HOW TO SELECT A LIFE INSURANCE COMPANY

There will probably be hundreds of life insurance companies to choose from when you decide to purchase a life insurance policy. **How do you decide which one?**

Most companies are quite capable of handling the transfer of risks and are deserving of consumer confidence. All companies are subject to stringent regulation by state insurance departments as to their financial viability.

That said, companies do fail from time to time causing disruption for policyholders. Though often there is little or no loss of value, particularly for the death benefit portion of policies, the uncertainty that flows from such failures is good reason for care and diligence in the selection of a company.

Prices differ dramatically among companies and you may want to make certain you have a competitively priced product. Often, the life insurance agents prefer a given company because of long term relationships and compensation advantages that may cloud their objectivity as to what is best for your situation.

The mistakes we see consumers most often make fall into these three categories:

- **NOT CHECKING AROUND**
  - Too often the individual consumer gives no thought to the company because they simply trust the agent to make a good selection.
    - Agents likely have varying (even subconscious) motivations, including long term allegiances and compensation programs incenting them to send business to certain companies regardless of how well the product fits the client's needs.
    - Some agents are "captive" or "tied" to only one company and cannot represent other companies. They are not allowed to search for other options.
      - An important note here – some agents who work exclusively for multi-line companies (life, health and property/casualty) may have products which by themselves are not highly competitive but they are able to grant multi-line discounts for other coverages, bringing the overall pricing into a more competitive position. Coupling that with the focused service they offer may be appealing.
    - We believe the agent you select is a very important advisor and we also believe that most agents give very good advice, only that their advice is limited to their own perspective. The agent, even the independent agent who represents multiple companies, represents the life

insurance company, not you, under the agent's contract. They sell the company's products and are the company's commissioned representative.

- Underwriting class

  - When you buy life insurance the insurance company looks at your health to determine what price to charge. You will be placed in an "underwriting class" based on your medical history and condition.
  - Generally, most companies divide insureds into smoker and non-smoker categories. Some use "tobacco use" rather than "smoker" and some allow cigar smoking while others do not. Some companies allow individuals to be classified as a non-smoker if they have not smoked for 1 year while others require no smoking for 2 years or longer to get the non-smoker rates.

Smoker classes carry a significantly higher premium

Example: **Male age 50, 20 year Term Life**

$250,000

	Company A	**Company B**
Non-Smoker:	$ 910.00	$ 912.50
Smoker:	$2,560.00	$2,267.50
Ratio	2.81	2.48

Source: April 2009 CompuLife Term Rate Comparisons

  - Often companies will offer 3 levels of standard risk for non-smoker – standard, preferred and preferred best. The additional levels of the standard class offer discounts to the best risks. However, not all companies define the risks the same way. Company A may believe that cholesterol controlled by medication can still be a preferred best risk while Company B believes it can only be preferred or even standard. These same companies may see family history differently with Company B viewing a family history of heart disease or cancer less negatively than Company A does. Therefore, the risk class is not necessarily indicative of how competitive your price will be.
  - Each company looks at risk in their own way so underwriting decisions can vary widely among companies.

- At times agents may offer quotes of the most competitive rates in order to secure the business but those rates may not be the final rates after the underwriting process has been completed.
- Here's the point: Look at the final rates, not the underwriting class or even the rates quoted, when you do compare.

- **ONLY CHECKING PRICE**
  - No cash value policies (term and no lapse UL)
    - The life insurance industry has long believed that no consumer has ever been denied a death claim due to company insolvency. A combination of State Insurance Departments, State Guaranty Associations and other life insurance companies have rehabilitated blocks of business that were impaired, and as long as the owner continued to pay the premium, the death benefits have been paid. There is certainly no guarantee of that result into the future but paying more than a competitive premium may not provide any additional security.
    - Prices do vary greatly among highly rated companies so checking price can make a difference:

Male age 50 - $1,000,000 – standard non-smoker risk
companies rated "A" or better – 10 year term life

Company	Rank	Annual Premium
A	#1	$1845
B	#3	$1935
C	#10	$2145
D	#20	$2270

    - However price is only part of the story.
      - Term – If you ever need to convert the policy to a cash value form (which may be able to more efficiently provide lifetime coverage) the strength of those types of policies for the underwriting company should be considered.
        - Most conversion options allow you to exchange to a new policy at your original risk class. If your health has changed over time you may not qualify for the same risk class on a new policy as you have with the term policy and conversion may be your only reasonable option. Initial price for

your term policy may be more than offset by higher (or lower) ultimate costs after conversion.
    - The policies available for conversion need to be understood as well. Some companies will offer any products in their portfolio while other companies may place restrictions on availability.
- No lapse UL – These policies sometimes have policy provisions that need to be well understood. For example, most of them are based on an assumption of the timelines of when premium is received. If the premium arrives just a few days late, interest crediting can be impacted, the no lapse guarantee can vanish and the policy itself may lapse at a time when the coverage is needed.
    - Many companies offer catch-up provisions but some can be complicated and costly.

- Cash value policies
    - Policies with cash value are particularly difficult to assess. These policies have illustrations of future value based on certain assumptions. We encourage our clients to recognize that these illustrations are always wrong!
    - That is not to say companies are trying to be deceptive but that too often consumers see a computer print-out and believe it is guaranteed. There are many variables involved. The insurance company usually has the flexibility to make adjustments over the years based on experience so projections would rarely come true exactly as originally projected.
    - A simple example is the interest rate.
        - Since illustrations demonstrate values far into the future, the interest assumption makes a huge impact on the results.
        - Here is an example:

Male, Age 50, standard risk
$250,000 Universal Life Death Benefit
Annual Premium $2,393
Projected Cash Surrender Values at varying interest rates

Year	4.0%	5.0%	5.4% (current)
10	$23,761	$25,687	$26,492
20	$67,518	$77,111	$81,336
30	$114,949	$145,836	$160,279

The above values are for comparative illustration only.

- Recognizing that illustrations are not a guarantee of future results, the real cost of any policy will only emerge over time. Consequently, a review of the history of a company's crediting strategies can help give insight into what may happen to their policies in the future. However, that history can be difficult to obtain and is not a prediction of how the company will perform in the future.

- Mutual companies versus stock companies:
  - Generally speaking, stock companies will have somewhat lower premiums *initially* than mutual companies. Most mutual companies include extra margin at the outset but over time may be able to give very good value through the dividend scale. Since the mutual company does not have shareholders like the stock companies do, they may be able to return extra value to the policyholder and may be very competitive over time.
  - The decision between mutual and stock is not simple and involves your time horizon and your evaluation of the expectation of company performance over that time frame.

- **BUYING THEN FORGETTING**

  - Policy performance
    - Many of the policies purchased over the last 20 years may not perform as originally illustrated due to declining interest rates. Therefore, additional premium may be needed to keep these policies in force over the lives of the insureds. If inadequate funding is caught early it can be more easily corrected. However, if adjustments are delayed, significant additional premium may be required to maintain coverage as planned.

  - Company financial strength
    - When insurance companies begin to decline financially there are usually, though not always, warning signs. With notice you may wish to change companies, though your options may be limited if your health has changed.
  - Financial decline is not the only reason to actively manage your life insurance program. Objectives and circumstances change so the amounts and types of coverage should regularly be reviewed.
  - Most agents try to offer ongoing service but often the compensation systems are such that they are encouraged to pursue new business rather than spend time servicing existing clients. We often hear from our clients that they have not heard from their agent for several years. Of course, in some situations the agent may no longer even be in the life insurance business.

We suggest you consider the following approach to selecting a company.

- **FIRST SELECT AN AGENT. LOOK FOR THE FOLLOWING QUALIFICATIONS:**

  - You respect and trust the agent.
  - The agent is knowledgeable and experienced with a reputation for professionalism.
  - The agent is well qualified to help with your situation – perhaps holding CLU, ChFC, CFP or other certifications indicating a commitment to continued education.
  - You enjoy working with the agent.

- **THEN GIVE THE AGENT YOUR REQUIREMENTS AS TO THE COMPANY TO BE USED. CONSIDER THE FOLLOWING CRITERIA:**

  - Ratings – We generally recommend companies with at least an A- or A rating or higher. You certainly may wish to set the standard higher but we find the highest ratings are often reserved to larger companies simply because of size and, therefore, some very competent and competitive smaller and mid-sized companies are excluded.
  - Size – Do not be overly swayed by size.
    - Size does have its advantages, potentially giving additional strength to weather difficult challenges. At the same time, many of the problems encountered in the financial turmoil of 2008 and 2009 were more significant in the larger companies. In fact, their size may have required that they be exposed to virtually all of the risk areas in the economy. Some very large companies with a great history of performance have struggled because of higher than average leverage or exposure to market segments that declined quickly, leaving little time to adjust.
    - Some companies are part of a holding company structure. This structure may offer the potential for additional capital support not evidenced on the company's direct financial statements but can also require capital flows to help with problems at the holding company level.
  - Reputation – A knowledgeable and experienced agent will be able to help you know of the reputation a company has for caring for its policyholders. Though companies change, to ask for a company known for good service is reasonable.
  - Competitive pricing for this policy – You may wish to require that the price be in the top 10-15% of prices available to assure a good economic value. Don't be too persuaded just to get the lowest price.
  - History of competitive positioning – Again, your agent will know the company's history of remaining competitive and how they have handled renewal crediting rates for interest sensitive policies. Please recognize, though, that history is not a guarantee of future performance.

- Other product lines – Particularly if you are purchasing term insurance you may wish to know of how competitive other product offerings are likely to be in the future, if needed.

- **LET US HELP. (YES, THAT'S A COMMERCIAL!)**

  - At Petra Life Services we work directly for you and can help with the above issues. We will work with your designated agent to help you make a quality company selection.

  - We also provide our ongoing **Stewardship Support Program (SSP)** that will help keep your program up to date with changes in objectives or circumstances. The benefits of our **SSP** include:
    - Periodic reviews of your goals and circumstances with updates to any of our confidential, proprietary reports, such as our **CARE** and **LIFE** reports, that have been prepared for you.
    - Open access through the year to our counsel and advice about any questions you have concerning your life insurance program as concerns arise.
    - Regular updates on ratings for your life insurance companies.

Please contact us if we can be of assistance.

Neither Petra Life Services, Inc. nor its representatives may give you tax or legal advice. We recommend that you consult with, and rely on, your own tax and legal advisors about the concepts presented in these materials.