
Life Insurance
A Professional Analysis and Review

A Guide for Clients
and
Financial Consultants

R. Michael Slaughter CFP, AEP, CLU, CRPC

RETIREMENT & ESTATE
PLANNING SERVICES

341 N. Caswell Road Charlotte, NC 28204 704-372-5520

R. Michael Slaughter

For almost 30 years, R. Michael Slaughter's financial consulting practice has focused on retirement, estate and tax planning strategies. Mr. Slaughter is President of Retirement & Estate Planning Services, Inc.



Mr. Slaughter received his Bachelor's Degree from the University of North Carolina at Chapel Hill. In 1980, he became a Chartered Life Underwriter (CLU) through the American College in Bryn Mawr, Pennsylvania and he received the Certified Financial Planner (CFP) designation from the College of Financial Planning in Denver, Colorado in 1983. The Life Underwriters Training Council and the National Association of Life Underwriters in Washington, D.C. named Mr. Slaughter a Life Underwriters Training Council Fellow (LUTC-F) in 1989. He received his Accredited Estate Planner (AEP) Designation in 1996. In 2007 he achieved the Chartered Retirement Planning Counselor designation also from the College of Financial Planning.

He is currently working and studying closely with CPA Ed Slott, one of the country's leading experts on IRA regulations and little known rules. Mr. Slaughter is one of Ed Slott's Elite Advisors that can be found at www.IRAHelp.com. He is also in a study group with Attorney Philip Kavesh who has developed a special stand-alone IRA Inheritance Trust and has obtained a private letter ruling for the document. Additionally, he is involved with Attorney David Zumpano, a nationally recognized Medicaid Practice Systems specialist focusing on asset protection particularly for seniors.

Mr. Slaughter has been an instructor of Finance and Insurance at the University of North Carolina at Charlotte and has served two years as President for the Charlotte Metrolina Entrepreneurial Council. Through his involvement in the educational and hands-on aspects of entrepreneurship, he has become aware of many unique issues facing business owners today. He is often used for financial consulting and/or implementation by property and casualty brokers, financial consultants, CPA firms, and law firms needing planning or life insurance audits for their business owners, professionals, and higher net-worth individuals.

The three most enjoyable practice areas that he speaks about are "The Biggest Mistakes Seniors Make with Their Money", "Retirement Cash Flow Planning", and "Estate and Asset Protection Planning."

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(704) 372-5520 * (800) 372-5520*

IS YOUR LIFE INSURANCE UP TO P.A.R.?

A Professional Analysis and Review will help your insurance keep pace with your life.

Your life insurance is one of the most valuable assets you own. It is there to take care of your family when you are no longer there to provide for them. Permanent life insurance can:

- ▶ Provide survivor income
- ▶ Insure that debts are paid
- ▶ Supplement your retirement income
- ▶ Insure your spouse's retirement
- ▶ Protect your estate
- ▶ Leave a legacy
- ▶ Protect your business
- ▶ Attract or retain a key employee

When your life insurance policies were purchased, certain assumptions were made -- assumptions about policy charges, interest rates, planned premiums, etc. Perhaps the original reason for your purchase still exists, or your needs might have changed, requiring more or less coverage. It is important to periodically review the status of your policy so that the life insurance you need will be there when you or your family need it. Our Life Insurance Professional Analysis and Review will help determine what your current needs are.

Reasons you should consider a Life Insurance Professional Analysis and Review:

- ◆ Your need for life insurance may have increased or decreased
- ◆ Extended periods of low interest rates may have affected policy performance and require more premium dollars to meet policy charges
- ◆ Your health might have improved, qualifying you for a better rating
- ◆ Your family or business situation may have changed
- ◆ Loans, withdrawals or other policy activity may have affected the policy's performance
- ◆ Premiums may not have been paid as planned

If you are considering making changes to your existing life insurance plan, then it is important to weigh the implications of your choice. There is no "right" answer, only the need to determine what is most important to you. Retirement & Estate Planning Services, Inc. can help you understand the pros and cons of your choices.

BENEFITS TO YOU

A life insurance “needs analysis” provides multiple benefits to you including opportunities to:

- ▶ Review your current situation and need for life insurance
- ▶ Determine if your existing policy/ies still meet your current needs
- ▶ Determine if a policy’s funding needs to be adjusted to meet your current life insurance needs
- ▶ Consider any possible improvement in your underwriting class
- ▶ Review any new riders that might be available
- ▶ Understand the provisions and benefits within your existing policy
- ▶ Consider alternatives that might better meet your needs, such as:
 - ▷ policies with secondary guarantees
 - ▷ extended maturity options
 - ▷ better loan provisions
 - ▷ lower policy charges
 - ▷ better underwriting classes

POSSIBLE REASONS TO KEEP AN EXISTING POLICY

New contestable period

Any time a new policy is purchased a new contestable period begins. Policies can be contested within the first two years after issue to discover if any material information was not revealed on the application that would have affected the insurer’s decision to issue the policy. For replacements with the same insurer, some companies apply a new contestable period only for an increase in the amount of insurance.

New suicide period

A new 2-year suicide period begins with a new policy. It is important that you are fully aware of this provision. For replacements with the same insurer, some companies apply a new suicide period only for any increase in the amount of insurance.

Existing loans

Some policies offer favorable loan interest rates or wash loans after a policy has been in force for a period of time, often 10 years. In some situations, loans are not transferable from one policy to another. Additionally, some insurers do not recognize the transfer of a loan as a tax-free exchange, even if the receiving company can accept a loan.

New acquisition costs

New life insurance contracts contain sales charges and acquisitions costs that must be recouped via the payment stream. Older policies may have already accounted for these charges.

Guaranteed crediting rates

There may be a higher guaranteed minimum interest crediting rate on an older policy.

Surrender period is less

Beginning a new life insurance policy also means a new period for surrender charges. It could be that your existing policy is almost out of the surrender period.

Special internal exchange rules

Some insurers have special internal exchange rules that may apply in the event the policy needs to be changed. This might include favorable underwriting, or waiving surrender charges on the transfer.

Change in underwriting status -- for the worse

If you have experienced an adverse change in your health, a new policy might mean a higher rating. It might be best to consider paying additional premium into the existing policy to keep it in force.

Legislative benefits — pre TAMRA, Cash Rich testing

Tax laws can change the definition of a life insurance policy, as well as how it is taxed. If a contract was issued before June 21, 1988, it may have some tax benefits that are not available with a new policy. Older policies are not governed under the rules for Modified Endowment Contracts (MEC). This rule severely reduces the amount of money that can be deposited in a life insurance policy in the early years without losing the “first in, first out” provision in life insurance. If a policy is a MEC, any money withdrawn is considered interest first, and subject to a 10 percent penalty before age 59½. In addition, the life insurance corridor amounts were much higher on policies issued before June 21, 1988, so there are much higher funding limits than policies issued after that date. Another date to remember is December 31, 1984 which relates to Cash Rich Testing, also known as the Recapture Ceiling Test. This usually occurs when there is a reduction in benefits under the contract (face reduction, PUA surrender, etc.). Policies issued before December 31, 1984 are not subject to this test.

POSSIBLE REASONS TO EXCHANGE POLICY

Secondary guarantees

One of the newer policy design features for universal life includes the ability to guarantee the death benefit based on a fixed premium structure. This guarantee applies even if there is a sustained drop in interest rates or if the current cash value declines or disappears. The real benefit to this type of policy is that you can be assured that the death benefit will be guaranteed, as long as the premium is paid according to schedule.

Better mortality

Along with dramatic improvements in medical science comes a corresponding increase in life expectancy. Due to this fact, many new policies have lower mortality expenses than existing policies, sometimes significantly lower.

Loan treatment

Having a significant loan on a policy may seem insurmountable, but this doesn't have to be the case. Under the 1035 exchange rules the IRS allows for the transfer of a loan along with the cash value from an existing life insurance policy to another life insurance policy, so long as you are also the owner of the policy. Some insurance policies offer attractive loan interest rates that might not be available on the existing policy. There may even be an option of a "wash loan," meaning that the interest that is credited on the loan amount is the same that is charged for the loan. This could be important if you do not plan to pay back the loan. Another potential benefit is the ability to use a cash withdrawal to completely or partially pay back the loan. However, you may not receive favorable tax treatment on the transfer if the purpose is to pay back the loan. If you wish to pay back the loan via a cash withdrawal, you may wish to consider paying back the policy loan in a different policy year. Remember, loans and withdrawals will reduce cash values and death benefits. Surrender charges and taxes may also apply.

More competitive plans

Whether it's a TV, computer, or an insurance product, improvements are inevitable and prices tend to decrease because of new innovations. In relation to life insurance products, insurers are cutting expenses and distribution costs. When this is combined with other pricing improvements, it can lead to a much more competitive product with lower costs and/or features and benefits not available on earlier plans.

Preferred and plus underwriting

When universal life was introduced 25 years ago, only two classes of standard underwriting were available, smoker and non-smoker. Since that time, these classes have been subdivided

into Preferred, Preferred Plus, and in some instances, Preferred Select Plus. This occurred first for the non-smoker class and later for the smoker class. If you fall into one of the preferred classes, you might benefit from the lower mortality charges in an exchange. Even if you fall into the standard class, it is possible that the mortality charges on your current policy might be lower than if you exchanged it for the same underwriting class on a new policy.

Special Underwriting programs

If you are currently rated, and the existing company won't remove the rating, it is possible that you could qualify under a special underwriting program. This is a program where rated cases through a certain table rating, often Table 3 or 4, could automatically be issued a standard rating. If your health has improved from a previous rating, or if your health is currently viewed more favorably, you might benefit from a program like this.

Extended maturity

Many existing policies have an age 85, 90 or 95 maturity date. When a policy matures, the policy cash values will become payable to the owner of the policy and taxes will be due on any gain. The insurance contract will be completed, so the face amount will not be paid. If you live to the maturity of your policy, another issue could arise related to loans. One of the real benefits to universal life is the ability to withdraw cash value up to basis tax deferred, then switch to loans, again tax deferred. If a policy matures with an outstanding loan or lapses, any gain that has been received is taxable. Paying income tax at that time can be devastating to a policy owner, as the taxes are due but there is usually not enough net cash value in the policy to pay the tax. This problem is avoided with some new policies which have no maturity date. They are designed to continue the death benefit as long as you live. At age 100, most charges are discontinued and any cash value continues to accumulate at the current interest rate. If loans exist, as long as there is a positive cash value, no tax will be due. At your death, the net death benefit is paid (face amount minus loans and withdrawals).

Company strength

One of the most important factors you should consider is the strength and stability of the issuing life insurance company. The higher the ratings of a company, the more likely this company is to keep its promises to its policyowners. Ratings are reviewed annually by third parties and vary by criteria.

Legislative benefits — pre TAMRA

Previously we mentioned that if a contract was issued before June 21, 1988, it may have some tax benefits that are not available with a new policy. If one of these plans is 1035 exchanged to a newer plan, it's very possible that the new plan won't be a MEC. When cash value is transferred from one policy and qualifies under the 1035 exchange provision, the cash value is not considered a single premium, but spread over several years.

WHAT DOES 1035 MEAN?

A 1035 exchange is the process of directly transferring accumulated funds in a life insurance policy or annuity policy to another life insurance policy or annuity policy without creating a taxable event. A 1035 exchange allows you to exchange outdated contracts for more current and efficient contracts, while preserving the original policy's tax basis and deferring recognition of gain for federal income tax purposes. Most insurers acknowledge Section 1035 of the IRS tax code as a tax-free exchange from one insurance policy to another and do not send a 1099. However, if the transfer of an outstanding loan is involved, some insurers still send a 1099 which must be explained on the tax return.

IN SUMMARY

It is always a good idea to review your situation every few years, and a Life Insurance Professional Analysis and Review offers an excellent opportunity to make sure that your insurance coverage is appropriate to your current situation. At Retirement and Estate Planning Services, we would begin to discuss your current situation in relation to your original and current goals. We will gather information about your policies and request several Illustrations from the issuing companies to see if your life insurance policy is on track, and if not, what is necessary to bring it up-to-date. After all information is received, our expert team will offer suggestions to adjust your current policy or suggest alternatives to help you reach your goals.

We all know that making periodic course adjustments along the way is important to "stay on course." Don't delay. Request a Life Insurance Professional Analysis and Review from our team at Retirement and Estate Planning Services today!

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What Is The Process?

*Determine your current needs and purpose for life insurance.
Does the existing amount and type of insurance meet your current requirements?*

Review and evaluate current policies and compare them to alternative solutions.

If existing policy is performing as expected or better, and if needs have not changed, no further analysis is needed.

Continue to review periodically to be sure policy is on course.

If existing policy is not performing as expected, or if needs have changed, determine action required to reach goal within the existing policy.

If funding needs to be increased to reach goal, or if the goal has changed, work with us to correct the situation within the existing policy.

If appropriate, consider other policies.

If appropriate, consider replacement with new policy.

Life Insurance
A Professional Analysis and Review

Sample Presentation

A life insurance audit

for:

Mr. John Smith

Presented By:

R. Michael Slaughter, CFP, CLU, AEP, CRPC

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CLIENT AND POLICY SUMMARY

John Smith (10-10-1933)

Current Insurance Company:

Sample Company

Product:

Universal Life

Death Benefit:

\$1,000,000

Current Annual Premium:

\$30,000

Policy Date:

6-17-1994

Policy Owner:

**Smith Family ILIT
James Fiduciary, Trustee
1st National Bank**

Objective:

Estate Liquidity

Audit Objective:

Evaluate Performance and Possible Alternatives

Policy Performance Assessment

Below is an assessment of the current and projected future performance of the existing policy based upon interest rates, cost of insurance, premium levels, and projected and guaranteed assumptions.

Sample Policy In-Force Ledger

1. The current net death benefit is \$1,000,000.
2. The annual premium is \$30,000.
3. The year end projected surrender value is \$284,823.
4. At the current funding level, current cost of insurance charges and current interest crediting rate, this policy is projected to remain in force to age 92.
5. At the current funding level, maximum cost of insurance charges and minimum interest crediting rate, this policy is projected to remain in force to age 82.

Policy Year	Non-Guaranteed Assumptions			
	Premium Outlay Annualized	Net Policy Value	Net Surrender Value	Net Death Benefit
13	0	284,823	284,823	1,000,000
14	30,000.00	305,466	305,466	1,000,000
15	30,000.00	325,105	325,105	1,000,000
16	30,000.00	343,500	343,500	1,000,000
17	30,000.00	360,233	360,233	1,000,000
18	30,000.00	375,232	375,232	1,000,000
19	30,000.00	388,158	388,158	1,000,000
20	30,000.00	398,697	398,697	1,000,000
21	30,000.00	406,301	406,301	1,000,000
22	30,000.00	410,139	410,139	1,000,000
25	30,000.00	386,022	386,022	1,000,000
AGE				
92	30,000.00	86,758	86,758	1,000,000

Policy Year	Guaranteed Assumptions			
	Premium Outlay Annualized	Net Policy Value	Net Surrender Value	Net Death Benefit
13	0	265,739	265,739	1,000,000
14	30,000.00	263,707	263,707	1,000,000
15	30,000.00	256,599	256,599	1,000,000
16	30,000.00	243,495	243,495	1,000,000
17	30,000.00	223,193	223,193	1,000,000
18	30,000.00	193,979	193,979	1,000,000
19	30,000.00	153,435	153,435	1,000,000
20	30,000.00	98,193	98,193	1,000,000
21	30,000.00	23,566	23,566	1,000,000
22	0.00	***	***	0
25	0.00	***	***	0
AGE				
92	0.00	***	***	0

Additional Analysis: Based on the current cost of insurance charges and the current crediting interest rate, the annual premium must be increased to \$36,500 in order to maintain coverage for life

SUMMARY OF OPTIONS

All rate class factors have been considered and applied to policies offered by over 50 life insurance companies. Often, the acquisition of a newer policy can lead to substantial cost improvements to the guaranteed or projected length of coverage. Four of the best alternatives are listed below.

Objective: Increase and Extend Coverage

Rank	Company Name	Rate Classes	Benefit Amt.	Premium	Carrier Ratings		Guaranteed To:	Projected To:
					A.M. Best	S&P		
1)	American General	Preferred Non-Smoker	\$1,725,700	\$30,000	A++	AA+	Lifetime	Lifetime
2)	ING	Preferred Non-Smoker	\$1,612,801	\$30,000	A+	AA	Lifetime	Lifetime
3)	Lincoln Benefit	Preferred Non-Smoker	\$1,602,976	\$30,000	A+	AA	Lifetime	Lifetime
4)	Jefferson Pilot	Preferred Non-Smoker	\$1,513,243	\$30,000	A++	AAA	Lifetime	Lifetime

The alternatives assume a 1035 exchange of \$284,823

Current Policy

Sample Company	Standard Nonsmoker	\$1,000,000	\$30,000	A++	AA	Age 82	Age 92
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Objective: Reduce Cost

Rank	Company Name	Rate Classes	Benefit Amt.	Premium	Carrier Ratings		Guaranteed To:	Projected To:
					A.M. Best	S&P		
1)	American General	Preferred Non-Smoker	\$1,000,000	\$7,677	A++	AA+	Lifetime	Lifetime
2)	ING	Preferred Non-Smoker	\$1,000,000	\$9,221	A+	AA	Lifetime	Lifetime
3)	Lincoln Benefit	Preferred Non-Smoker	\$1,000,000	\$9,466	A+	AA	Lifetime	Lifetime
4)	Jefferson Pilot	Preferred Non-Smoker	\$1,000,000	\$11,844	A++	AAA	Lifetime	Lifetime

The alternatives assume a first year lump sum of \$284,823.

Current Policy

Sample Company	Standard Nonsmoker	\$1,000,000	\$30,000	A+	AA+	Age 82	Age 92
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This report should only be used in conjunction with the complete illustrations, reports, and professional interpretation of a properly licensed representative.
This is not tax or legal advice.

SUMMARY COMPARISON

Objective: Cost Reduction – Increased Guarantees

	<u>(Sample Co.)</u>	<u>American General</u>
Annual Premium	\$30,000	\$7,677
Death Benefit	\$1,000,000	\$1,000,000
Years Guaranteed	8	Lifetime
Underwriting Rate Class	Non-Smoker	Preferred Non-Smoker
Company Ratings:		
AM Best	A++	A+
S & P	AA	AA+
Moody's	Aa3	Aa1
Fitch	AA	AA+
Comdex	93	97

Assumes all additional underwriting requirements are within American General's preferred non-smoker rate class. Assumes a 1035 exchange of \$284,823.

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CONCLUSION

Evaluation of the current policy suggests:

- Mortality class could be improved from non-smoker to preferred non-smoker.
- Policy is projected to lapse at age 93 at current funding levels
- Policy will lapse at age 83 at current funding levels and guaranteed assumptions
- The fair market value of the policy is \$284,823.
- *(Sample Company)* has a Comdex rating of 93, which indicates that approximately 93% of all rated life insurance companies are rated at or below *(Sample Company)*.

OPTIONS

1. **Make no changes to current life insurance policy.** Continue to pay current premium of **\$30,000** per year for the policy. Based on current assumptions, policy will lapse with no value or death benefit at age 93.

2. **Make adjustments to current life insurance policy.** In order for the policy to carry to maturity under its current assumptions, the premium payment will need to increase to **\$36,500 per year.** This amount is not guaranteed to remain at this level and may increase or decrease based upon actual performance.

3. **Acquire a new policy.** The new policy will have an annual premium of **\$7,677** – an annual reduction of **\$22,323 from the current premium**, or an additional reduction of the premium required to extend the current policy to maturity by **\$28,823 per year.** In addition, the death benefit amount and premium payments would be guaranteed for the life, providing the premiums are paid as scheduled and no withdrawals and/or loans are taken from the policy.
Medical testing and complete underwriting will be required to verify insurability.

4. **Acquire a new policy with a larger face amount.** The new policy would have an annual premium of \$30,000 but the face amount would be increased to **\$1,725,700.** In addition, the death benefit amount and premium payments would be guaranteed for life, providing the premiums are paid as scheduled and no with draws and/or loans are taken from the policy.
Medical testing and complete underwriting will be required to verify insurability.

I acknowledge that I have been presented with this policy analysis. I have reviewed it and understand my options.

At this time I wish to implement the following option (please check the appropriate box):

Option 1 Option 2 Option 3 Option 4

Insured/Owner Signature _____

Insured/Owner Printed: _____

Date: _____

What our clients are saying....

“My husband had a policy for 15 years and we were paying \$1,000 per year for a \$200,000 policy. Obviously, we were surprised that this policy would no longer be in force if he lived to age 83. I never realized the complexity and various options involved in life insurance until Mike explained it to me. We assumed that if we just paid our premium, we would have life insurance. Were we ever wrong! We were pleased that due to a better cost of insurance we were able to keep that same coverage on him forever with no more out of pocket and this time it was guaranteed.” *Betty... Charlotte, NC*

“We had two trust policies that were going to expire at my age 94. Premiums were \$58,000 per year for 1.1 million of coverage. This review helped me not only increase my coverage to 1.3 million but also reduced my outlay to \$48,000 and these policies are guaranteed for my entire life! Working with Mike was almost like working with my son, since he showed so much interest in my situation.” *Robert... Columbia, SC*

“Our law firm has several clients that have named us trustee of their Irrevocable Life Insurance Trust. As part of our fiduciary responsibility, we are now able to offer our clients a policy analysis and review through Retirement and Estate Planning Services for a very reasonable fee. We get three benefits from this service. First, we get to keep up with the dynamic financial projections of the insured policies. Secondly, we have an analysis of the policy or a “declination” of service signed by the client in the file. Finally, and most importantly, we are providing a value added aspect to the relationship with our clients.”
Steve... Raleigh, NC

“Many years ago a very nice and competent insurance person helped me purchase a small policy for my granddaughter. I didn’t pay much attention to it for several years and was amazed when I got a letter from the insurance company saying that the policy would lapse when she was 53. Even though this financial mishap would be 30 years away, I did not want to think that the policy would lapse when I was no longer living...I wanted to leave a true legacy. What we liked best was the excellent customer care we got. Whenever we called the office we got to speak with a real person who was extremely friendly...not some big corporate voicemail system.” *Ted... Greenville, SC*

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