

In the Press

Webb Financial Group, LLC

Michael Bischoff
CFP® & COO



InvestmentNews™

Policy replacement binge for term life may be at hand

New, lower rates tempt many to dump older policies

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Gary S. Mogel

Competition, longer life spans and Internet sales of term life insurance are lowering premiums to the point where it might make sense to replace older policies with new ones, according to industry observers.

For instance, a 50-year-old non-smoker who is in good health might pay less annually for a brand-new policy than for one they purchased when they were 45 or even 40.

Replacing a term policy can increase compensation for advisers, as first-year commissions can be as high as 85% and drop to about 5% after that. One catch, however, is that those percentages are being applied to lower premiums.

“The optimal client age group for replacing a term policy is 30s to 40s, where savings of 25% are often possible,” said Michael Bischoff, chief operating officer of Webb Financial Group LLC, a Bloomington, Minn., firm that manages \$100 million in client assets.

The drop in rates is especially attractive for 20- and 30-

year terms, he said. Rates have fallen 50% over the past four to five years, Mr. Bischoff added.

Policies must be replaced at a different insurer, he pointed out. “The same company will not re-underwrite existing clients in order to give them lower rates,” Mr. Bischoff said.

“Replacing a term policy might be rate driven, but it can also be time driven,” said Robert Israel, president of Long Island Planning Group Ltd. in Syosset, N.Y.

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He used the example of a client eight years into a 20-year term. The client has young children and will need the insurance beyond the 12 years remaining on the policy.

In the current market, that client would probably be able to obtain a new 20-year policy for the same annual premium, even

though he is eight years older than when he purchased the old one.

“But watch out for the pitfalls. The client must be healthy, and the two-year contestability and suicide clauses start to run again on a new policy,” Mr. Israel said.

“Make sure that the new policy is in force before canceling the old one,” said Mr. Bischoff, who places most of his new term life business with Allianz Life Insurance Company of North America in Minneapolis and Protective Life Corp. in Birmingham, Ala.

“We updated our term insurance portfolio in May, and at some ages and face amounts, the policy offers up to 35% lower premiums than our previous term products,” said Eric Miller, Protective’s vice president and national marketing director. The rates are especially low for policy limits above \$250,000 and for policyholders ages 35 to 65, he added.

Other insurers that have been courting the term life market include Genworth Financial Inc. in Richmond, Va., Hartford Life Insurance Co. in Simsbury, Conn.,

ING U.S. Financial Services in Atlanta and West Coast Life Insurance Co. in San Francisco.

More Than Money

Before considering replacing a policy, be certain that the coverage is the same and that the new insurer is as financially solid as the old one, observers warn.

“You don’t want your widow to have to present a claim to an insolvent insurer and then be forced to deal with the state’s guaranty fund, said Mel Feinberg, senior vice president of the individual-life department for New York Life Insurance Co.

“Replacing a term policy should be more than a numbers game. The policies shouldn’t be treated as commodities; looking purely at rates is risky,” Mr. Feinberg said.

“These policies aren’t just about death benefits. They may have features – such as guaranteed convertibility to a permanent policy without additional underwriting – that another might not have,” he said.

“Reputable agents don’t switch solely due to price or to make more money.”

“A new policy could be more expensive, even if term rates overall have decreased,” said Michael Hamilton, assistant vice president of term product development for Philadelphia-based Lincoln Financial Group. “For example, the client will have to go through the underwriting process again,” he said. “Now that the client is older, and his health status may have changed, he may not qualify for a cheaper rate.”

While term rates decline, many insurers are becoming fussier about who gets those lower rates, according to Robert Bland,

chief executive of Insure.com Inc. in Darien, Ill.

To get the lowest rates for their age, applicants must be in good health, not use tobacco in any form, meet weight-in-proportion-to-height requirements, maintain good driving records and not travel to hazardous parts of the world or engage in dangerous hobbies, he noted.