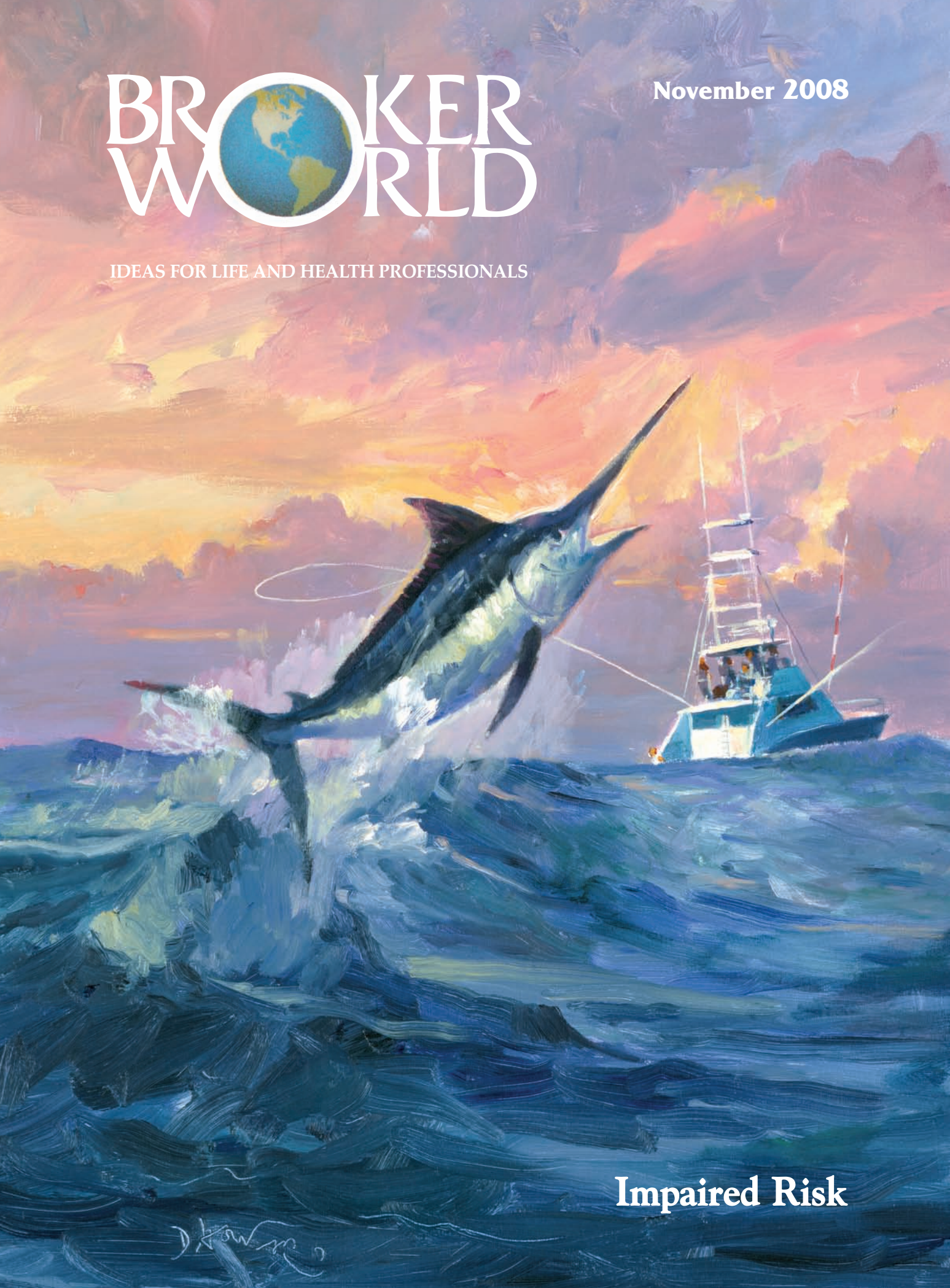


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IDEAS FOR LIFE AND HEALTH PROFESSIONALS



**Impaired Risk**



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# Six Opportunities For Impaired Risk Sales

*Impaired Risk* are two words that often strike fear in the hearts of many a life insurance producer. This label is a cause for alarm—it means trouble ahead for everything from underwriting issues to excessive delays and client distress. Many times advisors wonder if an impaired risk case will ever close and, even if it does, will it be worth the pain.

That's not all. There is also a natural worry about getting in over your head and not being prepared to handle the task of managing an impaired risk case.

While these concerns are understandable, impaired risk cases have become far more common than they were in the past, particularly as the population ages and with continuous advances in medical diagnostics.

From the perspective of growing a financial services practice and meeting client needs, it is worthwhile to consider the opportunities that can come from recognizing the impaired risk prospect.

The challenge for an advisor is to learn how to manage an impaired risk case, something that requires both an open mind and a positive but realistic attitude when working with a client.

**The key to success in handling an impaired risk case is managing client expectations.** This is where being realistic comes in. Many advisors are somewhat uncomfortable asking detailed medical questions for fear that this might upset the relationship with a client. This must be put to rest if an advisor wants to work on impaired risk cases—a thorough job of

fact-finding for medical and other risks is essential. There is also the need to prepare a clear description of the applicant's financial and personal objectives in applying for life insurance and how they will be met by the use of life insurance products.

To take this step further, an advisor must be skillful in overcoming client denial and even a lack of knowledge regarding the details of their own risk factors.

Finally, having a working knowledge of impaired risk underwriting and life products, along with their flexibility and cost structure, is necessary to help a client secure the needed coverage. This means obtaining a HIPAA authorization and fact-finder for securing pertinent information and to poll carriers.

The preliminary shopping can be accomplished in confidence, with the insurance companies considering the risk without divulging the client's identity until they make a formal application. The best method for shopping is to include as many of the appropriate carriers that should be considered and present written summaries for tentative quotes.

The shopping process results in a wide array of offers and the best (usually the lowest or lower price offer) is selected. Both the advisor and client benefit by knowing that they have secured an offer that best appreciates the client's unique risk factors. Further, there should be more flexibility for the advisor to craft the best program.

In summary, what does it take to obtain a proper hearing from underwriters on an impaired risk case? There's only one

answer: *obtaining complete and accurate information initially and presenting it to the insurance companies in a well-organized way.* An impaired risk case becomes a nightmare when underwriters are given inadequate, incomplete and inaccurate information.

With the proper preparation, any advisor can take advantage of a number of opportunities that are readily available in working on impaired risk cases.

Following are six concepts that work to the mutual benefit of client and producer.

**Concept 1—Take advantage of table shaving programs or a carrier's system of credits.** The table shaving strategy is an advantage offered by a limited number of well-rated carriers to clients up to age 70. What happens is that three to four tables are simply reduced to standard non-smoker rates for permanent products offered by the particular insurance carrier. These programs sometimes offer a reduction from a table six to table two.

Further, there may be additional credits available that can be used for particular clients to offer standard rates. For example, some life insurance companies offer discounts on their table rate cost structure so that when there is a rating, the impact is less than their competitors.

When using a universal life product under one of these scenarios, the dollar outlay can be less than for a term policy, which would not have the risk cost reduction options available.

The shaving program creates an intrinsic value for the impaired risk purchaser since it is priced the same as for much healthier prospects. Pointing this out to the client can become a compelling argument to make the purchase from you.

**Concept 2—Take advantage of survivorship with an uninsurable spouse or partner or highly rated impaired risk.** This technique provides a number of benefits and meets a number of different needs.

In addition, a healthy client can secure lower prices than would be possible with a single life policy. This type of policy is used when the need for the delivery of proceeds is *greatest at the second death.*

As you can see, there is a psychological benefit when the higher risk client is healthy enough to bring an advantage to the purchase. Many times an insurance company will consider one or both clients

more favorably, given that it is a second to die policy. What may appear to be a somewhat marginal difference or underwriting benefit can make a big difference in cost.

**Concept 3—Arbitrage, using a shaved or low-cost life policy in conjunction with an age-rated single premium immediate annuity.** This particular concept accounts for the funding of a substantial number of large sales, particularly when the clients are in their seventies and eighties. It's in these age groups where margins and arbitrage can be significant.

However, this approach also applies to both healthy and impaired clients, but requires diligent shopping for both products.

Needless to say, this strategy requires a knowledgeable client, on the one hand, and an advisor who understands both the leverage that can be gained and the use of irrevocable life insurance trusts and gifting on the other.

**Concept 4—Revisit prospects and clients with medical impairments, prior rated applications and current in-force rated policies.** Asking medical questions is a must, even though agents are reluctant to do so out of fear they will upset client relationships. Yet there's another way to look at it: Each client is unique and each medical impairment or risk has special circumstances that may allow a positive result. Pursuing all avenues diligently can often help in arriving at the best possible solution for the client.

It's also important to remember that situations change. Nothing stays the same and not all change is negative. Improvements in medical technology can allow carriers to improve on their prior offers.

Finally, dealing with client denial should be handled in a particularly sensitive manner. The insurance company's pricing structure needs to be explained gently so as not to threaten the client's sense of well-being. While there may not be enough time to become proficient in the medical and high-risk scenarios, producers can be active and understanding listeners.

**Concept 5—The cost of rated policies can be mitigated when used in a qualified plan.** The premiums and extra risk component resulting from the higher risk would be tax deductible to the entity that is sponsoring the plan. Examples of plans that this can apply to include money purchase

and defined benefit pension plans, Section 79 plans, as well as others.

Rated policy costs don't need to be a drag or a hindrance. The insurance can be purchased on a money purchase basis, using the DEFRA (Deficit Reduction Act of 1984) minimum face amount, and still secure the tax-free access, tax-free accumulation and a stepped-up basis at death as allowed by life insurance contracts. The life insurance charges are minimized and do not need to affect accumulation.

Most business owners or executives prefer having the company pay for their personal life insurance benefits, and many businesses have tax-deductible benefit plans that make this possible.

Recent changes in the laws allow highly paid or key personnel to secure disproportionately large contributions toward their retirement. A significant percentage of these contributions can be applied to the purchase of permanent life insurance.

In some plans the benefits are maintained despite the plan including a rated-up life policy on a key person. This method of funding rated policies is much easier to digest and does not require payment using after-tax dollars from the executive's personal checkbook.

**Concept 6—When faced with an uninsurable client and no real options appear, advisors need to be at their most creative and persuasive best.** Here's an example: Borrowing a healthy insured to substitute for an uninsurable has been used. However, we want to make it clear that this is not the same as a heart transplant!

Both the healthy and uninsurable individuals are alive. In this scenario, an insurable individual lends his insurability to the unhealthy person to the extent of the benefit needed by that person. Most assuredly, both the carrier and parties involved should be in concert with the particular family or business need, and there is usually a very close relationship between the parties and the beneficiaries.

One of the immense benefits of working impaired risk cases is the opportunity to be creative and resourceful in helping to improve a client's family or business relationship.

Moreover, the impaired risk case does more than just about anything else to demonstrate the immense value and flexibility that life insurance offers. 🌐