

Introduction and Overview

HAVE YOU EVER FELT overwhelmed by the complexities of life insurance or a bit insecure in advising a client about whether to purchase a particular life insurance policy? If you have, the *Advisor's Guide to Life Insurance* is for you.

Clients commonly seek the counsel of their professional advisors as to whether a life insurance policy recommended by an agent or broker offers good value and is from a financially sound company. To complicate matters for those advisors—whether they are attorneys, other agents, financial planners, or accountants—the client often seems to hold an inflated view of the depth of knowledge and insight that the advisor brings to the subject.

It's as if clients expect *their* advisors to know it all. It is not sufficient that you have mastered the particulars of estate and business planning as well as the many helpful applications of life insurance to such planning. If you understand those intricacies, surely you must be equally competent to analyze a life insurance policy illustration and to determine whether the life insurance company is financially sound and operationally efficient. Regrettably, being good at one aspect of life insurance does not translate to being good at all others.

This *Guide* is designed to assist advisors in making better informed life insurance recommendations to their clients. Secondly, it also is intended as a training tool for advisors and their staffs.

The *Guide* provides information essential to the exercise of due care in the purchase and retention of life insurance policies. Its twin goals are to maximize the chances that (1) policies pur-

chased and maintained by your clients offer good value for the premiums paid and (2) the insurance companies backing the policies are, and are likely to remain, financially sound. Advisors who master this material will be able to make more informed and superior life insurance recommendations, which translate into a significant benefit for their clients.

Decisions as to which insurers to select initially and to retain longer term lie at the heart of life insurance due care. Regrettably, conducting one's own assessment of an insurer's financial strength is exceptionally complex even for knowledgeable insurance advisors. Because of this complexity, advisors must place great reliance on the opinions and evaluations of rating agencies and others whose jobs are to conduct in-depth assessments.

The exercise of due care in decisions regarding life insurance policy selection and retention necessarily relies more on the advisor's examination of policy pricing, including understanding underlying assumptions and the sustainability of illustrated policy values. Learning to use and interpret policy illustrations—and knowing the questions to ask and issues to raise—are fundamental to life insurance due care.

We have structured the *Guide* to address the needs of both those with less life insurance knowledge who seek a focused, integrated approach to the entire subject area as well as those professionals who have need for the occasional refresher on a given subject. Stated differently, the *Guide* serves as both a primer and a reference source. Those readers taking the primer approach will find that the chapters build on each other, progressing logically from basic concepts and industry practices to more advanced topics.

At the same time, we limit the subject matter of each chapter to a specific area or topic that has proven useful and relevant to those who offer life insurance advice. This approach permits each chapter to be read independently of others. We purposely built in redundancy across the book, both to allow individual chapters to be read as reference works and to reinforce mastery of the material. For those with the time, we urge that the *Guide* be read in its entirety at least once. Because the world of life insurance is not static, we are confident that even the most knowledgeable advisor will learn something new and useful to his or her practice.

The *Guide* is careful to define the major life insurance terms used. In each case, the defined term appears in boldfaced font. Because terminology is not standardized within the life insurance industry, we also list other terms understood in the industry as having the same meaning. For quick reference, we also include a complete glossary of all defined terms, at the end of the *Guide*.

We make liberal use of cross references within each chapter to other chapters that cover material relevant to that chapter. Similarly, we make liberal use of information “boxes” throughout the *Guide* to offer insights on a specific topic and also of short examples, tables, and figures. Conversely, we

limit our use of footnotes as we believe they can be a distraction, instead retaining relevant information in the body of the text itself. The writing is closer to conversational than to traditional academe in style (while trying always to remember Strunk and White’s rules of good grammar!).

The *Guide* is organized around six parts containing a total of 18 chapters. Each part explores a cohesive set of materials, with each chapter taking on a subset. Thus, Part I sets the stage for the *Guide* by examining “The Life Insurance Purchase,” including an introduction to why and how life insurance is purchased as well as the role of advice and advisors in the process. Considerable life insurance industry terminology is introduced in this part.

Part II is our exploration of “Assessing Life Insurance Company Financial Strength.” Within this part, we set out the characteristics and importance of an insurer’s financial strength as well as the nature and role of the financial regulation of life insurers and accompanying policyholder protections. We then explain the role of rating agencies and other sources of information in carrying out an assessment of life insurance financial strength.

Part III, on “Life Insurance Policy Fundamentals,” is a must-read part for those seeking to build their knowledge base. Yes, we delve a bit into the actuarial aspects of life insurance policies to ensure that the reader has a sound understanding for how life insurance companies price their products—but we avoid formulas, instead offering a common sense, intuitive approach. We include a chapter on the most commonly found types of individually issued life insurance policies, including descriptions of how they function. We follow that chapter with one that compares and contrasts these policies, using as reference the various attributes that the industry ascribes to policies. We believe that this chapter can be especially useful for advisors in offering sound client advice. We close this part with a summary of the contractual provisions included in life insurance policies and of various optional benefits common to them, taking the reader beyond the standard treatment of the life insurance policy as a contract.

Part IV is on “Determining the Appropriate Policy for Each Application.” While the *Guide* is not intended to cover policy suitability issues, we do touch on suitability in order to illustrate the various family, estate, and business uses of life insurance.

The vitally important topic of “Life Insurance Illustrations and the Sustainability of Policy Values” is the subject of Part V of the *Guide*. We believe that the information in this part will be among the most eye-opening for many readers. Here we introduce how to understand and use life insurance policy illustrations, then how to dig more deeply to understand their underlying assumptions and assess their sustainability as well as insurers’ intentions and practices in managing policy performance. These types of issues ensure that advisors can go the extra mile in the exercise of their responsibilities to

clients. Determining the appropriate funding levels for various policies is yet another issue that warrants a full chapter.

Part VI closes out the *Guide* through an exploration of “Ongoing Policy Management.” This topic has two components. First is the desirability and necessity for regular policy reviews to make certain that a policy remains viable and is on track to accomplish the client’s financial goals. The second examines how to use an existing policy to provide values during an insured’s lifetime, not just at death. This focus on lifetime policy values promises to expand the horizons for many readers, again for the ultimate benefit of their clients.

Some people say that life insurance is dull. Those of us involved with this project respectfully disagree; indeed, we find it (almost) exciting! But perhaps that perceived dullness explains why we find so few advisors who truly understand the subject and are able to offer sound, objective advice about it. Those who commit the time to the topic will significantly enhance their position to successfully serve their clients in today’s competitive environment.