

Bill Boersma – Blog

Putting Life Insurance Consulting Fees Into Perspective



Whether anyone likes it or not, we are all used to paying fees for services. In the investment management world, where it has largely gone from commission based to fee based, fees are a fact of life, the only question being, how much?

In the life insurance world, the idea of fee-based consulting, while gaining traction, is still a bit novel. Though tremendous benefit may be attained through a sophisticated, methodical, nuanced consulting and management process, it is still met with industry and market skepticism as it is “not the way we have done it in the past”.

Assume there is a \$5,000,000 trust owned life insurance policy and its performance and ultimate payout was crucial to estate tax and business succession planning? What would it be worth to ensure it was managed as effectively and efficiently as possible? To make sure it performed as projected or even paid a death benefit at all? I’d like to put this into context.

Let’s say you give an investment manager \$500,000. Let’s further say she will invest it over 30 years and we assume an 8% return over time and a 1% annual investment fee. Keeping this simple and ignoring taxes, at 8% the \$500,000 grows to \$5,000,000. What would you think the gross fees are over the 30 years? It’s surprising to most, but the answer is over \$600,000, or more than the original amount given to the investment manager! Even on a discounted basis, the net present value of

the fees represent a significant percentage of the entire initial investment. In the real world, the management fees would not be paid out of pocket but taken out of assets under management. In this case, if the assets grew at a net 7%, the end value would be \$3,800,000 which means the fees have a \$1,200,000 impact on the ending account balance.

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I am not going to argue about how much work it would be to manage a \$5,000,000 life insurance portfolio relative to a investment portfolio, but it is not uncommon that a modest \$2,500 one time fee, or even less, raises eyebrows, let alone an ongoing management fee.

Interestingly, even if an investment manager doesn’t do a great job, there will likely always be some value to the investment portfolio. On the other hand, if

the life insurance policy is mismanaged, or even just unmanaged, the entire policy could be lost, including all contributed premiums, cash value and death benefit. In some situations, a catastrophic phantom gain on collapsing policies can generate devastating tax results. What is it worth to make sure that doesn’t happen?

It isn’t uncommon for a good insurance management specialist to bring sophisticated strategies to the table which increase the internal rate of return on premium to death benefit by a couple hundred basis points. I have documented cases where our work has increased end values of policies literally by millions of dollars and/or saved tens of thousands, hundreds of thousands or even seven figures in cash flow. What would that be worth in a corresponding investment portfolio?

Life insurance is such a vital piece of so many financial, estate planning, business succession and charitable plans, it’s clearly time it is put on the same footing as other financial tools in regard to acquisition, strategy, management, divestiture, etc.

This material is for informational purposes only and should not be considered tax or legal advice. Any person needing tax or legal assistance should contact their respective advisors.

**OBJECTIVE INFORMATION
DRIVES INFORMED DECISIONS**



Life Insurance Consulting
Life Insurance Policy Management
Life Insurance Policy Audits
Policy Acquisition Support

Litigation Support

Life Settlement Services

INVESTMENT MANAGEMENT FEES

8% RETURN ON INVESTMENT – 1% FEE

Year	Beginning of Year Value	Interest Percentage Earned	Annual Interest Earned	End of Year Value	Fees
1	\$500,000.00	8.00%	40,000.00	\$540,000.00	\$5,400.00
2	\$540,000.00	8.00%	43,200.00	\$583,200.00	\$5,832.00
3	\$583,200.00	8.00%	46,656.00	\$629,856.00	\$6,298.56
4	\$629,856.00	8.00%	50,388.48	\$680,244.48	\$6,802.44
5	\$680,244.48	8.00%	54,419.56	\$734,664.04	\$7,346.64
6	\$734,664.04	8.00%	58,773.12	\$793,437.16	\$7,934.37
7	\$793,437.16	8.00%	63,474.97	\$856,912.13	\$8,569.12
8	\$856,912.13	8.00%	68,552.97	\$925,465.11	\$9,254.65
9	\$925,465.11	8.00%	74,037.21	\$999,502.31	\$9,995.02
10	\$999,502.31	8.00%	79,960.19	\$1,079,462.50	\$10,794.62
11	\$1,079,462.50	8.00%	86,357.00	\$1,165,819.50	\$11,658.19
12	\$1,165,819.50	8.00%	93,265.56	\$1,259,085.06	\$12,590.85
13	\$1,259,085.06	8.00%	100,726.80	\$1,359,811.86	\$13,598.12
14	\$1,359,811.86	8.00%	108,784.95	\$1,468,596.81	\$14,685.97
15	\$1,468,596.81	8.00%	117,487.74	\$1,586,084.56	\$15,860.85
16	\$1,586,084.56	8.00%	126,886.76	\$1,712,971.32	\$17,129.71
17	\$1,712,971.32	8.00%	137,037.71	\$1,850,009.03	\$18,500.09
18	\$1,850,009.03	8.00%	148,000.72	\$1,998,009.75	\$19,980.10
19	\$1,998,009.75	8.00%	159,840.78	\$2,157,850.53	\$21,578.51
20	\$2,157,850.53	8.00%	172,628.04	\$2,330,478.57	\$23,304.79
21	\$2,330,478.57	8.00%	186,438.29	\$2,516,916.86	\$25,169.17
22	\$2,516,916.86	8.00%	201,353.35	\$2,718,270.21	\$27,182.70
23	\$2,718,270.21	8.00%	217,461.62	\$2,935,731.82	\$29,357.32
24	\$2,935,731.82	8.00%	234,858.55	\$3,170,590.37	\$31,705.90
25	\$3,170,590.37	8.00%	253,647.23	\$3,424,237.60	\$34,242.38
26	\$3,424,237.60	8.00%	273,939.01	\$3,698,176.61	\$36,981.77
27	\$3,698,176.61	8.00%	295,854.13	\$3,994,030.73	\$39,940.31
28	\$3,994,030.73	8.00%	319,522.46	\$4,313,553.19	\$43,135.53
29	\$4,313,553.19	8.00%	345,084.26	\$4,658,637.45	\$46,586.37
30	\$4,658,637.45	8.00%	372,691.00	\$5,031,328.44	\$50,313.28
Total Fees					\$611,729.34

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