“Shooting from the Hip” – Hit or Miss?

An attorney member of the Wealth Council posted a question on the list serve asking for referrals to a fee-based life insurance advisor. Another member directed him to me and I ended up in an engagement with his client.

It turns out a woman in her eighties had recently lost her husband and someone had advised her and her family that the $1,500,000 of insurance in force on her life was “garbage” and they should get rid of it.

Fortunately, the attorney recommended an independent analysis before any action was taken. It ended up that there were two policies, one for $500,000 and one for $1,000,000. One was originally a survivor life policy. The $500,000 policy was a well-funded Guaranteed UL policy with a highly rated and well respected carrier. The $1,000,000 was with another decent carrier and was a current assumption UL contract which was modestly underfunded.

My analysis consisted of getting signed authorizations and ordering an array of in-force ledgers from each carrier for multiple funding scenarios. In the end I put together a spreadsheet showing the full-pay and various short pay premiums required to hold the policy for a variety of durations and calculated the internal rate of return (IRR) on cash value and required premiums to future death benefit at multiple ages.

What we found was remarkable. The IRR at actuarial life expectancy for the GUL policy was roughly 8% net. The other policy was only marginally behind. In the worst case scenario, well past life expectancy, for the less attractive of the two policies, the IRR on a conservative, net after tax basis was clearly attractive and non-duplicable.

My biggest challenge ended up being able to convince the advisor and trustee that the numbers were real as they seemed too attractive. We went through the calculations step by step and they thoroughly understood my methodology, which was no different than calculating the projected return on any other financial, real estate or business transaction. In the end, two policies which the family was urged to chuck, once objectively and unemotionally vetted, turned out to be exceptionally valuable estate assets.

The moral of this story is that I often see advisors and clients “shooting from the hip” or making a “gut decision” when it often is exactly the wrong thing to do. The incredibly misunderstood nature of life insurance regularly results in people acting in a way they seldom would in many other situations. Even if these policies didn't turn out to be as great as they were, maybe a life settlement would have provided fantastic value.