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Outlook 2010: Life Insurance

7 ideas on products, strategies and opportunities that can help you increase sales in the coming year.

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If any words can capture the mood of consumers in the year ahead, they are “gun-shy” and “upbeat.” Yet, if you want to understand your clients, this is a good place to start.

If you bring clients solutions that help increase their confidence and are consistent with their feelings about their future, you will be on track to do more business in 2010.

In other words, the issue is not life insurance products, but the ability of the products to deliver the results clients want and expect.

Here are seven significant ideas that can help meet the challenges and opportunities created by clients who are both cautious and optimistic.

1. Consumers want flexibility. While death benefits are a given, it's the flexibility offered by UL/permanent life products that has a strong appeal, as more consumers recognize the value of cash, which makes the tax deferred feature of UL/permanent life insurance particularly attractive.

If a policyholder needs money, it can be available tax-free (as long as it doesn't exceed what has been paid on the policy), either as a withdrawal or a loan. This is far more preferable than running balances on high-interest charge cards. The overloan features on some policies provide additional flexibility.

The shock of seeing their 401(k) accounts decimated by the drop in the stock market has made consumers far more security conscious. Even though the market delivered solid gains this past year, investment vehicles such as UL products that offer a floor as well as a ceiling give skittish consumers a needed level of security. While no single investment vehicle can meet a consumer's total needs, permanent life products offer the flexibility that many are looking for today.

2. Survivorship estate planning. As the history of life insurance makes clear, “everything that goes around comes around.” That's what's happening with survivorship life products, which are continuing to make an appearance after declining for several years.

Because the proceeds of this type of life policy are given to the beneficiary upon the death of the surviving spouse, the path where the money is going is completely clear so that there's no question about it winding up in the hands of the tax collector. As such, it's a simple and useful estate-planning tool and the cost is generally less than insuring two separate lives.

3. Hybrid permanent life insurance that does more. With the continuing escalation of medical, rehabilitation and nursing home costs, we all know the value of long-term care coverage — and so do your clients. But closing long-term care sales, particularly individual policies, remains stubbornly difficult.

Some life companies recognize that while consumers want LTC coverage, they don't act because of the cost. By packaging an LTC rider with a UL policy, they make both more appealing. While LTC riders may not be the perfect solution, they generally accelerate the benefits of the life policy to help cover long-term care expenses. If the rider is not used, the full benefits of the life policy remain intact.

As one company states, "It can be an affordable, hybrid solution to the 'use it or lose it' dilemma of traditional long-term care insurance."

4. Guarantees are disappearing. In 2009, the notices began arriving from insurance companies indicating that they were either repricing certain Guaranteed UL products or withdrawing them from the market. The repricing appears to increase premiums from 3% to 12%, depending on the carrier and the policyholder's age and health.

Return-of-Premium term products are following a similar pattern, along with the longer durations, generally 25- and 30-year guaranteed premium term life. Some companies have left the 30-term market and others may certainly follow along.

Premium increases began occurring in 2009 and it's prudent to expect that trend to continue.

These products are being impacted by changes in long-term interest rate assumptions that threaten profitability, substantial increases in the cost of capital reserve requirements and returns that are not meeting minimum objectives.

5. Strong corporate profits open the door of opportunity. With corporate profits rebounding as a result of belt-tightening, downsizing, increased efficiency and prudent decision-making, companies have available cash to enhance both executive and employee benefits, which may have lagged behind over the past few years. They will be looking for ways to reward valued employees for their loyalty during the trying times of the last three years.

At the same time, the recent layoffs have spotlighted the issue of portability and will be an attractive feature for insurance buyers of many small- and medium-sized companies.

It is also worth noting that as businesses emerge from recession pressures, they will be looking for ways to regain financial stability. Without question, many will be seeking other than traditional sources, after having been rather severely burned.

Finally, companies will be seeking cost-effective solutions for rewarding and retaining key employees, such as defined benefit plans and for funding business continuity programs.

Business owners and managers are consumers, too. And that's why UL products can be so effective, whether providing cash growth, executive bonuses, financing needed projects or supplemental retirement savings.

6. Clients are looking for an advanced level of service from advisors.

Consumers are expecting all their advisors — including insurance advisors — to be far more proactive than ever before. They don't want to hear about after-the-fact problems and they certainly don't want someone bringing them bad news.

With changes in life insurance policies, the economy and the life events of policyholders, annual policy reviews are an essential service of advisors. Like every other investment, life insurance policies require regular attention and maintenance. And that includes a review meeting with their policyholders.

Even relatively new life policies need regular scrutiny. Since we are living longer due to improved medical care and more effective medications, life underwriting is more liberal. It's quite possible that clients who bought policies just a few years ago can obtain more coverage at a lower cost today. The annual policy review is the opportunity to deliver this good news.

At the same time, consumers are far more aware than ever of policy performance issues, particularly if they have policies that have been in force for 15 years or longer. If a policy isn't performing on the assumptions of the original illustration, the review is the time to discuss options with a client.

More than anything else, it's an enormous opportunity to be of service to clients.

7. Look for increases in life product pricing. Consumers certainly have benefited from lower life insurance costs resulting from updated mortality tables, more appealing products, and marketing strategies such as table shaving.

After several years of surprisingly low prices, the pendulum began to swing in the other direction in 2009, and the upward trend will most certainly continue in the year ahead. The change is mainly due to weakened investment returns, tighter margins, higher reinsurance costs and the need for insurance companies to add to their reserves. All this is not unexpected and is a reflection of what is happening throughout the economy following the recent recession.

With a clear upward pricing trend, it is incumbent on advisors to let clients know there is a cost attached to waiting. These conversations can certainly include policy reviews to make sure their existing life program continues to meet their objectives.

If there is an overriding message in all this, it is that advisors are well-positioned with products and strategies that fit both the economic times and the expectations of clients. As consumers turn their attention to the future, particularly retirement, today's advisor comes armed with meaningful and trustworthy solutions.

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