

Top 10 Reasons for A Policy Review

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INSURANCE



Like other financial assets, life insurance policies require ongoing management. A policy check-in helps ensure life insurance policies continue to address a client's changing needs and that the policies are performing as expected. A policy review also serves as a touch-point in an advisor's relationship with clients. Here are 10 reasons why a policy review is essential to the client-advisor relationship.

1. **Changes in Circumstances.** Life changes— such as a new marriage, a growing family, a higher net-worth, a new business venture or expansion, children leaving the household, special needs or circumstances that have emerged, increased debt or tax exposure, retirement or chronic illness concerns, and tax law changes— are all reasons why a policy review is necessary.
2. **Policy Performance Management.** Policies that were illustrated at rates that are inconsistent with today's economic environment may be underperforming expectations. That is, premiums may have been designed based on a higher crediting rate than currently credited, for example. Also, policies with step premiums, or that were under-funded, or funded with a combination of term and permanent coverage to minimize cash outlay, may require the payment of additional, unexpected premiums. A large policy loan impacts the amount of coverage and the performance of the policy over the long-term, as well, and must be regularly monitored and managed.

3. **Unsustainable Policy Loans.** Clients who have taken loans from their older policies to pay premium or to access cash may find that the loan, combined with high internal charges associated with older policies—like higher loan interest costs and internal policy fees—subject the policy to risk of lapse and potential taxation. In this case, a policy review may uncover options to 'rescue' the policy and restore the amount of protection needed.
4. **Availability of Newer, Less Costly Policies.** With the focus on fitness and healthier lifestyles by the general populations, and improved outcomes for many illnesses from medical advancements, some insurance carriers have made product innovations and overall pricing improvements. Thus, newer policies can be considerably less costly than older ones—potentially providing more coverage for the same premium.
5. **Underwriting Improvements.** Mortality costs associated with increased longevity may be much lower on newer policies, while advances in medicine and technology have led to pricing improvements and rating concessions and credits. Insurers also may now offer updated features and riders that can extend policy guarantees, or that provide additional living benefits to cover future chronic or critical illness needs.
6. **Life Stage Awareness.** Many clients who have had to deal with the long-term care needs of their parents have an acute awareness of this stage of life. Therefore, they are more likely to appreciate newer policies that may include riders that allow their existing life insurance protection to be used for their own chronic illness, long-term care or critical illness needs in the future.

Since life insurance can also address tax planning concerns at retirement, a policy review can highlight how a policy can be transformed later in life when the life insurance protection becomes secondary to tax-advantaged income needs— in the context of all income sources, social security benefits, and Medicare Part B premiums.

7. **Fiduciary Responsibility of Trustee.** Frequently, trust-owned life insurance is overlooked by trustees as an asset that requires active management like the other assets in a trust. However, trustees who view life insurance as a passive investment may unintentionally breach their fiduciary duties under the prudent investor rules. A commitment to a regularly scheduled policy review will go a long way to help the trustee ensure that the policy is not subject to risk, and that the policy performs as expected—ultimately providing the intended benefits for the trust beneficiaries.
8. **Estate Planning Follow-up.** Despite the estate tax cuts under the new tax act—which are set to expire in 2026— many affluent families, UHNW or not, desire liquidity for needs other than taxes— such as wealth creation, repayment of debt, the buy-out of assets amongst heirs or partners, to equalize an inheritance, or take care of a special need or circumstance, transfer a business interest, or even to replace wealth transferred to charity, for example. To these ends, life insurance continues to be critical in helping to create family liquidity efficiently. A policy review allows an advisor to provide an overview of the estate tax cuts and their expiration in 2026, as well as reevaluate all the liquidity needs the life insurance coverage addresses.
9. **Lower Insurer Financial Ratings.** Lower financial ratings may indicate the potential inability of an insurer to meet its contractual obligations. A regular policy review provides an advisor the opportunity to review financial ratings with the client to address any changes that may impact the policy.

10. **Availability of Tax-Free Exchange.** Outdated, higher-cost, less efficient policies that have appreciated in value can be exchanged on a tax-free basis for newer, lower costs ones. Oftentimes, the original coverage amount can be preserved, if not increased, while add-on benefits—like extending the length of a guarantee or including riders that cover future long-term care or critical illness needs—enhance the policy.

Feel free to call or email for a policy review.



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