

## 2004 Update

I published *Life Insurance Sense and Nonsense* in December 1992, and the information that it contains remains just as relevant today. In the 1990s, the life insurance industry's image was tarnished by a wave of lawsuits alleging deception, and more lawsuits are possible. This is no surprise to those of us who regularly offer advice on insurance matters. We see deceptive sales practices frequently. Fortunately, most of the problems that people have with life insurance can be avoided by following the prudent investor's maxim to "investigate before you invest." With a few hours of work, you can greatly reduce the risk of making decisions that you'll regret later.

Here are some additional comments, by chapter:

**The Types of Life Insurance** No new types have emerged since 1992, but variable universal life and universal life with no-lapse guarantees have become more popular. Viatical and lifetime settlements and accelerated death benefits are now more widely accepted, and the tax treatment was clarified in 1996.

**Is Life Insurance Magic?** In the years since 1992, I have expanded the analysis of single-life vs. second-to-die policies to take account of different estate planning strategies. Because of the progressive estate tax rate structure, the financial advantage of second-to-die policies is partially offset by the higher tax liability at the second death. For a discussion, see "A Preview of Estate Planning in the 21st Century," *Contingencies*, July/August 1995 (available at [www.glenndaily.com](http://www.glenndaily.com)).

**How to Shop for Life Insurance** In December 1995, the National Association of Insurance Commissioners approved a model regulation governing sales illustrations. Although loopholes remain, this should end the worst illustration abuses; in particular, products that make extreme use of lapse-supported pricing should disappear. Some companies offer cash value policies with relatively low premiums guaranteed for 40 years or more. These policies are worth considering, but they are controversial and you need to understand the risks.

It is even more difficult to do life insurance product due diligence in 2004 than it was in 1992. The Illustration Questionnaire created and promoted by the Society of Financial Service Professionals (formerly the American Society of CLU & ChFC) did not receive support from life insurance companies, and it is no longer in use. The A.M. Best Company no longer publishes surveys of historical performance. The supplements to Schedule M and Exhibit 8 of the statutory annual statement are now consolidated as an attachment to Exhibit 5.

During the next few years, individual states will be adopting the 2001 Commissioners Standard Ordinary (CSO) mortality table as the basis for determining life insurance reserves, and this will have both good and bad effects on cash value policies. You should keep this development in mind as you go shopping.

Low-load life insurance policies continue to offer compelling advantages over traditional agent-sold products with high upfront commissions. The importance of high immediate cash values is supported by recent research in using option pricing theory to quantify the value of flexibility. For a discussion, see "Beyond put and calls: Option pricing as a powerful tool in decision-making," *The Actuary*, March 1996 (available at [www.glenndaily.com](http://www.glenndaily.com)).

Concerns that blended designs might be treated as modified endowment contracts (p. 34) have abated with the publication of three IRS private letter rulings (9513015, 9519023, 9741046).

Commission rebating in California suffered a blow in 1993 when an administrative law judge ruled that insurers had the right to terminate agents who offered rebates. However, rebating still continues on a limited scale in both California and Florida.

Variable life policyholders who have grievances may find that their ability to obtain redress in the courts has been severely damaged by the Securities Litigation Uniform Standards Act of 1998, also known as SLUSA. For an excellent discussion, see the October 2001 issue of *The Insurance Forum* ([www.theinsuranceforum.com](http://www.theinsuranceforum.com)).

When life insurance is purchased from an agent, some sophisticated buyers and their advisers are now requesting a service contract that spells out the agent's responsibilities after the sale, with appropriate penalties for nonperformance. A sample contract is available at [www.glenndaily.com/service.htm](http://www.glenndaily.com/service.htm).