

VisionLink

“5 Ways to Reduce the Cost of Your Company Paid Life Insurance...NOW”

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Financial Visions



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ADVISORY GROUP

February 26, 2009

Key Concepts



- Insurance costs are often easy to reduce (but they're hard to find)
- Some approaches reduce outlay and earnings impact (some do one or the other)
- In-force illustrations can reveal plenty of cost reduction solutions
- The best policies will lower costs for you—without you're asking

Life insurance is boring and technical so most people don't pay attention to it—at their peril.

Today's presenter

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Who's VisionLink?

- National compensation consulting firm
- Offices in 15 cities
- Full service design and administration of incentive plans (including long-term plans, deferred compensation, etc.)
- Expertise in insurance pricing

We're happy to provide a copy of today's slides. Information will be provided at the close of the presentation.

For questions during today's presentation:

Use the question panel to the right of your screen



Company paid life insurance

Key person

Executive benefits

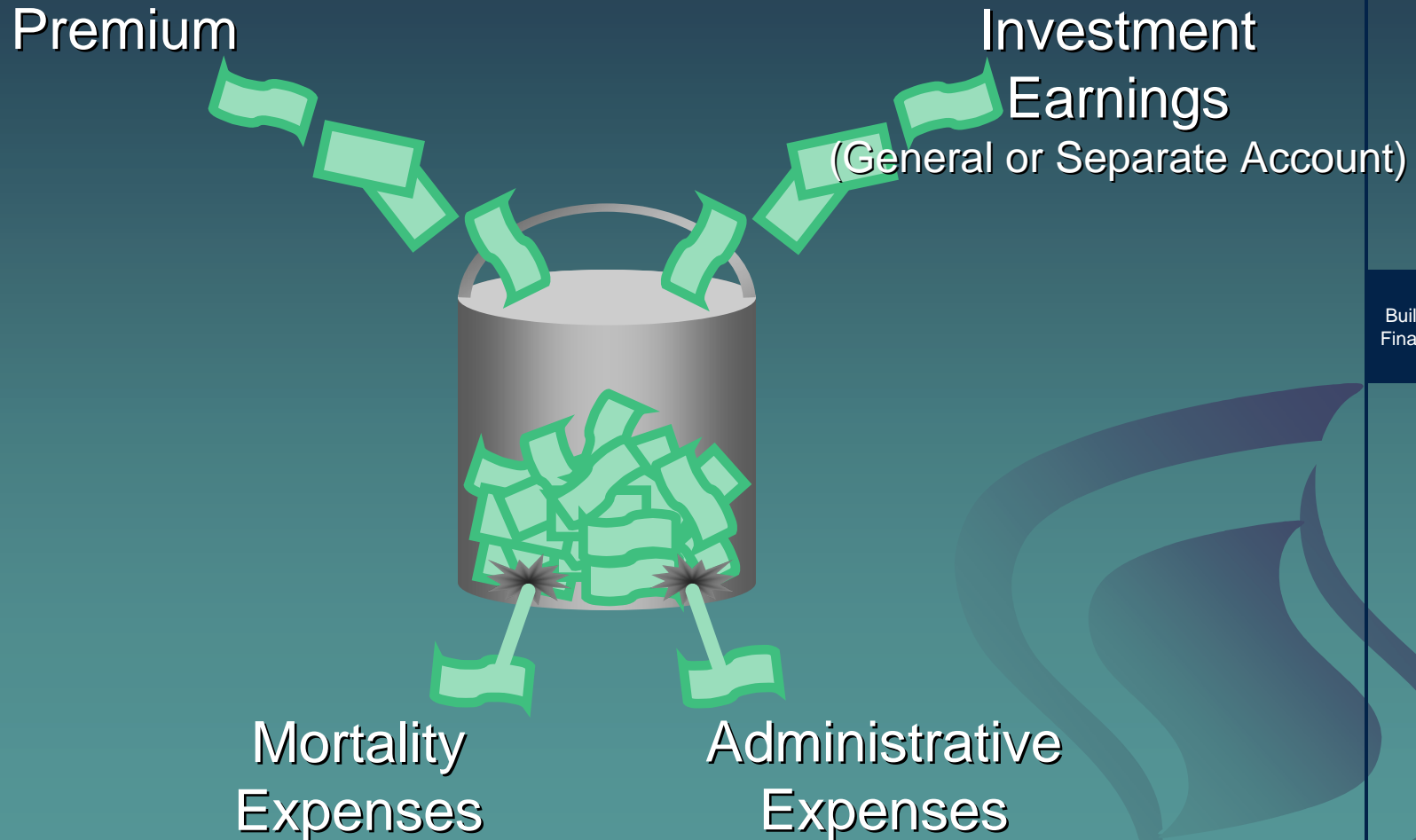
Split dollar

Buy-sell

Owner liquidity

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Basic policy operation



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What happens over time?

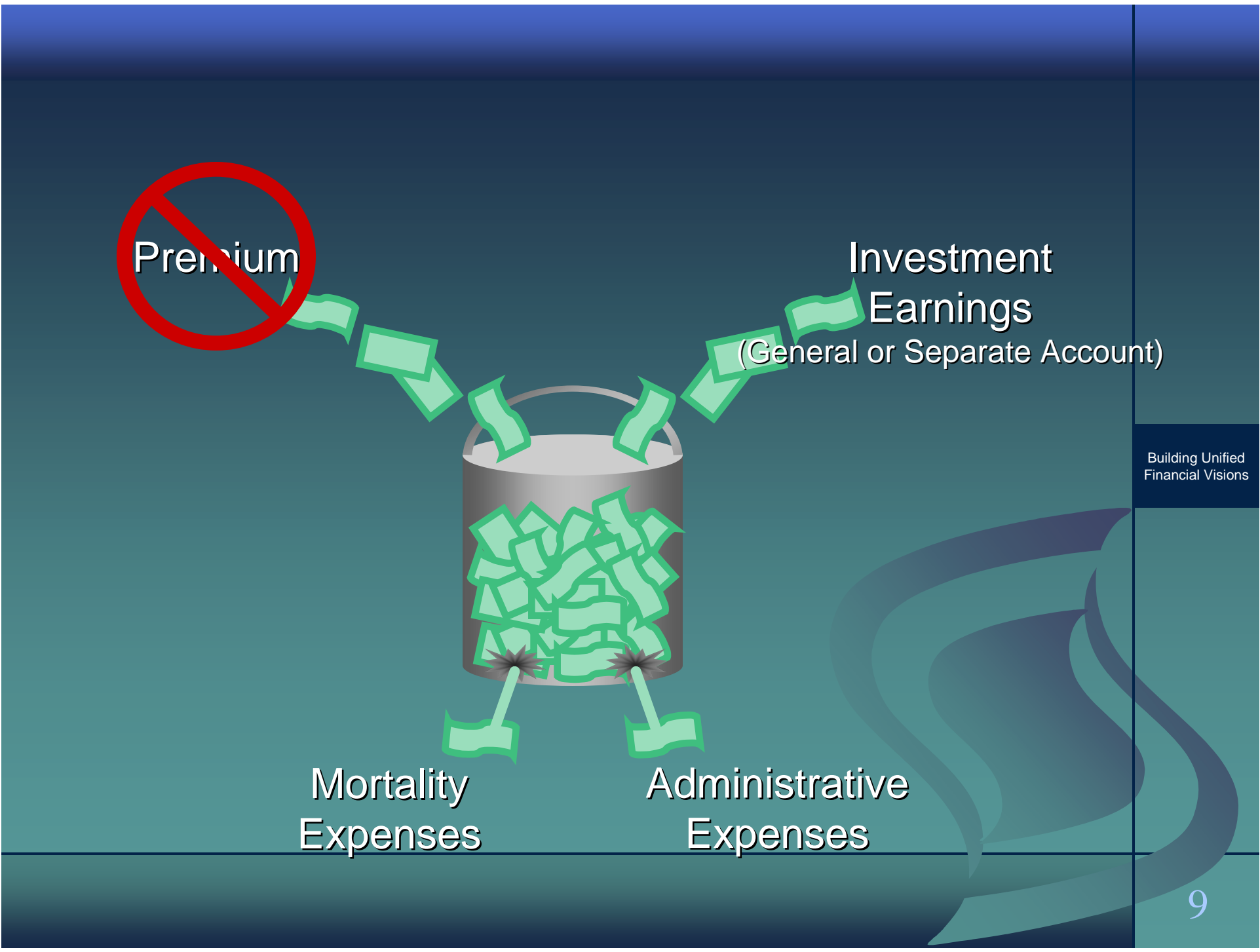
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~~Premium~~

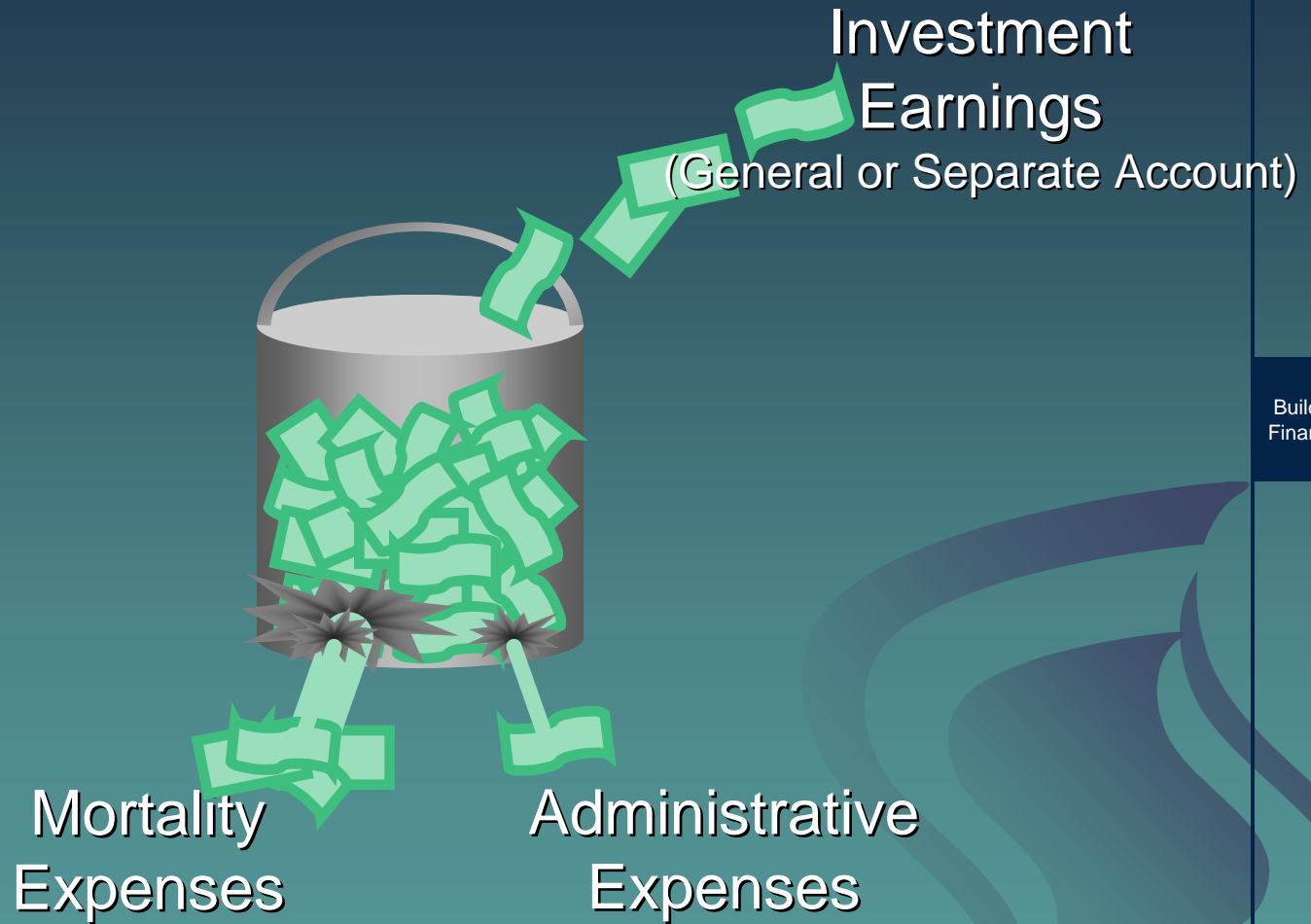
Investment
Earnings
(General or Separate Account)

Mortality
Expenses

Administrative
Expenses



But what if...



The keys to lowest possible outlay:

- Just enough premium
- Best possible earnings
- Lowest possible expenses

Lowest “cost”

- How much you pay (premium)
- How earnings are impacted

Earnings Impact

Premium Outlay	\$10,000
Increase in CSV	\$9,000
Earnings Impact	(\$1,000)

Premium Outlay	\$10,000
Increase in CSV	\$12,000
Earnings Impact	\$2,000

Today's environment

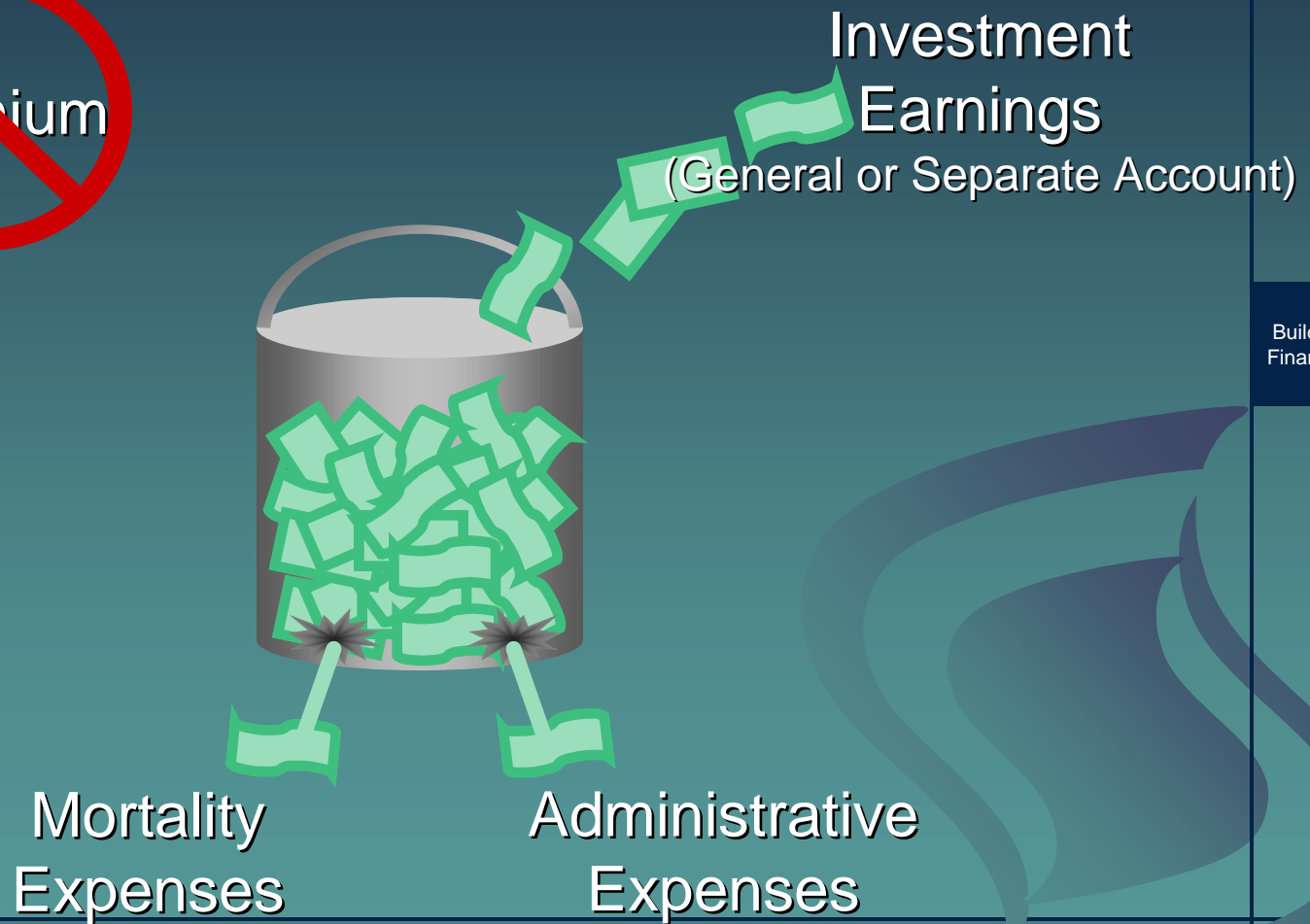
- Cash is tight
- Profits are lower

**Let's reduce
payments and
improve profits!**

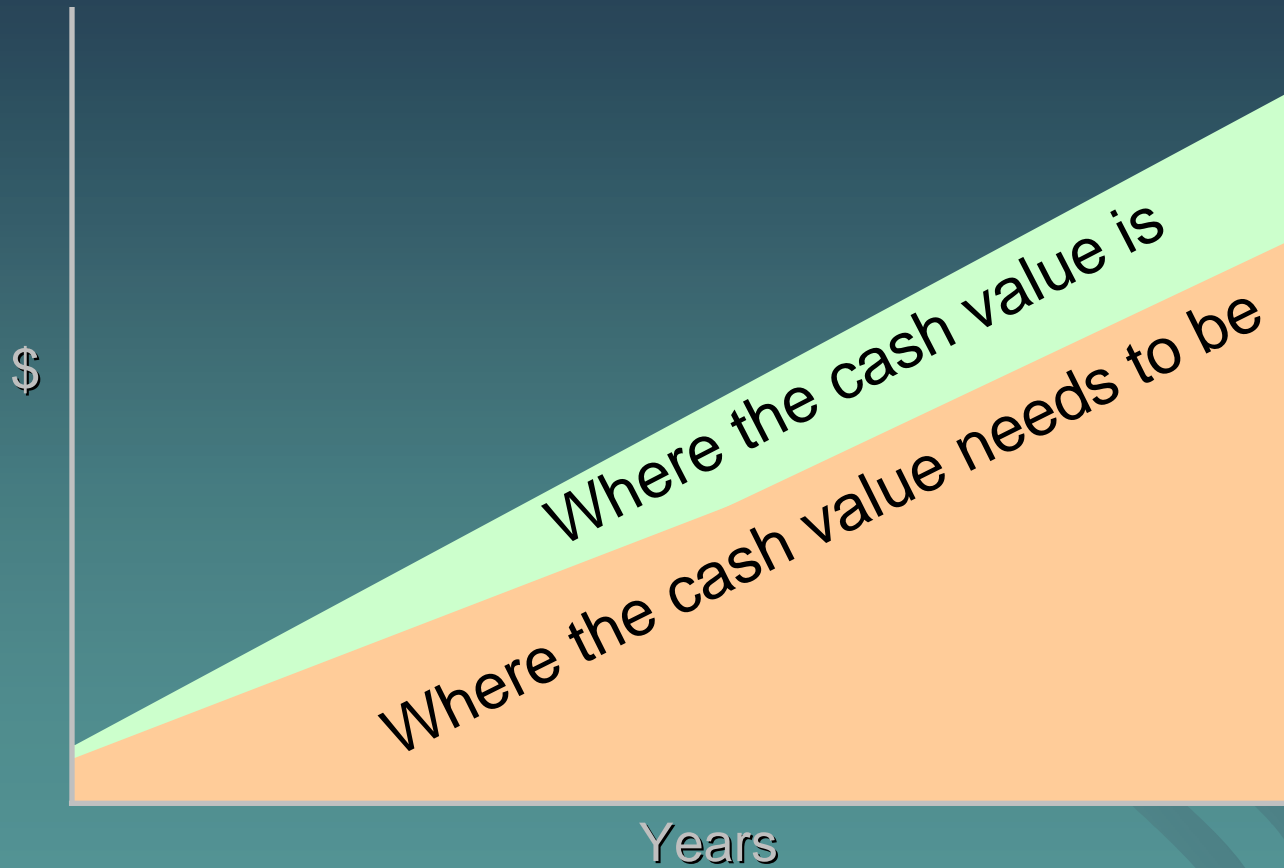
Five Solutions (plus 1)

- Skip
- Switch
- Lower
- Step up
- Negotiate
- Enhance

#1: Skip



Can you skip?



Can you skip?

- Order an “in-force illustration” from your insurance company
- Ask for:
 - Current premium illustration
 - “Skip premium” illustration (specify number of years)
 - Reduced outlay illustration
- Study cash value trail (what year does it run out?)

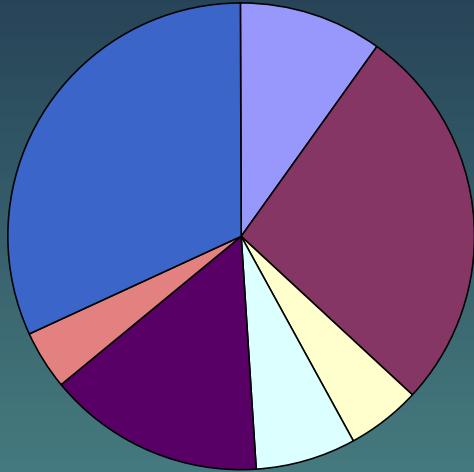
Cash and earnings impact “Skip”

Reduction in cash outlay?	Yes
Improved earnings?	Maybe

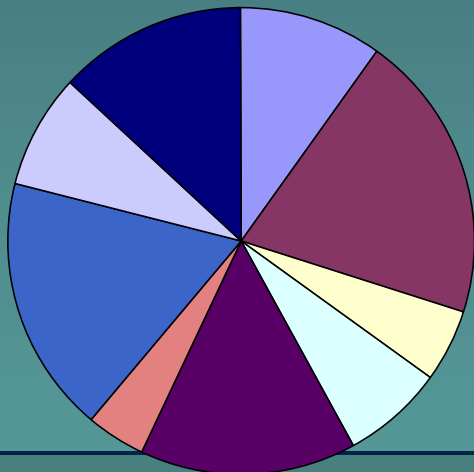
#2: Switch

- Variable policies?
 - What is your allocation between investment options?
 - What yield is most likely to be achieved?

#2: Switch



= 5.7% expected return



= 7.1% expected return

Switching Allocation Guidelines

- Select targeted allocation
- Follow strategic diversification principles
- Review and rebalance quarterly
- Make sure someone is in charge!
- NOW is a perfect time

After switching...

- Order an “in-force illustration” from your insurance company with new expected return
- Ask for:
 - Premium re-calculation and new rate
 - Be sure to request “gross rate”

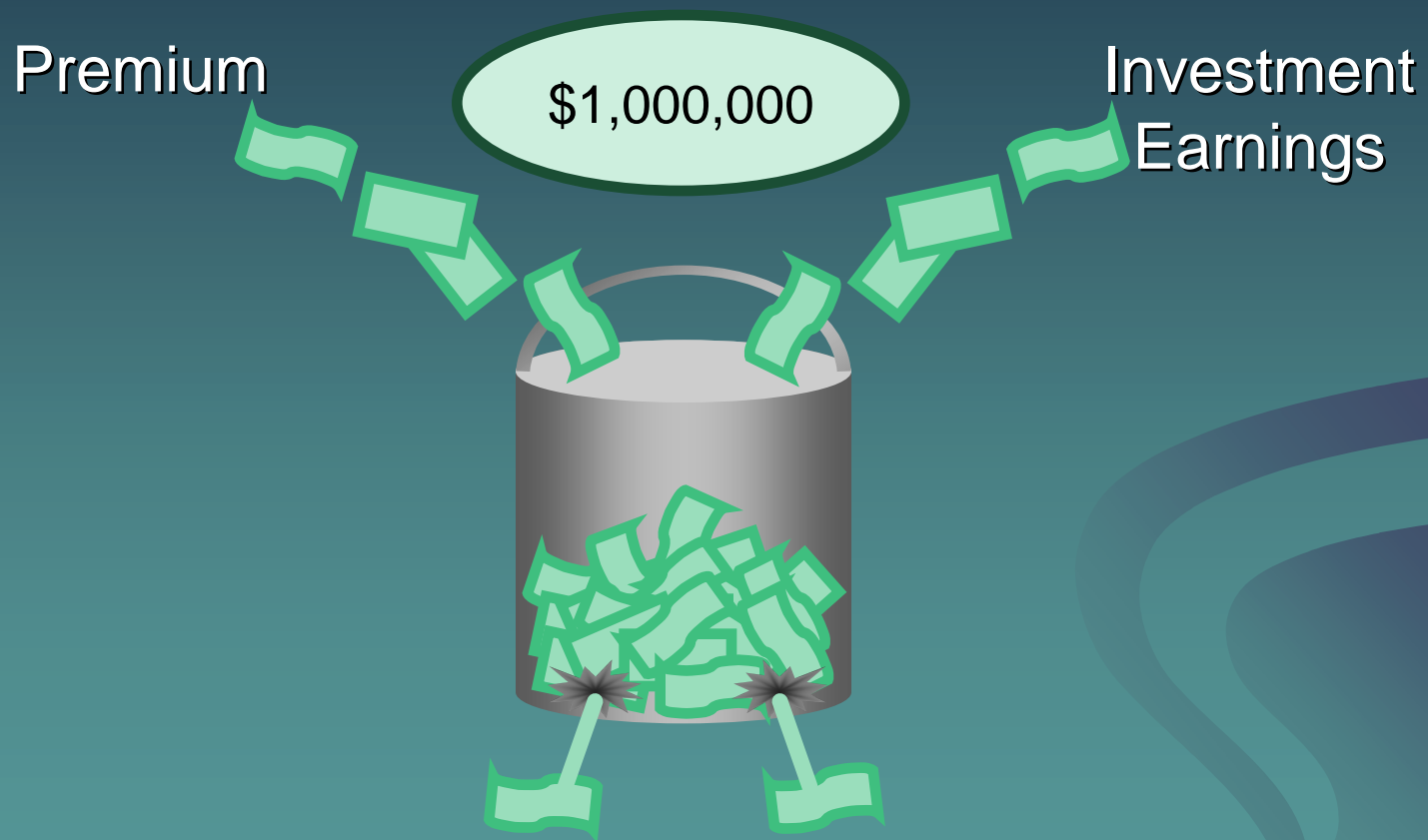
Cash and earnings impact “Switch”

Reduction in cash outlay?	Probably
Improved earnings?	Maybe

#3: Lower

- Most policies permit the Death Benefit to be lowered
- Lowering the DB reduces the monthly mortality expense

#3: Lower



#3: Lower



Should you lower the DB?

- NO—if the amount of DB was chosen to satisfy a specific need that still remains
- YES—if the amount of DB is not relevant to the need for the insurance
 - Deferred compensation plan
 - Tax-deferral program

Can you lower the DB?

- Not if the cumulative premiums approach the maximum 7-pay levels
- Not if the first year premium equaled the 7-pay premium
- Other exceptions may apply

How do I find out?

- Order an “in-force illustration” from your insurance company
- Ask for:
 - Lowest allowable death benefit
 - Skipped or lower premium schedule

Cash and earnings impact “Lower”

Reduction in cash outlay?	Yes
Improved earnings?	Maybe

#4: Step Up...

...from retail to corporate

Over 70% of insurance purchased
by businesses is retail-priced

Differences

Retail

- Priced for individual buyers
- Low minimums
- High early charges = low early cash values
- Full underwriting

Corporate

- Priced for corporate buyers
- Higher minimums
- Low early charges = high early cash values
- Simplified or no underwriting

Example

	Retail	Corporate
Premium	\$100,000	\$100,000
First Year CSV	\$30,000	\$105,000
Impact to Earnings	(\$70,000)	\$5,000

How do we step up?

- You might not be able to (within the same policy)
- Speak with a professional or the carrier directly
- If policies are relatively new...may be able to reissue
- Otherwise, may require replacement
 - Replacement may or may not be worthwhile

Cash and earnings impact “Step Up”

Reduction in cash outlay?	Maybe
Improved earnings?	Yes

#5: Negotiate

- What are you asking for?
 - “In-force re-pricing”
 - “Reduce the size of the hole in the bucket, or else”

How should this be approached?

1. Learn if you're priced at market (or above or below)
 - Probably requires professional help
2. Learn if your carrier has a history of in-force re-pricing
3. Submit request in writing
 - Be reasonable and specific

What should you expect?

- Most can't/won't do it (must do for entire class)
- There is a select list of carriers and policies that have a history of automatic in-force re-pricing

Cash and earnings impact “Negotiate”

Reduction in cash outlay?	Yes
Improved earnings?	Yes

#6: Replace

- Last resort—but may be worth it
- Two methods:
 - Surrender and re-purchase
 - 1035 Exchange
 - Preserves tax-advantages
 - Preserves death benefits

When is replacement justified?

1. Lower internal costs for the same level of death benefits (lower outlay for the same value)
2. Would like to lower death benefits but prohibited to do so within existing policies
3. Unable to get important features in existing policies

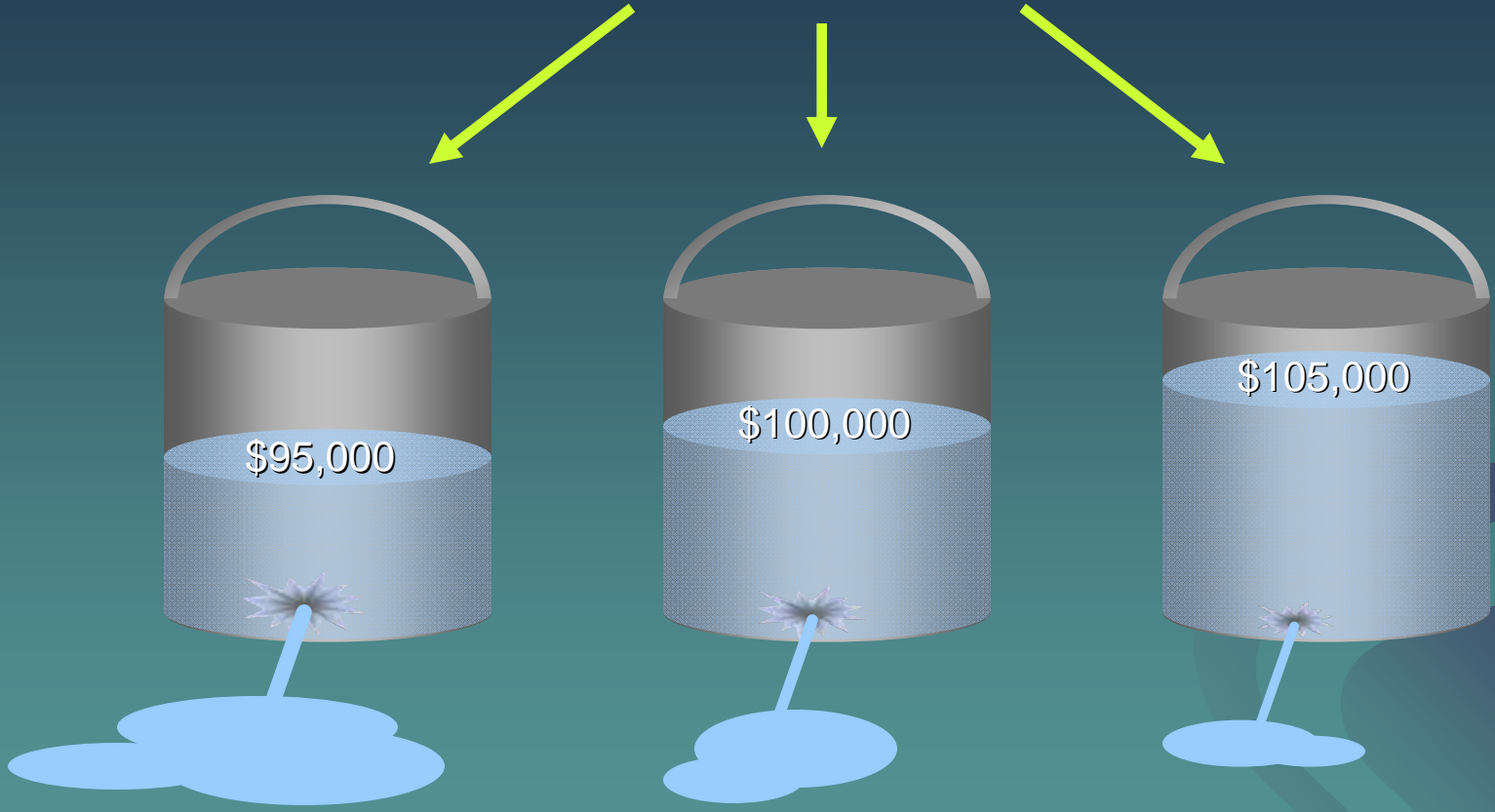
Comparative Analysis



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Judging Illustrations

\$100,000



Carrier A

Carrier B

Carrier C

Assumes same investment return

Comparison

- Identify multiple “brand” companies with COLI histories
- Run illustrations with:
 - Same death benefits
 - Same premium payments
 - Same rates of return
- Examine cash values in selected years

Comparison

- Can obtain exact charges (if you're an engineer)
- Will need help of licensed broker
 - Avoid captive agents
- Look for in-force re-pricing, guaranteed issue, servicing capabilities

Cash and earnings impact “Replace”

Reduction in cash outlay?	Yes
Improved earnings?	Yes

Summary

	Reduce Outlay	Improve Earnings
Skip	Yes	Maybe
Switch	Probably	Maybe
Lower	Yes	Maybe
Step Up	Maybe	Yes
Negotiate	Yes	Yes
Replace	Yes	Yes



Company paid life insurance

Best asset or worst asset?

Opportunities

- Responsible purchase of the right amount of death benefit
- Carefully designed and managed premium schedule
- Close attention to underlying investment allocation
- Periodic market review of costs
- Automatic in-force re-pricing
- Replacement as a last resort

\$_____ million?

Complimentary cost analysis

- Obtain in-force illustrations
- Do 3-carrier market comparison
- Complimentary and confidential

Thank you for attending

Please complete our survey form immediately following our presentation.

We value your input.

You may request a copy of our slides.

May request a complimentary cost analysis.

Thank You!



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