

Bring clarity to your clients' lives



Life Insurance Professional Analysis and Review

# Help your clients take a fresh look at life insurance

◆ **In life, there's just one constant: change.** That's why it's so important to regularly review your clients' life insurance coverage. A new family situation, a career change, a shift in financial status—any of these common events plus many others should trigger a reevaluation: do the life insurance choices your clients made before still make sense? Common triggers may include:

- The need for life insurance may increase or decrease.
- Family or business situations may change.
- Interest (UL), dividends (permanent whole life), or investment returns (VUL) may have declined.
- The insured's health may improve, offering opportunities for improved underwriting.
- The insured's health may deteriorate, making it important that the existing policy remain in-force.
- Loans, withdrawals, or other policy changes may affect policy performance.
- Premiums on term insurance increase with age, making conversion to or purchase of a permanent policy more expensive if the insurance need continues.
- Premiums may not have been paid as planned.
- Other issues that might warrant a review.



## Our guiding principle

We believe in a consultative approach to client service and encourage you to share the same. The essence of our philosophy is simple: provide the same service and recommendations to clients which, in the same circumstances, you would apply to yourself.

### **It's good for your clients, and for you, too**

When you perform a life insurance needs analysis, you provide a service that demonstrates a real commitment to your client's interests. An objective, consultative analysis brings clarity and gives your clients opportunities to:

- Review their current situation and gain a deeper understanding of their current life insurance needs.
- Determine if their existing policies still meet their needs, and where applicable, make funding adjustments appropriate for their current situation.
- Consider any possible improvement in their underwriting class.
- Review any new riders that might be available.
- Understand the provisions and benefits within the existing policy.
- Consider alternatives that might better meet their needs, such as:
  - policies with secondary guarantees
  - extended maturity options
  - better loan provisions
  - lower policy charges
  - better underwriting classes.
- Build a stronger relationship with you.

Your clients aren't the only ones who benefit. A clear needs analysis not only helps clients modify, adjust, or reaffirm their life insurance programs—it reinforces their confidence in you and strengthens your relationships with trustees and other professionals. It may also help you gain referrals.

### **Here's who you should talk to**

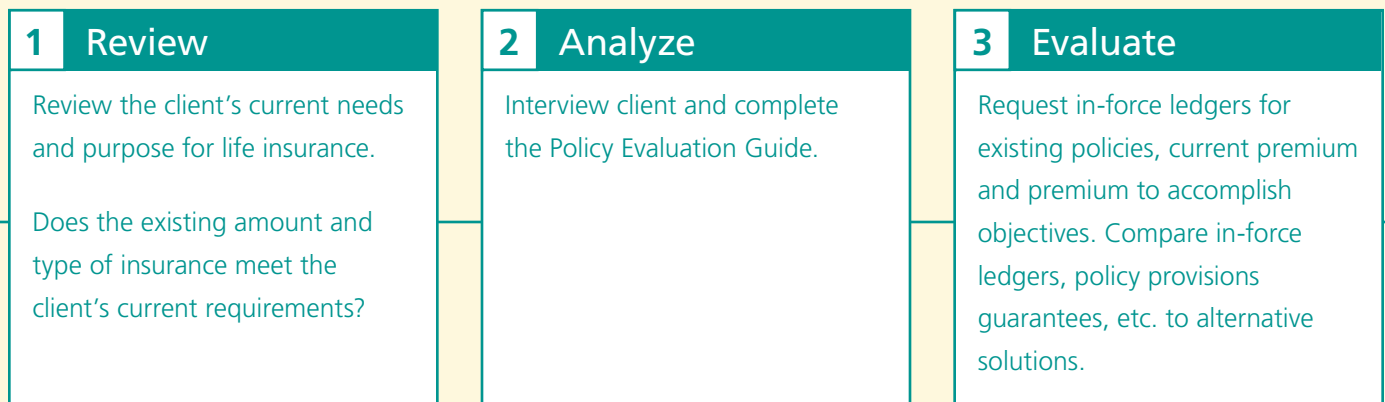
All of your clients should get a periodic life insurance evaluation at least every three to five years. It's the wise thing to do for people who:

- Might have had an improvement in underwriting status.
- Might have had a change in their need for coverage.
- Are rated.
- Own policies with insurers whose ratings have been significantly lowered.
- Own policies with large outstanding policy loans, withdrawals, or other policy activity that may have affected performance.
- Own policies in trusts that haven't been reviewed in several years.
- Are Trustees of life insurance policies in Irrevocable Life Insurance Trusts (ILITs).
  - Note that some Trustees may not be aware that some policies could be in danger of lapsing before the client dies.
  - Some Trustees have not reviewed the policies since they were issued.
- Are attorneys and CPAs who recommended policies to clients.



## The PAR process

Lincoln Financial Group has built a simple yet thorough needs analysis process that brings transparency and confidence to life insurance choices. Designed for clarity, our Professional Analysis and Review (PAR) provides an objective perspective on your client's life insurance requirements, performance, and options. Here's how it works:



Please be sure to complete a professional needs analysis. If you have questions or need additional support, please contact your Lincoln representative.



### **A** Policy performing

If existing policy is performing as expected or better, and if needs have not changed, no further analysis is needed.



Continue to review periodically to be sure policy is on course.

### **B** Policy not performing

If existing policy is not performing as expected, or if needs have changed, determine action required to reach goal.



If funding needs to be increased to reach goal, or if the goal has changed, work with the client to correct the situation.

### **C** Consider alternatives

If appropriate, consider other policies.



Work with your client to determine which new policy would best suit their needs.

# Clarify your clients' options

- ▶ If the client owns existing policies, you should also review an in-force ledger for each policy to determine its ability to meet the client's current needs.



Once you've conducted the review, you may propose a variety of solutions. These could be as simple as affirming the policies currently in place, recommendations to change the funding of existing policies, or suggestions for exchanging current policies for more appropriate ones.

Begin by addressing all the options. Following are the important issues you and your clients should discuss during the review.

## Possible reasons to keep a policy

### New contestable period

Any time a new policy is purchased a new contestable period begins. Policies can be contested within the first two years after issue to discover if any material information was not revealed on the application that would have affected the insurer's decision to issue the policy. For replacements with the same insurer, some companies apply a new contestable period only on an increase in the amount of insurance.

### New suicide period

A new two-year suicide period begins with a new policy. Insureds must be fully aware of this provision. For replacements with the same insurer, some companies apply a new suicide period only on any increase in the amount of insurance.

### Existing loans

Some policies offer favorable loan interest rates or "wash loans" after a policy has been in-force for a period of time, often 10 years. In some situations, loans are not transferable from one policy to another. Additionally, some insurers do not recognize the transfer of a loan as a tax-free exchange, even if the receiving company can accept a loan.

### New acquisition costs

New life insurance contracts contain sales charges and acquisitions costs that must be recouped via the payment stream. Older policies may have already accounted for these charges.

**Guaranteed crediting rates**

There may be a higher guaranteed minimum interest crediting rate on an older policy.

**Surrender period is less**

Beginning a new life insurance policy also means a new period for surrender charges. It could be that their existing policy is almost out of the surrender period.

**Special internal exchange rules**

Some insurers have a special internal exchange feature. This might include favorable underwriting, or waiving surrender charges if your clients were to make a transfer.

**Change in underwriting status—for the worse**

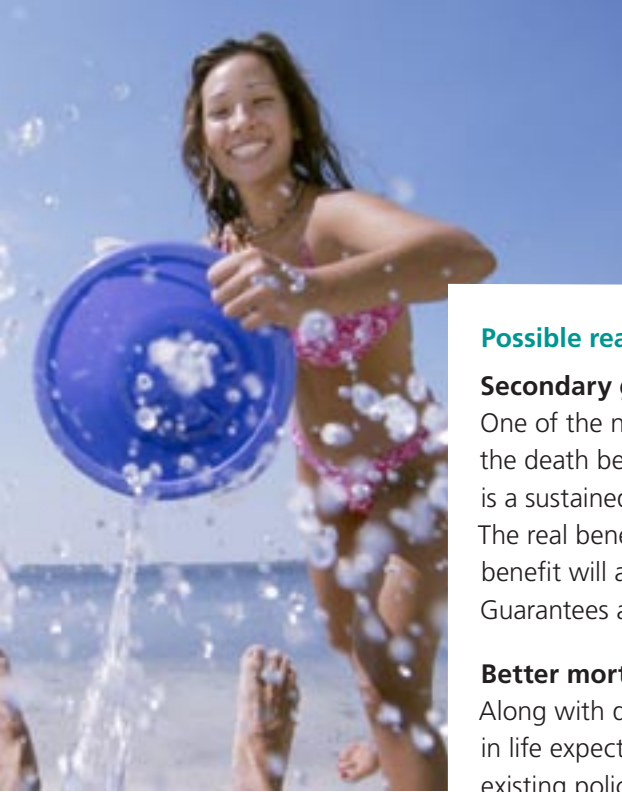
If your client has experienced an adverse change to his health, a new policy might mean a higher rating. It might be best to consider paying additional premium in the existing policy to keep it in-force.

**Legislative benefits—pre-TAMRA, Cash Rich Testing**

Tax laws can change the definition of a life insurance policy, as well as how it is taxed. If a contract was issued before June 21, 1988, it may have some tax benefits that are not available with a new policy. These plans are not governed under the rules for Modified Endowment Contracts (MEC). This rule severely reduces the amount of money that can be deposited in a life insurance policy in the early years without losing the “first in, first out” provision in life insurance. If a policy is a MEC, any money withdrawn is considered interest first, and subject to a 10% penalty below age 59½. In addition, the life insurance corridor amounts were much higher on policies issued before June 21, 1988, so there are much higher funding limits than policies issued after that date.

Another date to remember is December 31, 1984, which relates to Cash Rich Testing, also known as the Recapture Ceiling Test. Advisors usually call this a force out. This usually occurs when there is a reduction in benefits under the contract (face reduction, PUA surrender, etc.). On an illustration this will show up as unrequested withdrawals, and is subject to income tax. Policies issued before December 31, 1984, are not subject to this test.





## Possible reasons to exchange a policy

### Secondary guarantees

One of the newer policy design features for universal life includes the ability to guarantee the death benefit based on a fixed premium structure. This guarantee applies even if there is a sustained drop in interest rates or if the current cash value declines or disappears. The real benefit to this type of policy is that the insured can be assured that his death benefit will always be guaranteed, as long as the premium is paid according to schedule. Guarantees are based on the claims-paying ability of the issuing company.

### Better mortality

Along with dramatic improvements in medical science comes a corresponding increase in life expectancy. Because of this, many new policies have lower mortality expenses than existing policies, sometimes significantly lower.

### Loan treatment

Having a significant loan on a policy may seem insurmountable to a client, but this doesn't have to be the case. Under the 1035 Exchange rules, the IRS allows for the transfer of a loan along with the cash value from an existing life insurance policy to another life insurance policy, so long as the insured and owner are the same. Some insurance policies offer attractive loan interest rates that might not be available on the existing policy. There may even be an option of a "wash loan," meaning that interest credited on the loan amount is the same that is charged for the loan. This could be important if the insured does not plan to pay back the loan. Another potential benefit is the ability to use a cash withdrawal to completely or partially pay back the loan. However, the insured may not receive favorable tax treatment on the transfer if the purpose is to pay back the loan. If the insured does wish to pay back the loan via a cash withdrawal, he may wish to consider paying back the policy loan in a different policy year. Loans and withdrawals will reduce cash values and death benefits. Surrender charges and taxes may also apply.

### More competitive plans

In any market, improvements are inevitable and prices tend to decrease because of new innovations. Over time, insurers are cutting expenses and distribution costs. When this is combined with other pricing improvements, it can lead to a much more competitive product, with lower costs and/or features and benefits not available on earlier plans.

### Preferred and plus underwriting

When universal life was introduced 25 years ago, only two classes of standard underwriting were available, smoker and nonsmoker. Since that time, these classes have been subdivided into preferred, preferred plus, and in some instances even a preferred select plus. This occurred first for the nonsmoker class and later for the smoker class. If your client falls into one of the preferred classes, he might benefit from the lower mortality charges in an exchange. Even if he falls into the standard class, it is possible that the mortality charges on his current policy might be lower than if he exchanged it for the same underwriting class on a new policy.

### **Special underwriting programs**

If your client is currently rated, and the existing company won't remove the rating, it is possible that he could qualify under a special underwriting program. This is a program where rated cases through a certain table rating, often Table 3 or 4 to standard, will automatically be issued a standard rating. If your client's health has improved from a previous rating, or if his health is currently viewed more favorably, he might benefit from a program like this.

### **Extended maturity**

Many existing policies have an age 85, 90, or 95 maturity date. When a policy matures, the policy cash values will become payable to the owner of the policy, and taxes will be due on any gain. The insurance contract will be completed, so the face amount will not be paid. If an insured lives to the maturity of his policy, another issue could arise related to loans. One of the real benefits to universal life is the ability to withdraw cash value up to basis tax-deferred, then switch to loans, again tax-deferred. If a policy matures with an outstanding loan, any gain that has been received is taxable. Paying income tax at that time can be devastating to a policyowner, as the taxes are due but there is usually not enough net cash value in the policy to pay the tax. This problem is avoided with some new policies that have no maturity date. They are designed to continue the death benefit as long as the insured lives. At age 100, most charges are discontinued and any cash value continues to accumulate at the current interest rate. If loans exist, as long as there is a positive cash value, no tax will be due. At the death of the insured, the net death benefit is paid (face amount minus loans and withdrawals).

### **Company strength**

One of the most important factors an insured should consider is the strength and stability of the issuing life insurance company. The higher the ratings of a company, the more likely this company is to keep its promises to its policyowners. Ratings are reviewed annually by third parties and vary by criteria.

### **Legislative benefits—pre-TAMRA**

Previously we mentioned that if a contract was issued before June 21, 1988, it may have some tax benefits that are not available with a new policy. If one of these plans is 1035 Exchanged to a newer plan, it's very possible that the new plan won't be a MEC. When cash value is transferred from one policy and qualifies under the 1035 Exchange provision, the cash value is not considered a single premium, but spread over several years. Most illustration systems, including Lincoln Sales Platform, will identify the plan if it is a MEC.

### **Where a 1035 Exchange occurs**

Insurers acknowledge Section 1035 as a tax-free exchange from one insurance policy to another. This includes the transfer of basis and gain in the same proportions as in the original policy. However, if the transfer of a loan is involved, the other insurer must issue a 1099 which must be explained on the tax return. A memorandum explaining the tax reporting options is included in this kit so that the client can, with his tax advisors, determine how to handle any 1099s received.

### What you need to know about fees

In our client relationships, Lincoln always assumes a consultative role that builds trust, comfort, and credibility. That's why we developed this tool to add value to your clients and help support you.

If you will receive a commission on the sale of any financial products, we recommend that you decline additional fees for policy review. In any event, it is a matter of state law, and where permitted, clear disclosure is often required. You are responsible for knowing and complying with your state's laws.

Many states require you to be specially licensed to receive a fee for acting as an insurance consultant. These special licenses issued by state insurance departments do not supplant any requirements that you may also need to qualify as an investment advisor under either state or federal law when providing services with respect to variable insurance products.

Generally speaking, these laws also require you to have a separate agreement clearly stating the services to be performed and the fee to be charged. In some states, when receiving a fee as a consultant, you cannot also receive compensation as a life agent. (California and Texas, for example.) Each state's requirements are unique, so be certain to check the requirements of the state where you will perform the service before you agree to provide those services.

In addition, if you are a registered representative, you should check with your agent or broker to determine if your firm has other requirements.



## Clearly, the thing to do

Certainly life insurance provides security to families and businesses. But it's also an important part of our clients' overall financial well being. As lives change, life insurance needs evolve as well. An objective review, through a reliable advisor, helps bring clarity to an important part of our clients' lives.

A transparent needs analysis benefits both you and your clients. They gain confidence knowing that their life insurance is on track and in good hands. And you win an opportunity to grow your practice. A chance to reinforce your current relationships, explore new business, and acquire valuable referrals.

Use the Professional Analysis and Review to address your clients' needs. It's clearly the thing to do.

- For more information, about the PAR program, contact your Lincoln representative.

**MGA Division:**  
877 533-0114

**National and Regional  
Broker/Dealer Division:**  
877 533-0104

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Division:**  
877 533-0118





*A Lincoln®*

## A tradition of integrity

At Lincoln Financial Group, we have a 100-year heritage of helping people find solutions to their financial challenges. As one of the largest financial services companies in the nation, we are a proven industry leader in identifying and delivering sophisticated financial strategies and product solutions for the creation, protection, and enjoyment of wealth. We are committed to helping investors redefine their retirement because we don't believe retirement is an end—it's an opportunity for everyone to start doing what they were meant for all along.

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