

FINANCIAL UNDERWRITING IN 2011

Carlo Fusco

Joe Manczuk

Jordan Carreira



Challenges of Financial Underwriting in 2011

- ✘ Recession
- ✘ Estate need projection – new tax law
- ✘ Growth in life sales – over age 60
- ✘ STOLI, IOLI, CHOLI, life settlements, law suits, NY Appeals Court decision
- ✘ Financial verification + financial justification
- ✘ Marketing proposals – innovations & revivals

Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 Highlights

- ✘ Exemption Amounts: The federal estate, gift and generation skipping transfer (GST) tax exemptions are set at \$5 million per individual (\$10 million per couple) for 2011 and 2012, with the exemption amount being indexed beginning in 2012.
- ✘ Transfer Tax Rates: The Act sets a top tax rate of 35% for the estate, gift and generation skipping transfer taxes for 2011 and 2012.
- ✘ Reunification: The federal estate and gift tax exemption are reunified, meaning in 2011 and 2012, an individual may make \$5,000,000 in lifetime gifts without paying gift tax. Note that any portion of the federal gift tax exemption used during one's lifetime will reduce the federal estate tax exemption available at death.
- ✘ Portability: The exemption is portable between spouses, although set at the date of death, and assuming death occurs in 2011 or 2012. Thus, a surviving spouse may use any unused portion of the deceased spouse's exemption.

ESTATE TAXES AND PROJECTED ESTATE NEED

- ✘ Implications of the new estate tax law
 - + Will companies rethink their formulas for estate tax need calculators?
 - + Reduce the tax rate to 35%?
 - + Deduct the exemption?
 - + Enter state estate tax rates into calculation?
 - + Create more inventory for future life policy sales?

Financial Underwriting

- ✘ What Is The Tried and True Axiom For Financial Underwriting?
- ✘ Hint.... Charlie Will from Cologne Re coined it!
- ✘ Shout it out!



Financial Underwriting

Insurance Death Benefit - Old Vs. New
Approaches:

Old: Financial Loss Protection

New: Asset Protection

Estate Protection vs. “Leave a larger legacy”

Financial Underwriting

Actual email November 2010 :

Jordan,

What is your opinion regarding the use of life insurance as an alternative asset class to integrate into wealthier clients' asset allocation models to mitigate portfolio volatility, even if there are no estate tax liability concerns?

Regards,

Financial Underwriting

× Huh?



Financial Underwriting

- ✘ Current Terms and Concepts:
 - ✘ Asset or Wealth Transfer
 - ✘ Annuity Maximization
 - ✘ Alternate Asset Class - Asset Reallocation
 - ✘ RMD – Required Minimum Distribution Reallocation

Financial Underwriting

- ✘ Problem Areas:
 - ✘ Ages 70 – 85+
 - ✘ Low incomes
 - ✘ Net worth below \$500,000
 - ✘ Unknown net worth composition

Financial Underwriting

✘ Actual Case submission:

✘ 100,000 applied for.

✘ . Income of \$7,974

✘ . Age 85

✘ . Net worth \$200,000

✘ . Premium \$5,347

Beneficiary/Owner : Daughter

✘ . Purpose given as estate planning.

Financial Underwriting

- ✘ Does it make sense?



Financial Underwriting

- ✘ Amount applied for \$159,033
- ✘ 81 female
- ✘ Income \$28,000
- ✘ Net worth \$600,000
- ✘ Premium \$13,562
- ✘ Purpose: Estate Planning
- ✘ Owner insured, children as beneficiaries

Financial Underwriting

- ✘ Net worth included \$250K of CD's and other liquid assets not needed for basic living expenses
- ✘ Low interest rate environment makes a life insurance policy IRR more attractive than CD's or other financial instruments

Financial Underwriting

- ✘ Increase in requests for life insurance on members of non-profit organizations
- ✘ Typical requests will look to insure individuals associated with religious and educational groups who do not have a history of past giving
- ✘ Appeal of Life Insurance:
 - + Predictable and uncorrelated returns
 - + Low premiums compared to death benefit
 - + No financial commitment required of proposed insured

Financial Underwriting

- ✘ Regional University looking to purchase \$50,000 of permanent cash value life insurance graduating seniors
- ✘ Private school using life insurance on the parents and Grandparents of current students as an investment to be used to reduce tuition costs for future students
- ✘ Pension Plans purchasing life insurance on current employees to help fund future benefits to retirees

Financial Underwriting

- ✘ Summary:
- ✘ New market dynamics are generating sales in the older age and institutional categories that are redefining how we look at financial underwriting
- ✘ H.O. – Update guidelines
- ✘ Greater coordination among marketing, sales, and underwriting
- ✘ Obtain buy-in from our reinsurance partners