GB FINANCIAL GROUP

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The Looking Forward Series: March 2014

February Trends

The pattern of requests for unbiased in-force insurance policy reviews has continued. Life insurance is unique in the world of insurance as it is protecting a risk that should occur decades in the future, but to be efficient it must be acquired well in advance of that event. The cost for a policy has multiple variables, but two specific variables are one's medical underwriting (mortality risk) and riders or options added to the policy. It is important that policies continue to be reviewed and visited annually. In addition, the low interest rate environment has put a strain on in-force policies whose performance may not have caught up with initial projections. GBFG believes in the power of knowledge; informed and educated advisors and consumers are better able to know what their need is and to make sure the need is always being met.

Taking Advantage of Index Products in a Volatile Market (Part 2): Evaluating Internal COIs vs. Potential Growth from Market Exposure

By: Caleb Baker

The traditional argument in favor of universal life products, a guaranteed floor as well as reliable returns from the general account, is still a sound one. While UL crediting rates are at their lowest rates in thirty years, the argument that a very large and seasoned portfolio combined with guaranteed growth is not something to ignore. Because of both regulation and a necessity for long-term steady growth, carriers' general accounts are heavily weighted towards bonds thus limiting fluctuations in growth and offering guaranteed growth minimums.

While both UL and IUL products have seen their guaranteed rates drop, because of a degree of overlap between the two types of products guaranteed rates, indexed products with guaranteed growth rates are able to offer the steady floor of a traditional UL combined with a higher growth potential, particularly when the 3-5 year lag time traditionally exhibited between market growth and UL fixed rates is taken into account (this was addressed in last month's column). However, without a proper understanding of an individual index product's internal costs of insurance, this upside potential can be easily eroded.

While the internal pricing structure for both UL and IUL is similar, because of the added expense of market exposure in an IUL contract, carriers have chosen to build in those costs in a variety of ways. The traditional "V-shaped graph" that is so standard in universal life contracts is being adjusted in various ways to meet a variety of needs. Compound that with the various default index-crediting rates that Carriers use and it is clear that independent product analysis is a necessity for consumers. It is the arbitrage between the upside potential of an IUL and the increased internal costs of the product that must be evaluated when selecting an IUL product. As with most of finance, small deviations compounded overtime become drastic differences. Without proper independent analysis identifying this delta, a client may be giving up a significant portion of upside potential because of improper product fit. Further, without analysis, a client may be overpaying for indexed exposure.

Outside article this month from our friends at the AALU.

Another Case Involving the Taxation of the Lapse of a Life Insurance Policy Subject to an Outstanding Loan

Summary: The policy owner had been borrowing against his policy, until it lapsed subject to his outstanding loan. The taxpayer contended that the amount realized on the policy lapse included *only* the loan principal, *not* the interest that had accrued on the loan during its term. The Tax Court, in a memorandum decision, disagreed. It held that the amount realized on the lapse of the policy subject to the loan must include not only the loan principal but also *all* of the accrued interest.

For Further Reading: http://www.gbfinancial.com/publication/another-case-involing-the-taxation-of-the-lapse-of-a-life-insurance-policy-subject-to-an-outstanding-loan/wppa_open/