

**“WHAT I WOULD LIKE TO KNOW ABOUT THE LIFE INSURANCE
BUSINESS IF I DIDN’T ALREADY KNOW IT
(or at least thought I did!)”**

Presented By

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to

THE ESTATE PLANNING COUNCIL OF PITTSBURGH

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I. Insurance company mergers and conversions.

- A. Merger examples (internal)
 - 1. Connecticut Mutual/Mass Mutual
 - 2. New England/Metropolitan
 - 3. AIG/American General
- B. Merger examples (external)
 - 1. Citibank, Travelers, Smith Barney
- C. Conversions
 - 1. Demutualization
 - 2. Mutual holding company
- D. Why all this activity?
 - 1. Public capital (equity and/or debt)
 - 2. Increased market exposure/cross-selling opportunities
 - 3. Economies of scale
 - 4. Stock options to attract/retain top management.
- E. Recommendations:
 - 1. Deal with companies that have financial strength (ratings) and good reputations.
 - 2. Buy insurance from insurance companies; buy securities from securities companies; contract for banking and trust services from banks and trust companies (now there is a novel approach!).

II. “New Products?” (recycled?!)

- A. Variable Life (VUL, VWL, etc.)
 - 1. Equity Life (1960s-70s!)
 - 2. Single premium until 1987
- B. Universal Life with death benefit guarantees!
 - 1. Actuarial Guideline 38
- C. Long Term Care policies
 - 1. Disability income to LTC
 - 2. Life insurance (or annuities) to LTC
- D. Annuities
 - 1. Variable
 - 2. Indexed
 - 3. Guaranteed Immediate!
- E. General traits
 - 1. Premium and benefit enhancements are accompanied by less risk shifting!

III. New tax laws

- A. Treasury has always tried to tax the inside build-up of cash values!
- B. They are now going after the death benefit (EOLI).
- C. ATRA 2012
 - 1. “Permanent?” - Maybe
 - 2. We have been saying “Estate Planning is about more than just taxes.”
Now it is time to put our money where our mouth is!
 - 3. Check out “The Future for Estate Planners” presented by NAEPC’s Futures Task Force on November 16, 2011 (www.naepc.org).

IV. Trustee involvement in irrevocable life insurance trusts (ILITS)

- A. Communicate early on about fiduciary requirements and Crummey withdrawal provisions.
 - B. Individual trustee may actually have to serve!
 - C. Corporate trustees often inherit the mess!
 - D. Test the policies regularly!
 - E. “But he is a good friend who is involved each year. He would **never** sue me!”
(It’s the **kids and their lawyers**, Dummy!)
- V. What about life insurance and equity products (mutual funds, variable annuities etc) being sold by CPAs and/or attorneys?
- A. For that matter, will we have “multiple discipline practices” (MDPs)?

VI. Buy/Sell planning for CPA (and law) firms for death, disability, and retirement!

- A. Most such plans are drawn to lower standards than would be acceptable to or for those firms’ clients!
 - 1. Emphasis is on billings/accounts receivable formula so firm payout is tax-deductible and, therefore, taxable to recipient.

VII. “Vanishing” premiums! (Premium offset)

- A. Origin
 - 1. Early 80s: high interest rates followed by high bond and mortgage yields.
 - 2. Current (then) interest rates (universal life) and dividends (participating whole life) sufficient to support premium “vanish” in just 7 or 8 years after issue.
 - B. The problem.
 - 1. What goes up usually comes down. It did.
 - 2. “Vanish” point kept creeping further into the future (sometimes 15-20 years).
 - 3. Lawsuits were (are) plentiful.
 - C. Solution is to understand that an illustration is not the policy!
- ## VIII. Life Settlements
- A. Threat (minor?) to carriers: no lapses!?
 - B. Convertible Term policies now included.
 - C. Bothersome math: Do the smart guys on Wall Street know something that we don’t?

IX. Stranger Owned Life Insurance (SOLI)

- A. Premium financing complicates.
- B. Not in the fairway.
- C. Insurable interest?