

THE POWER OF POLICY REVIEW

CASE STUDY: ENHANCING COVERAGE WITH LONG-TERM CARE



As life insurance products evolve, their growing complexity introduces variables that can potentially compromise a policy's original purpose. An objective policy review is essential to mitigate risks and maximize policy effectiveness. In many cases, improved product offerings or changes in the needs of the policyholder create opportunities to enhance coverage.

FACTORS THAT CAN AFFECT POLICY PERFORMANCE:

Policy Administration: Timing of premium payments, withdrawal and loan payments, non-enacted planned events

Insurance Companies: Insurer strength and stability can change over time, servicing errors, changes to products/features

Policy Performance: Crediting rate and dividend changes, subaccount allocation and performance, cost of insurance increases

Industry and Environment: Low interest rate environment, changing laws and regulations, tax and estate implications



THE SITUATION

Brian Johnson¹, age 61, owned two old whole life policies on himself, but he was also interested in long-term care coverage. Brian felt he no longer needed the whole life coverage and planned to cancel the policies. Because he did not need the additional liquidity or income, he planned to reinvest the proceeds for either a legacy benefit for his kids or a pool of funds to use for long-term care. His advisor offered to review the old whole life policies for him before he decided to cancel the policies.



SUMMARY

After reviewing the whole life policies, Brian's advisor found that the cash value could be transferred tax-free to a new policy offering \$1,200,000 in death benefit with no further premium. The advisor presented Brian with three options – **Keep, Cancel, or Replace.**

	KEEP	CANCEL	REPLACE
Death Benefit	\$889,936	\$0	\$1,200,000
Living Benefits	\$0	\$0	\$1,200,000
Annual Premium	\$12,669	\$0	\$0
Use of Policy Values	Remains in the Policy	\$369,205 After-Tax Proceeds ¹	\$423,339 1035 Exchange
Tax Impact	None	\$154,668 Taxable Gain	None

¹ Net proceeds assuming 35% tax rate on \$154,668 taxable gain (\$423,339 cash surrender value less \$268,671 cost basis)



THE OUTCOME

Brian decided to move forward with replacing the whole life policies. The new coverage included the LTC rider allowing Brian to use the death benefit for future LTC expenses. Brian was amazed that he could get 35% more death benefit, add the desired LTC protection, and discontinue premium payments. He moved quickly to enhance his coverage as recommended.

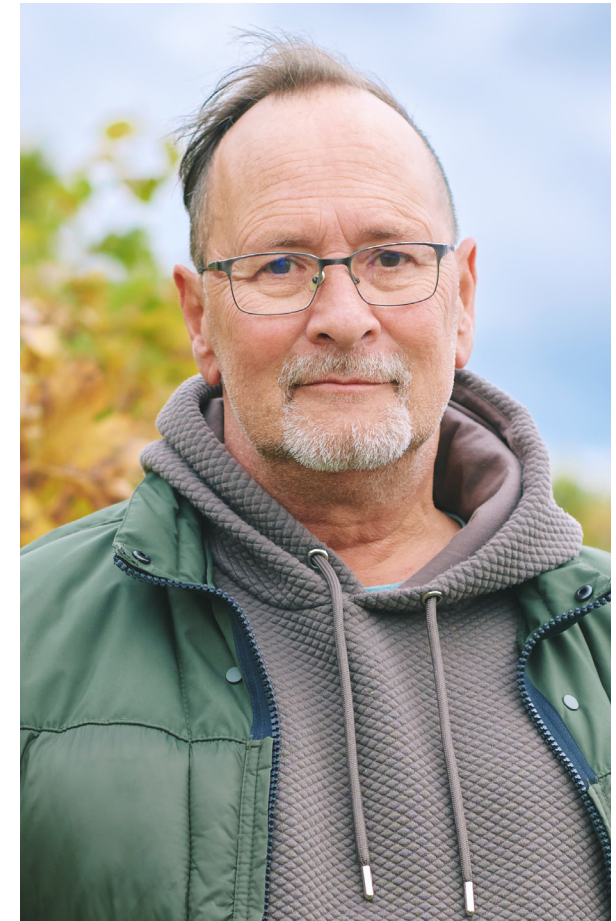
Increased coverage by 35%
Added LTC benefit, and eliminated premiums.



THE TAKEAWAY

An objective policy review is critical for ensuring policy effectiveness and identifying coverage enhancement opportunities. Please let us know if you have any policies that would benefit from an objective review and evaluation.

Has your policy been reviewed in the last 5 years?



¹ Name has been changed to protect the privacy of the individual represented in this case. Insurance reviews are unique to each individual and the experience listed in this case study is not indicative of common results. Results may vary depending on numerous factors.