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## Life Insurance: One Insurance That's More Affordable

Katherine Vogt, September 2006

The Insurance Information Institute, an industry-supported educational organization, issued a new forecast on Sept. 19 predicting that premiums for individual life insurance -- both term and permanent policies -- will drop an average of about 4% in 2007. That follows an average annual drop of about 5% since 2000 and sharper decreases for several years before that.

Experts say physicians may be uniquely positioned to benefit from the cost savings produced by the trend. That's because the need for life insurance -- defined generally as when other people most rely on the policyholder's income stream -- is greatest during a person's prime earning years. For doctors, that also happens to be a time when they might be under particularly acute financial pressures.

"The younger physicians today are quite stretched, on average. ... There are a lot of financial obligations, and the [increasing] affordability

makes it easier to buy life insurance," said Erik Thurnher, MD, who practices emergency medicine part time and who is also a certified financial planner and head of the firm Physicians Financial Advisors in Newport Beach, Calif.

The pricing trend has been fueled largely by increasing life expectancy rates as well as improved operating efficiencies

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**- Michael Bischoff**

achieved by insurance companies, said Steven Weisbart, PhD, an economist with the Insurance Information Institute. And though it may be leveling off a little, the trend is not expected to disappear anytime soon.

Dr. Thurnher sees life insurance as a pure risk-management tool and said price variances should not be a key factor in deciding whether to buy it. Still, he said the pricing trend has been "remarkable" and has had an influence in some cases on how much insurance he recommends for his clients, most of whom are physicians.

"Given how inexpensive life insurance is, sometimes we might err on the side of recommending a little more insurance than the number crunching would indicate that person needs," he said.

Need can be determined in several different ways. Dr. Thurnher calculates need in the context of an overall comprehensive financial plan. More basic approaches may call for a policy worth five to 10 times a person's annual income.

Age and family play significant roles in the decision. If the policyholder is younger and is

the primary breadwinner of the household, more insurance is likely needed than someone whose income does not make or break the family's finances and who may be close to losing that income to retirement anyway, experts say.

Most observers agree that much of the decision boils down to what the policyholders want to ensure for their survivors.

Term life insurance is typically two to three times cheaper than permanent or whole life insurance. That's because term policies, which usually last for terms of 10, 20 or 30 years, only provide insurance against the policyholder's death. Permanent insurance might have a limitless duration and could include a savings or investment vehicle within the policy.

Dr. Thurnher said he rarely recommends permanent insurance to his physician clients because it can be so much more costly than term insurance and because there are other financial vehicles that may provide better savings or investment mechanisms. But insurance agents say the policies can be appropriate for people who want the perceived security of lifelong protection, and for certain estate planning purposes.

The prices have come down for both term and permanent insurance, and experts said the trend has not been a significant factor in determining which of the traditional products people are buying. In fact, despite the

are buying. In fact, despite the more favorable climate for buyers, the number of new life insurance policies is not growing and may in fact be shrinking, Dr. Weisbart said.

More of an influence might be the advent of several new retirement and savings vehicles in recent years, diminishing the need for permanent insurance policies as an instrument of savings for some.

However, Drew Schultz, a research analyst in Chicago with the marketing research firm Mintel International, said the low prices have inspired insurance companies to roll out some new products to counter the trend. (The AMA offers discounted life insurance policies to its members, as do many medical societies.)

For example, he said premium term life insurance, which emerged a few years ago, allows the insurance company to charge more in exchange for returning the full premium amount back to the policyholder when the term expires.

Steven J. Spiro, an independent insurance agent in Valley Stream, N.Y., and past president of the Independent Insurance Agents and Brokers of New York, said some of his clients have been inspired by the pricing trend to consider buying new policies in place of their former ones.

"What I have seen as a result of the decline in premiums is that people who have the term policy are interested in seeing

how much they would save if they went to a new policy, swapping an old policy for new one," he said. "Some are enjoying the premium savings, a few are buying more coverage for the same price."

Some of Spiro's physician clients buy individual policies both privately and through their medical practices. The practice might benefit from doing this by protecting against the possibility of having to fund a buyout of the physician's estate if the physician dies before retirement.

The price decline is not expected to stop anytime soon, though Dr. Weisbart said several potential countervailing factors are being watched. They include how the nation's obesity epidemic will affect life expectancy rates. In the meantime, most experts recommend letting need and practicality guide any life insurance purchasing decisions. Besides, they say, annual price change percentages in the single digits won't be enough to offset other reasons why life insurance should (or should not) be bought.

**"Five years from now, you are five years older, and it will cost you more no matter what," said Michael Bischoff, a certified financial planner and chief operating officer of Webb Financial Group in Bloomington, Minnesota. "[Premium prices are] not going to trend down over the next five years enough to make up for the age difference."**