MANAGING TRUST OWNED LIFE INSURANCE





So What?

Assumptions					
Number of Policies	100				
Average Face Value	\$ 2,150,000				
Total Face Value	\$ 215,000,000				
Average life expectancy (LE) in years	15				
Average Annual Premium Per Policy (4% of Face Value)	\$ 86,000				
Aggregate Premium to LE for all Policies	\$ 129,000,000				
Percentage of Policies that will Lapse prior to LE (Policy Coverage Risk)	25%				
Percentage of Policies that would benefit from optimization (Policy Return Efficiency)	15%				
Percentage of Policies where more competitive products are available	50%				
Percentage of Policies where the insured will qualify for more competitive products (Product Competitiveness)	25%				
Per Policy - Average annual TwentyFirst Fee (5 Insight Comprehensive & 10 Base Reports)	\$ 700				



So What?

	Policies	Current Face Amount at Risk	Premium Amount at Risk	
Polices at risk of Lapsing	25	\$ 53,750,000	\$ 22,274,000	

				Premium Savings			
	Policies	Current Premiu	ım to LE	Rate	Amount to LE	Avg Amount Per Year	
Optimization Savings	15	\$	19,350,000	12%	\$ 2,322,000	\$ 154,800	
Competitive Product Savings	25	\$	32,250,000	30%	\$ 9,675,000	\$ 645,000	
Projected Savings					\$11,997,000	\$ 799,800	
TwentyFirst Fee for 100 Policies					\$ 1,050,000	\$ 70,000	
Net Projected Savings					\$10,947,000	\$ 729,800	



Life Insurance — the unwatched asset

• People manage their Investments:



Stocks, Bonds, Real Estate

• Life Insurance — they buy it, and then rarely look at it again



• "Hands off" approach may create an underperforming policy that can expose clients to significant unforeseen financial risks

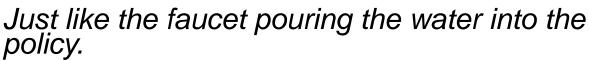


Life Insurance — the unwatched asset

Think of a policy as a Bathtub

What goes into it

- Premium
- Interest
- Policy earnings that will be credited



The Drain

What Runs out

- The charges the cost of insurance
- Policy fees







Life Insurance — the unwatched asset

What Happens? The perfect storm!

- Interest rates are low and have been for some time
- People are living longer

These policies that were purchased for the purpose of lifetime coverage — now **are in extreme danger of lapsing**.



Leaving you in the bathtub with no water

Coldly exposed to having a failed policy that might have negative effect on your clients financial, business, or estate plan.





Client Expectations of Trustees

- Help Them understand what they have and what they have to do
- Notify them timeously when a premium is due and request trust funding
- Send Crummey letters to beneficiaries
- Call the carrier to ensure premiums have been properly credited to the account
- Have real time access to:
 - Policy information including current values and status
 - Premium obligations and payment history
 - Policy and trust documents



Legal Expectations (Uniform Prudent Investor Act - UPIA)

- Have well-developed risk management practices to evaluate and administer accounts with insurance policy holdings
 - Evaluate life insurance in terms of risk and return objectives
- Consider preservation of capital by keeping policies in force and by preventing unintended lapses
 - Monitor carrier ratings and financial condition
- Determine whether current premiums are sufficient to maintain the policy to maturity or to meet the insured's life expectancy
- Determine whether an alternative policy would be more appropriate to meet the needs of the grantor and beneficiaries
- Only incur costs that are appropriate and reasonable.
 - Are you analyzing the costs of each policy by comparing the competitiveness of the policy to other products available in the market?
 - Discuss funding alternatives to maximize performance?
- Consider appreciation of capital.



Legal Expectations (Uniform Prudent Investor Act - UPIA)

The UPIA allows you to delegate investment and management functions (Section 9).







21Insight – Life Insurance Reporting & Analysis





21Insight — Life Insurance Reporting & Analysis

Policy Coverage Risk

- What is the probability that the policy will be inforce based on current annual premium and life expectancy
- Product Competitiveness
 - Is there a better product available
- Carrier Strength
 - Carrier financial stability
- Policy return efficiency
 - Premium funding analysis to determine if IRR is maximized



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