

# Independent Modeling & Stress Testing

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One drawback of modern life insurance illustration systems is that they cannot model real life scenarios. Most take current assumptions relative to expenses and crediting rates and project them indefinitely into the future without change. Clearly this will not happen. In the real world, these policy variables are dynamic, not static.

Essentially, the modern life insurance illustration system is basis on providing prospective policy owners a projection of something which is literally impossible to pan out. The problem is that many, if not most, policy owners do not understand this.

Performing independent modeling and stress testing can be invaluable in determining proper policy design and funding levels.

In one situation an attorney brought me in to, a client was on the verge of putting seven figure of premiums into an eight figure death benefit. Through modeling and testing I determine the policy had almost a zero chance of ultimately paying a death benefit. In fact, a single basis point change in crediting assumptions caused the policy to burn through million of dollars of cash value and fail.

Would you ever get on a new airplane which has never flown before but hypothetically should according to plans but had never been tested? What if you could be shown it should fly well if it was always 70 degrees, sunny and there was no wind but none ever flew it in inclement conditions. Might it not be a good idea to model if it could stay in the air in less than ideal conditions before getting in it yourself?