benefits right when they are needed most: over age 70. Everybody wins. These Optimized Designs drive home the point of the entire strategy: COLA adjustments are the most efficient way to buy future benefits. All we are doing is using that one fact to deliver either phenomenal premium savings or increased future benefits.

In our quest to identify the “one best solution” to a case, we often forget that this presents the client with a decision between buy or don’t buy. In reality, the recommendation is to use an insurance product as a risk management tool. The decision we want the client to make is between solutions. We need to assume that they are going to follow the recommendation if the need has been sold. That means presenting three ways to pay in this scenario (Follow the links to view the illustration):

* [Option A: Level Pay](http://www.ainessentials.com/wp-content/uploads/2014/10/Option-A-Level-Pay.pdf)
* [Option B: Optimized Design for Premium Savings](http://www.ainessentials.com/wp-content/uploads/2014/10/Option-B-Premium-Savings.pdf)
* [Option C: Optimized Design for Benefit Maximization](http://www.ainessentials.com/wp-content/uploads/2014/10/Option-C-Benefit-Max.pdf)

The likely result of presenting in this manner is twofold. First, the client has coverage that is designed to provide maximum benefits at the time they are most likely to be needed. Second, and perhaps more important to all of us as well as our producers, more clients saying “I’ll take option A/B/C” and signing the application. If they choose Option B, not only do they save as much as 42% on their premium, their benefits at age 80, when more than 63% of claims occur, are 63% higher ($14,460/month vs. $9000/month)!

These optimized illustrations can only be run in Lincoln DesignIt. WinFlex does not have the solve built in to it. If you need help running an illustration or downloading the software, please contact Nate in our office who is expert in this design.

**PROCEED TO THE NEXT LINCOLN PIECE ONLY IF THE MEMBER WORKS WITH VARIABLE**

Lincoln: The Best IUL May be a VUL: Part II (Asset Edge)

Last quarter we talked about the concept of having IUL-like features built into a variable contract. In that particular instance, it was about:

* Index-linked performance, tied to the S&P
* Downside protection, but not a true floor
* The ability to allocate away from the index rather than needing to cash out or 1035 if the client wanted to capture more upside.

Lincoln has done this one better with the most recent update to their asset edge product:

* Index-linked performance, tied to the S&P
* Downside protection, via a true floor
* The ability to allocate away from the index rather than needing to cash out or 1035 if the client wanted to capture more upside.
* Three different crediting methodologies to choose from, just like their current IUL contracts.
* Participating loans!

This opens up a couple different applications or strategies, including:

* Locking in big gains: Consider transferring some of the cash value from the variable subaccounts into the indexed options after a big gain. The floor will lock in that gain by eliminating the possibility of a negative market return.
* Increased flexibility in the income phase. The expanded loan options in the contract give the client way more choices than either an IUL or VUL on its own. The one thing I know is that I have no idea what the future economic conditions will be when a client begins to take income, and having a bigger “tool box” to work with at that point is always a good thing.

The real power may be in the combination of these two elements: Capture the full upside while the client is younger and can deal with the volatility in the market, and then use the indexed accounts to lock in gains and smooth out income in their retirement years.

MetLife: What to do with a maturing annuity?

It depends on the client’s objective obviously, but if the intent is to pass the asset to the next generation, we all know the problems that come with it: erosion from income tax, estate tax or both.

The “annuity max” sale has been in our bag of tricks forever, but it can be executed in a much more elegant fashion and maintain the control that most clients are looking for. This design comes from a real case, and repositions the annuity asset into life insurance on the lives of generation 2, funded and owned by generation 1. Here’s how it all went down:

* The conservative Patriarch of a wealthy family had an annuity that was about to exit the rate guarantee period.
* The funds were earmarked for his heirs, and due to pass to the next generation at his death.
* Unsatisfied with current annuity rates, the client began to research alternatives to rollover the $1.3MM.
* All other estate planning had already been completed and funded with life insurance.
* His children, five in all, ranged in ages from 22 to 47, and at least a couple of them were, shall we say, a little irresponsible financially.

What he did was roll the annuity into a SPIA, nothing new there, but did so on a 10-year certain basis, and max funded $1MM Met 10 pay WL contracts on all five of his kids via Enhanced Rate Plus. All of this happens inside the family’s living trust and is intentionally inside the estate. Remember, the insurance is not on his life, so the cash value is what the estate tax bill will be based on.

If the second generation just lets the policies ride, the death benefit grows from $5MM to a total of almost $16.3MM if they all reach their age 90. From a cash perspective, they are in the money on a guaranteed basis by year 8, so the economics work, even in a contract as conservative as a 10 pay WL contract, and the client didn’t have to do anything other than sign some paperwork based on the use of the ERP Program from MetLife. Its almost like a trade or “ticket” process that this securities based advisor is far more comfortable with than a traditional life insurance transaction.

Bottom line, this client turned $1.3MM into a legacy of up to $16.3MM for his grandchildren, and created a “family bank” during G2’s lifetime.

Of course, this all happened before the PAUL product was available, and if early liquidity was a priority, we could have used that product for this sale as well. The death benefit would not be nearly as large, but the early cash performance would be significantly better.

Mutual: The Best Value in the Term Insurance Market

So we have talked about any number of unique features that Mutual of Omaha offers already this year, and this one really just pulls a few of them into one tight package. Last quarter we talked about their competitiveness using age last birthday rates, and we talked earlier in the year about their Chronic Illness rider being available when converting a term insurance contract.

What I want to do, however, is look at the big picture, including price, duration of conversion privilege, availability of product, and the ability to access the Chronic Illness Rider via a conversion should the need for care arise. When you take all of those factors into consideration, Mutual of Omaha is hands down the best value in the term insurance market. I’d argue that even at age nearest they are the best value, but let’s look at the numbers so you can decide for yourself. Assuming a female, preferred nonsmoker, age 45 looking for $1MM of 20-year term:

Age Nearest Chart

Sure, 8% more is a decent chunk in terms of percentage, but look at the actual dollars. $191. The real question is what does the client receive in the way of incremental value over the term insurance coverage for that $191:

One of the longest conversion privilege durations in the market: to the earlier of the end of the level period or at age 74, whichever is earlier.

Unlimited access to currently available products for the conversion

The ability to convert and access the death benefit via the Chronic Illness Accelerated Benefit rider once the client has met the elimination period.

Assuming the use of Mutual’s NLG contract, the client also has the GRO rider included!

But what about that 50% of clients who can take advantage of age last birthday? How about a mere $28 or 1.22% per year to lock in all the benefits we just talked about?

Symetra: Who says there is no cash value in an NLG contract?

Well, most of us, and there is a good deal of truth to it. This becomes a problem when we are dealing with exchanges and lump sums where the client sees what was once a healthy amount of capital converted over to a cashless, death benefit only, life insurance contract.

However, there is the exception that proves the rule, so to speak, and that is Symetra. We already know most of their story: Great NLG pricing, high targets, and now the addition of a chronic illness rider. There is one last element to their offering, and that is cash value, and the metric to really pay attention to is cash value as a % of premiums paid.

As an example, we compared some of the top NLG contracts for a PNS 65-year-old male, $5MM face amount, with a $250K 1035 exchange:

The Symetra premium is 5% lower, than hands down winner. So how to further differentiate these products in cells where Symetra does not have such a clear advantage? The producer may say compensation, but the client likely doesn’t care about that as much as they do their hard earned money, and that means we need to look at the cash, particularly as a percentage of premiums paid to date.

So the Symetra contract has higher percentages in the first ten years, even against some of the so called “NLG+” products.

Stack that on top of their unique, two tiered Chronic Illness Rider offering and there’s another reason to do business with Symetra. For face amounts below $1MM that include a premium charge Chronic rider, you have way more flexibility on the Symetra contract. I’ll send you a case study on this as part of the follow up email later today.

There is also a second part to this story, and it all depends on where the client focuses their attention. For those of you paying close attention to the chart on the screen, you will notice that AIG’s cash value has caught up after an absolutely abysmal start. The truth is that those are guaranteed cash values, and they usually represent a minimum of 50% of premiums paid by year 25, with an increasing % thereafter, creating a nice cash out option. Between Symetra and AIG, the client can pick what’s most important to them: early liquidity and an inherent chronic illness rider, or guaranteed late cash values? It gets back to this pick between options A or B versus buy or don’t buy. Much more powerful position to be in as a sales person.

Transamerica: What Does the Policy Really Cost?

So that brings us to the last idea we have for today, and this gets back to a sale that is a little bit “nichey” but has been the basis for some nice sales over the years. The focus is on net cost of coverage, and while on the surface, everyone would immediately think about term insurance, there is another way to look at it.

The problem with term insurance is that it is a sunk cost. That money is never coming back to the client, unless they are one of the few who buy ROP. With a permanent contract, you can essentially overfund, pull your money back out, and continue the coverage, effectively reducing your cost to the time value of money over the period of years the client needs to leave their money in the policy.

We tested a whole bunch of IUL contracts using reasonable, post-AG49 type rates and there was one that stood out above the rest: Transamerica’s TransNavigator. You can pull all of the money back out by year 15 in most cases, and enjoy the full initial face amount from that point forward, supported strictly by the remaining cash surrender value on a current assumption basis. That’s right. No more premiums.

Of course, we’ll send you a sample illustration on this, but keep in mind that with the Global crediting strategy inside that contract, there is huge upside potential beyond the illustrated rate. I’ll send you the link to our recent niche alert on this topic for more details on why the global crediting strategy really works in this sale.