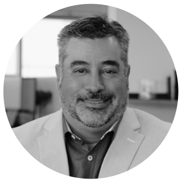
PROFORMEX

5 Client Conversations For 2023



WRITTEN BY
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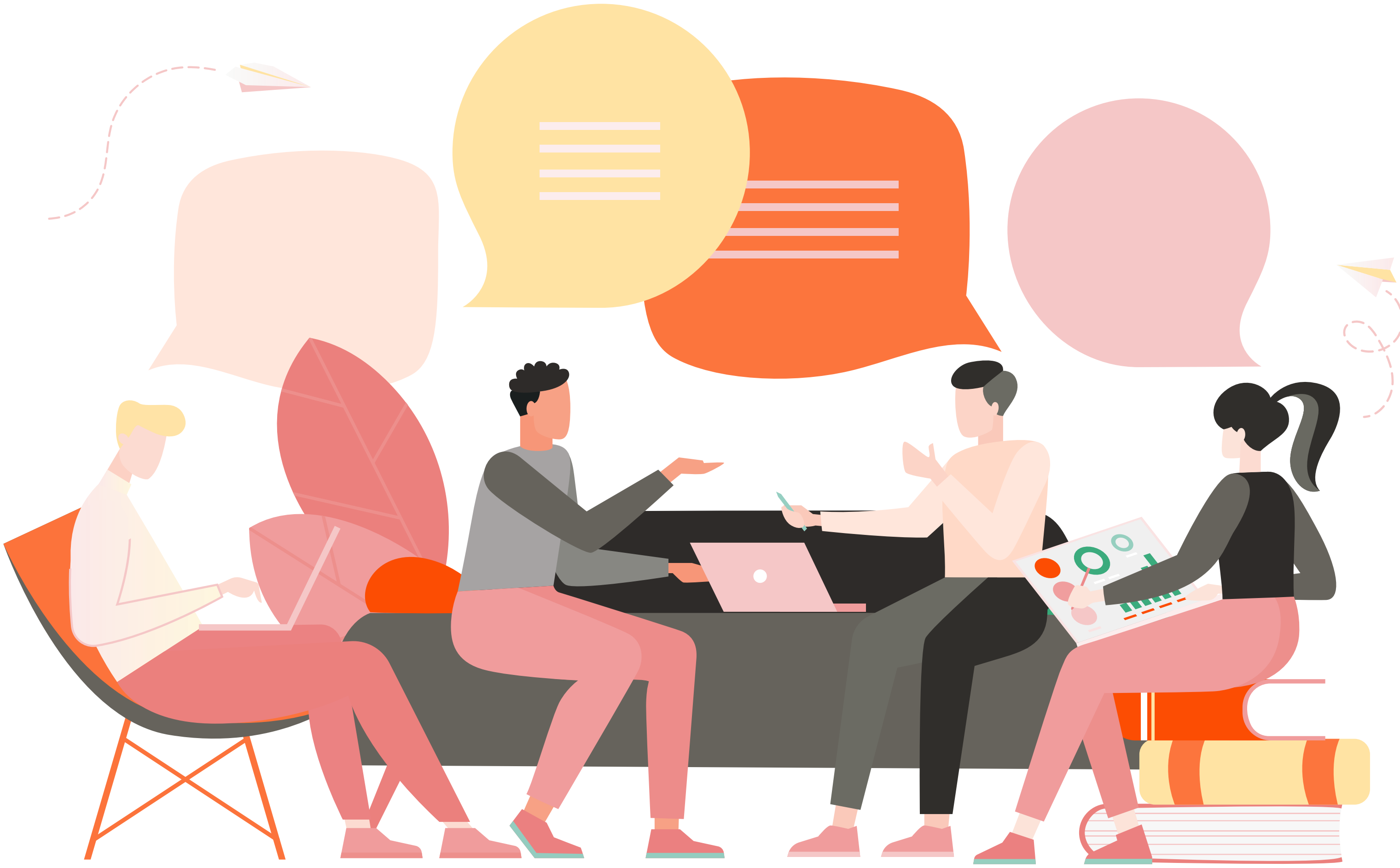
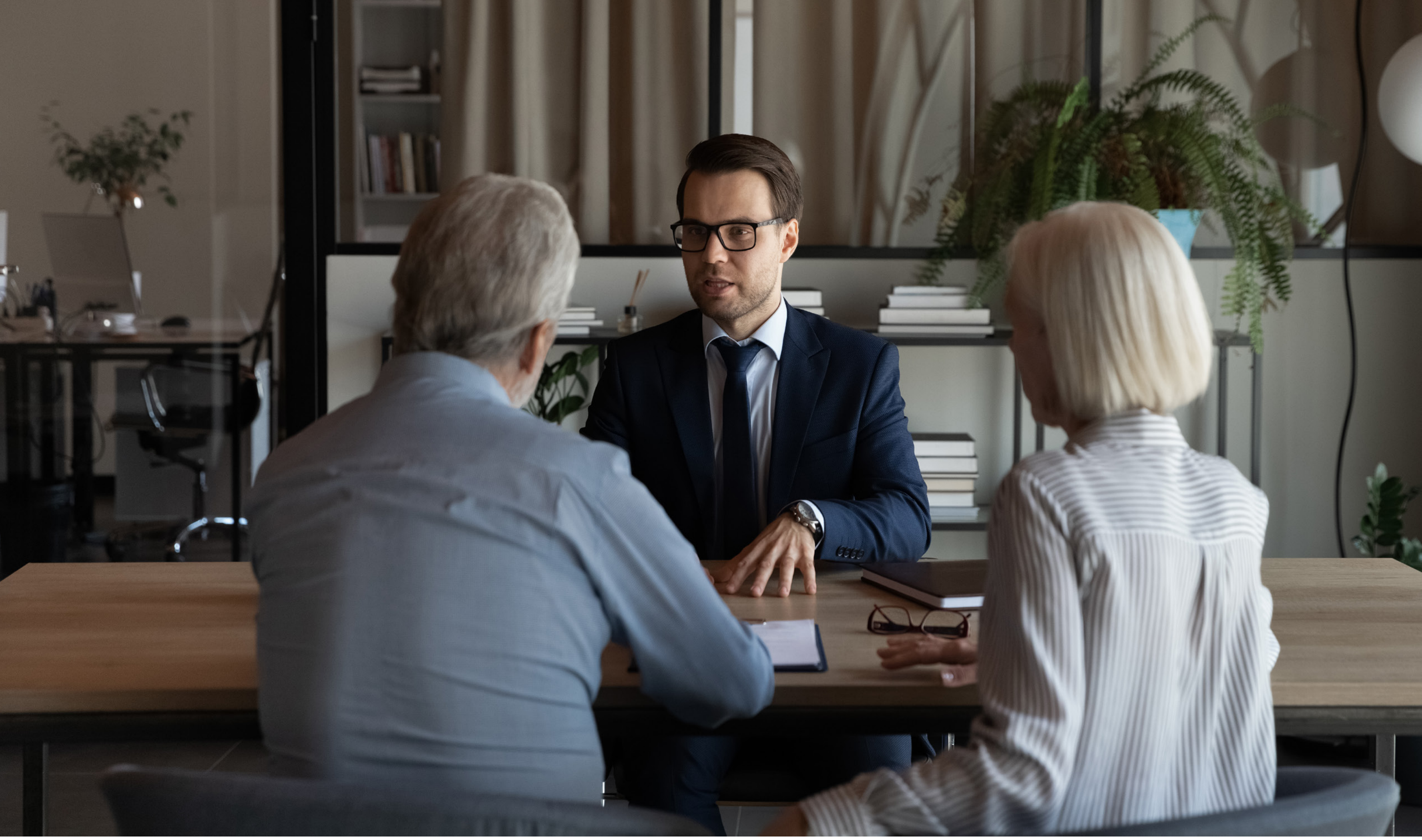




It's time to start thinking about 2023 and how you can help your clients.

Below are 5 client conversations you should be having in 2023. With these conversations you can easily turn routine service into client relationship building interactions and new sales opportunities.

1. Do you have enough life insurance to offset market losses, volatility, and inflation?

What assumptions did you use when you looked at survivor needs to arrive at an amount of death benefit protection needed for your clients? People probably used rosy return assumptions and ignored the risk of inflation since markets had been great and inflation was an afterthought. Assuming principal is exhausted, the amount of death benefit needed to provide $10k per month for 30 years assuming a 7% return and 0% inflation is $1.51M. Assuming 4% inflation rather than 0% drives up the death benefit need by 58% to $2.38%. Dropping the return assumption by 1% to cushion against down markets and including 4% inflation, the need jumps by 79% to $2.71M!

Don't let your clients get whacked by inflation and markets. You should explain to them the impact inflation and markets have on their protection needs and help them determine if they are comfortable with current protection levels or if they want to increase their protection levels to reflect the realities of today.

2. Don't leave your cash value on the sideline.

If you own a policy with significant cash value, you may be able to put that cash value to better use temporarily. Credit card interest rates are rising significantly as general interest rates increase. This can make it harder to pay down those credit card balances. However, you could tap into a lower interest policy loan to pay off the credit card balances and redirect the credit card payments to repaying your policy loan.

Many policies have low cost policy loan provisions. Some are as low as 1-2% but most range between 4-8% - much better than the average credit card interest rate of 22.21% 1 . A $200 monthly payment on $10,000 of credit card debt at 22.21% interest will take nearly 12 years to pay off. The same payment on a policy loan with a 4% interest rate will take less than 5 years to pay off – saving you over $17,000 in interest along the way. Even an 8% policy loan rate pays off the loan in just over 5 years and saves $16,000 in interest.

Obviously, not all policy structures are appropriate for such a strategy and borrowing has ramifications, but it can be a solid option for a well-managed policy with favorable loan provisions. **Your client may not even realize this is a possibility if you don't bring it up in conversation.**

3. Permanent life insurance is a solid financial backstop.

While life insurance obviously provides a cash infusion in the event of death, your clients may not realize how it can provide a financial backstop beyond just death. If your clients have a desired amount of money to leave their children, a life insurance policy can ensure that amount is always available and other assets are just gravy. Even more important is that the life insurance may be insulated from market and other economic fluctuations so that a market downturn of 15-25% doesn't scuttle the desired inheritance plans.

What if your clients need to spend more of their savings during retirement because of inflation or unexpected medical bills? **Having a life insurance policy backstop can allow the clients to spend more of their assets if needed while still passing along a baseline amount at death to their children.**

Even life insurance cash values can provide a financial backstop. Permanent policies may be surrendered for their cash value if needed for current income or even sold as a life settlement. There are even life settlements available for healthy insureds. Cash value may be available for loans or withdrawals as well.

4. Don’t let your “good” term conversion expire.

Term insurance used to be simple. If the premium was level for 10 years, you could convert 10 years to any product subject to some age cap like age 70. That’s not the world today. **Term policies rarely give you a conversion right for the full level term duration** (unless you pay extra for a conversion extension rider). Even worse, many policies only allow conversion to any product for a subset of the conversion window – maybe 4-7 years. After that, you’re stuck using a horribly expensive “(we don’t really want you to convert now) conversion product”. So, that 10 year term may really only have a 4-7 year “good” conversion window.

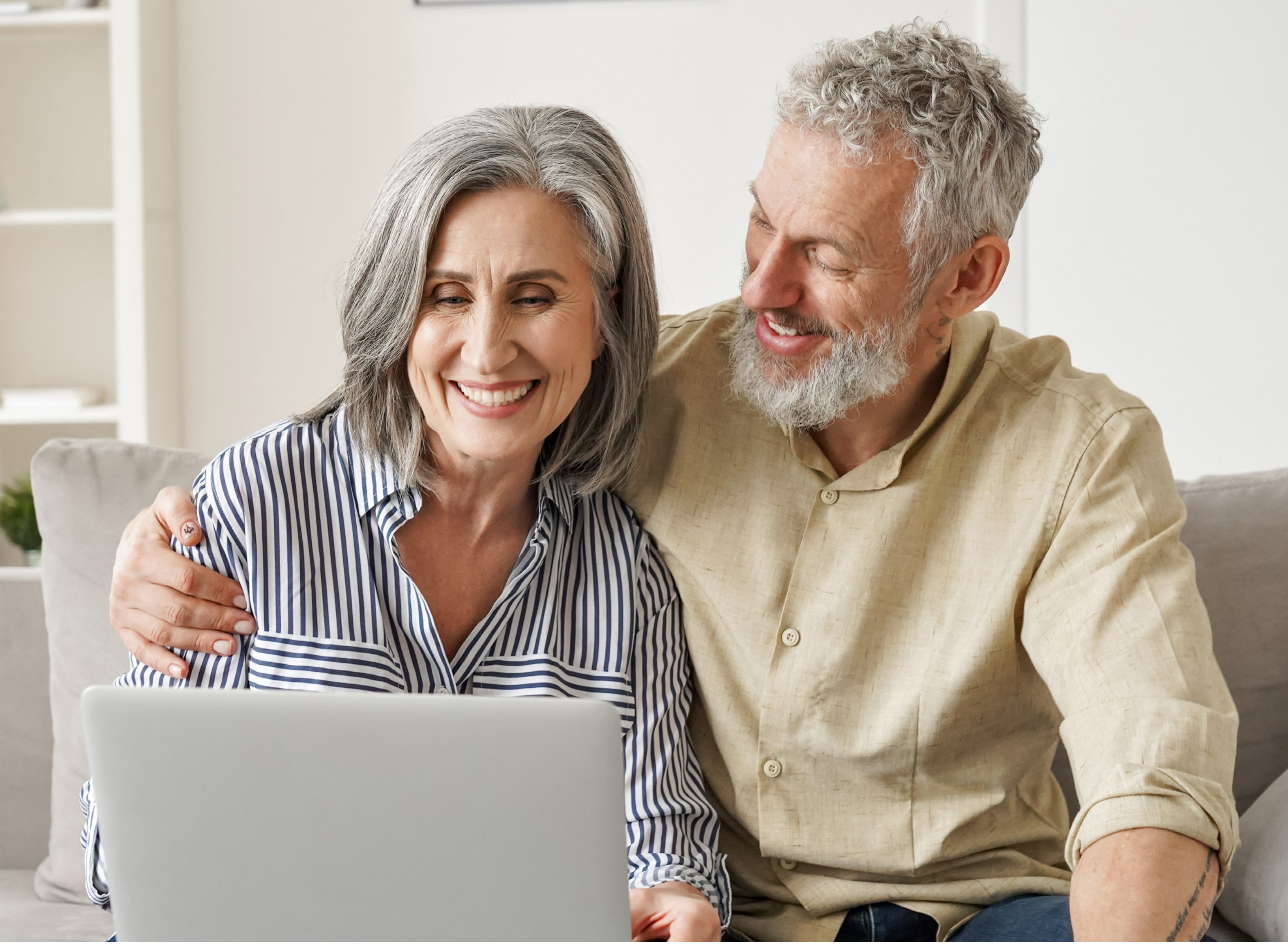
It’s up to you to bring awareness of this to your client. Start planting the seed for the good conversion window in 2023. Show them the cost of a “good” conversion versus the cost of the “bad” conversion product. Maybe they’re not willing to convert yet, but the conversation concerns them. That opens the door to using a term product with stronger conversion rights and a better conversion window. Spending a little bit more on term insurance is suddenly justifiable in their minds. But, if you keep silent, they’re never going to know the clock is ticking.

5. In a temporary economic bind, your policy may offer you some relief.

Financial resources available to clients ebb and flow over time. Different jobs, market fluctuations, unforeseen expenses, births, divorce, and other factors all influence client financial resources. Fortunately, a well-funded life insurance policy helps your clients in lean times.

The easiest way to help is if the policy has the flexibility and economic capacity to allow the client to delay paying premiums for a year or two or three. This provides some cash flow relief. Another option is tapping into the policy cash value for a policy loan to help meet other financial obligations. The loan can be repaid down the road, but it’s possible to delay the start of the repayment for a few years as well.

Unexpected expenses may require asset liquidation which can also lead to income or capital gains taxes. In a properly structured life insurance contract, you can access the cash value without adverse tax consequences. Perhaps the policy cash value is used to avoid asset liquidation and a tax bill. Perhaps it’s used to simply delay the tax bill another year. For example, use a life insurance policy loan to meet the obligation currently. Then in the following tax year, you can liquidate the asset to repay the policy loan and push the tax bill until the following April.



There will be consequences to the policy from any of these actions, and you should discuss those with your clients, so they understand the ramifications. Some approaches will cause temporary benefit reductions that can be restored eventually while other approaches could result in permanent benefit

reductions. Setting expectations is key to clients knowing it's okay to get off the planned pathway for a little while even if it costs some extra money in the long run.

Out of Sight; Out of Mind

You must help your clients see the value of a life insurance policy. They won't naturally think of the ways it can help. **If you let it be out of sight, it will stay out of mind for the client.** Having regular client conversations gives you an opportunity to find out about their situations and to discuss ways they can utilize life insurance to help them. Such conversations reinforce the versatility and unique advantages of life insurance, and the conversations may open the path to new sales as well.

About the Author - Mike Pepe

Mike Pepe capitalized on his nearly 20 years of life insurance policy expertise by launching Proformex, an inforce policy management platform that helps fiduciaries, financial planners, insurance brokerages and agents monitor, manage and govern their life insurance policies. Its SaaS (Software as a Service) solutions are designed to proactively alert customers of potential problems with their life insurance policies and protect against degradation and asset erosion.

Prior to founding Proformex and serving as its Chief Strategy Officer, Mike started in the life insurance business with Mass Mutual and quickly became a leading agent. Soon after, he cofounded River Financial Group, a full service financial advisory firm. His focus was on building a highly successful financial planning practice which took into account the various parts of a holistic financial plan. As he focused on estate planning, he started The TOLI Group, a life insurance firm which was designed to fill the gap in the market for insurance consulting and the need for ongoing policy monitoring and management support, especially as it relates to trust owned life insurance.

About Proformex

Proformex is a data and technology platform purpose-built for financial professionals and institutions to manage life insurance and annuity assets. With deep data and technology expertise, Proformex connects customers to critical information about their life insurance and annuity businesses and helps them make better informed, data-driven decisions. With Proformex, financial professionals have the technology tools needed to proactively manage life insurance and annuities and enhance value for their clients.

Learn more about Proformex at www.proformex.com.

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