The Zimdars Company, Inc.

WHO'S MANAGING YOUR LIFE INSURANCE PORTFOLIO?

A $1,000,000 portfolio of stocks and bonds is usually professionally managed and monitored on a monthly basis. Yet, we see people all the time with a life insurance portfolio of $1,000,000 or more that has not been carefully reviewed for many years.

When was the last time you had your life insurance policies reviewed and objectively analyzed? Why would you want to have this analysis done? Who wants to take the time to deal with their mortality, with life insurance agents trying to sell them something, and with products they do not understand, or spend more money on something they will not see or enjoy now?''

Examples of Portfolio Management Mishaps
These are some of the reasons people do not review their life insurance policies for years, or even decades. Often, there is a very high price for not paying attention to your life insurance portfolio. Here are some examples we have seen:

- A $500,000 life insurance death benefit was paid to a distant relative rather than the insured's family because the insured never changed a beneficiary designation. It is critically important that both primary and secondary beneficiary designations are correct for all life insurance death benefits, including employer-sponsored group term life insurance.

- A business owner bought a $1,000,000 key person life insurance policy in his corporation to protect the business and its lenders. When he died years later, the business was successful, and the owner's net worth was large enough to require estate tax payments. Because the owner had not reviewed his life insurance or removed the policy from the business, the death benefit was both income taxable and estate taxable before the money reached his family. The value of the death benefit was reduced by over $500,000 in taxes because of poor tax planning. This life insurance death benefit could have been 100% tax free to his family.

- A person bought an estate planning policy that appeared to have a very low premium because the life insurance company was "doing so well". Five years later, the life insurance company was insolvent. The person's life insurance continued through another insurance company, but the premium increased significantly. What appeared to be a "really good deal" was not! The person had not received good advice and did not monitor the financial ratings or performance of the life insurance company.

What has Changed
What has changed since you purchased your life insurance policies? Probably almost everything!

For example, life insurance policy interest rates have declined by more than 50% over the last 15 years in many policies. We have just ended a prolonged and dramatic decline in the US stock market. These two economic conditions have impacted almost every cash value life insurance policy. Many universal life insurance policies purchased 10-15 years ago with limited premium payments based on high interest rate assumptions are **not** paid-up permanent life insurance policies as they were projected and described to purchasers. Instead, these policies are often underfunded policies that are at risk to **lapse** before the insured's death. Will your life insurance policies be there for your family and your business when needed? Do not make any false assumptions.

The factors affecting a life insurance portfolio can create just as much need for change, management and performance monitoring as factors affecting a stock and bond portfolio. Some of these change factors include:

1. **Changes in business and personal life insurance needs**

   It has been our experience that business and personal life insurance needs usually change every two to five years. If your life insurance portfolio has not been reviewed during this time period, you could have too much, too little, or the wrong type of life insurance. Your policies could also have the wrong contractual arrangements (e.g. beneficiary designations).

2. **Income, estate and gift tax changes**

   The Internal Revenue Code is always changing. As an example, the federal estate tax is in flux, and the future structure of this tax is unknown. The federal estate tax is approximately 50% of all taxed assets, so what happens to this tax will have a large impact on the affected individuals and families. If an individual has an "incidence of owner ship" in a life insurance policy, the death benefit will be in their estate and potentially subject to this high tax rate. It has been our experience that people pay much more attention to the cost effectiveness of their life insurance rather than the tax effectiveness of their policies. It is possible to make a life insurance policy death benefit both income tax free and estate tax free, yet people often miss these opportunities. The tax effectiveness of a life insurance portfolio can have a much greater impact on the overall value of the insurance than the cost effectiveness of the policies.

3. **Changes in life insurance company products, performance and costs**

   The cost of life insurance has declined significantly in the last 10-15 years as life expectancy lengthens, especially for people who are healthy nonsmokers. Recently, we helped a person correct errors in life insurance purchased ten years ago at age 65. Some new insurance was purchased at age 75 without an increase in cost because the insured is in good health, and the cost of insurance and life insurance policy designs have both improved. A periodic review of life insurance policy costs and performance can often result in significant premium savings.
   Some insurance companies have improved their performance, and other life insurance companies have declined in their performance. There are over 1,200 life insurance companies. Is your life insurance with one of the 25-50 most cost effective companies? There is a huge difference in life insurance company performance that most people do not know because they do not ask the question on an ongoing basis and pay attention to the performance of their life insurance portfolio.

Finally, it is important to remember that almost all cash value policy illustrations are projections, not guarantees. Because of lower interest rates and past stock market declines, we strongly recommend that projections on cash value policies be updated based upon current economic conditions and current policy performance.

In an effort to reduce uncertainty, many life insurance companies have developed new policies in the past two years to guarantee a death benefit at a guaranteed and competitive premium rate. Life insurance companies are developing new products continuously to meet consumer needs in a very competitive environment.

In summary, there is more change with life insurance policies and the Internal Revenue Code than ever before. Historically, people have tried to avoid dealing with their life insurance portfolio because it is confusing, and it is difficult to get good, objective advice. However, the failure to actively manage and monitor a life insurance portfolio, like a well-managed investment portfolio, is much more likely than ever before to lead to higher premium costs, higher tax costs, and unexpectedly lapsing policies. These costs will be hundreds of thousands or even millions of dollar for many individuals and businesses.

Who is managing your life insurance portfolio? Please make sure that this portion of your financial affairs gets the active professional management required. Good life insurance portfolio management can generate large savings for you, your family and your business.

John C. Zimdars, Jr., CLU, ChFC is president of The Zimdars Company, Inc., a third generation life insurance sales and consulting firm based in Madison, Wisconsin since 1946. Mr. Zimdars has over 30 years experience in independent evaluation of life insurance companies and their policies. He is the originator of The Life Insurance Portfolio Management System‰, a fee consulting service to provide objective written analysis and management of life insurance portfolios for clients as well as their legal and tax advisors.

John C. Zimdars, Jr., CLU has over 30 years experience in the life insurance industry. As an independent advisor to his clients, he has evaluated life insurance companies and their policies for three decades. His combination of experience and objectivity makes him well qualified to provide this needed service.

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