The Problem

While we don't want to give the impression that the sky is falling for every life insurance policy out there, it's a documented fact that most policies are underperforming the assumptions on which decisions were made and the policies procured. There is little understanding that the traditional guarantees of yesteryear have largely been replaced by computer modeling that assumes static crediting and expense charges when these variables are quite dynamic. This doesn't mean that most policies will fail, but it does mean that a majority of policies will pan out differently than expected. Even modern guaranteed policies need attention and are often misunderstood. In fact, life insurance may be the largest unmanaged asset class in the market.

Most people understand that if changing markets reduce the return on their retirement assets, they won't end up with the account balances they expected and their retirement dreams are at risk. Accordingly, you must periodically review assets, rebalance portfolios and adjust risk tolerances. But this is what most policy owners fail to do.

The bad news is that policy owners and their advisors are discovering the hard way that many policies on which they depend for family, business and estate security are collapsing and will never pay a death benefit without a substantial infusion of capital or an alternate reengineering of the policy due to significant changes in financial markets and lack of policy management. If even a policy with an annually paid premium and an increasing cash value may not have a life expectancy greater than the insured, is there anything one can take for granted?

There is nothing inherently right or wrong about whole life, universal life, variable life, term or any variation thereof. Each class of life insurance has strengths and weaknesses and individual situations and goals should determine which is most appropriate, not institutional indoctrination. However, each type of insurance needs to be managed and market forces have affected all life insurance.

When life insurance assets are not properly acquired and managed, clients are not getting what they paid for and their perception of the transaction and reality may diverge considerably. With a clear understanding of the market and a progressive, nuanced, methodical approach versus traditional insurance practices, policy owners and advisors can make purposeful, deliberate decisions and more easily maximize return on invested capital.

1444 Michigan Street, Grand Rapids, MI 49503
Tel (616) 456-1000 www.oc-lic.com

oc consulting group