

Life Insurance: Selected Topics for Financial Advisors

Presentation to The Alpha Group
March 17, 2005

1. No-lapse universal life

- a. Types of designs: stipulated premium vs. shadow account
- b. Advantages over nonguaranteed cash value products
 1. It requires less due diligence; what you see is what you get.
- c. Disadvantages over nonguaranteed cash value products
 1. You are locking in interest rates and mortality rates for life.
 2. There is usually only one policy design: level death benefit.
 3. Cash values are usually low.
 4. The no-lapse guarantee may not be honored if the issuer becomes insolvent.
 5. The issuer's administrative system may not calculate the values correctly.
- d. The great debate: Are insurers cheating on reserves?
 1. Why do reserves matter?
 2. Types of reserves: statutory, GAAP, tax, economic
 3. Reserves, risk-based capital, and asset adequacy analysis
 4. Formula-driven vs. principles-based approaches
 - a. Regulation XXX and Actuarial Guideline 38 (AXXX)
 - b. Actuarial Opinion and Memorandum Regulation (AOMR)
 - c. Risk management methods under development
- e. Choosing a no-lapse universal life policy and exploiting the options

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2. New valuation mortality table: 2001 CSO table

- a. Transition period; mandatory adoption by 2009
- b. Impact on use of cash value life insurance as an investment
- c. Impact on load structure of UL and VUL policies

3. Premium financing

- a. Can it work?
- b. What are the risks?

4. Valuation of life insurance policies in qualified plans

- a. Does it make sense to have life insurance policies in qualified plans?
- b. Proposed Treasury regulations (Feb. 2004)
- c. Final Treasury regulations (?)
- d. Valuation methods

5. Life settlements

- a. Monetizing underwriting concessions
- b. Alternatives to the current secondary market

6. Challenges for financial advisors

- a. Performing due diligence on nonguaranteed cash value products
- b. Evaluating combination products
- c. Evaluating variable annuity guarantees
- d. Which insurance products are worth paying for?