Institutional Pricing for Life Insurance Products:

Why You Deserve It

Jim Pittman
Insurance Consulting Services, Inc.
jim@icspdx.com
503.542.4085
www.icspdx.com

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Insurance Consulting Services, Inc

With the expected increase in tax rates for ultra-high net worth (UHNW) individuals and families, there is heightened awareness and increased curiosity regarding the applicability of life insurance for estate planning and wealth transfer purposes. Life insurance, commonly misunderstood and therefore underutilized, offers three unique benefits: tax free build-up of cash value, income tax free death benefits, and the ability to remove large life insurance policies from an estate. These unique tax features create tremendous advantages and family offices across the country are taking a much closer look at strategic planning that utilizes life insurance.

While the tax advantages of life insurance are important, pricing is also critical. Access to policies priced specifically for the UHNW—"institutionally priced" versus "retail priced"—can enhance planning effectiveness and deliver significant value over time. This paper explains the genesis of institutionally priced life insurance products, and why family offices and UHNW individuals deserve the unique benefits of such products.

Why were institutionally priced products developed?

It has long been recognized that life insurance policies acquired by UHNW individuals reflect different experience characteristics, specifically:

1) larger face amounts (i.e., death benefits);
2) better persistency (i.e., remains inforce for longer periods of time); and
3) better mortality experience (i.e., insureds live longer)

These experience characteristics are superior to those of policies sold to the mass market. In general, when the UHNW family or individual purchases a "retail" product, their superior experience produces very favorable profits for the carrier. Historically, insurance companies have made little or no price differentiation for groups that possessed these characteristics, offering the same product to both the mass market and the UHNW. As a result, these retail products are priced to support a large "pyramid" type distribution and sales structure.

In response, advisors serving the UHNW market saw an opportunity to create a separate "institutionally priced" product available exclusively to UHNW clients. With "institutionally priced" products, clients can access economically attractive products supported by underlying insured's with the same superior UHNW experience characteristics (persistency, mortality, and expense). The result is a win-win for the policyholder and the carrier: sophisticated purchasers get better priced insurance products and the insurance companies get better experience (which drive profits).

What is so attractive about institutionally priced products?

Products designed for superior size, mortality, and persistency, offer a lower unit cost than "retail products." By selecting "institutionally priced" products you and your advisors are better positioned to set credible expectations regarding performance and manage them over the life of that product. Even though institutionally priced products have underlying experience characteristics that should drive better performance, it is imperative that proper due diligence and inforce management of the policies is maintained throughout the life of the policy. This process involves monitoring of the policies to ensure their continued alignment with your objectives.

Where do you see this pricing difference?

You may very likely see the benefits of a pricing difference in the projected illustrations at the time coverage is placed. For example, there could be a decrease in premium outlay or an increase in death benefit for a premium amount comparable to a retail product. Sometimes the difference is more difficult to see in projected illustrations; every situation is different (there is no such thing as a cookie cutter policy in the UHNW life insurance market) so actual benefits can vary. Consider asking your life insurance advisor to point out the key differences.

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More importantly, you should discuss the impact/advantage these differences have over time, specifically improved product performance over the life of the contract. In the retail world, it is the new policyholders that usually get the benefit of pricing improvements via newer products; this benefit comes at the expense of existing policyholders who helped create the profit that fuels lower prices. When improvements are achieved with certain institutionally priced proprietary products[1], current policyholders receive the benefits of those downward repricings (the policyholder actually receives the benefits of a lower priced product without having to buy a new product that would require new underwriting). In fact, in one example there have been at least six downward repricings in the last ten years. Unfortunately finding companies that consistently deliver on the concept of treating existing policyholders as well as new policyholders is rare in the industry.

Why do you deserve better products?

The UHNW community deserves better products because your experience is different than the retail market. The UHNW market place represents a higher quality risk to the insurance companies. You have better mortality (living longer due to healthier lifestyles and excellent access to healthcare), better persistency (better planning and resources to keep policies inforce longer), and have a much larger average policy size (allowing for a lower unit costs). In fact, according to statistics as recent as 2008[2], mortality experience (actual death claims) is 25% - 30% better than the general population (this lowers the cost of insurance charges), the average size of your policy is at least five times greater than the retail marketplace (this provides economies of scale which lowers policy charges), and your persistency rate is 80% lower than the industry (i.e., you are far less likely to default or cease paying premiums, providing a longer time horizon for carriers to recoup initial expenses, which drives lower ongoing policy charges). As a result, you deserve better pricing and inforce policy management that is available only through institutionally priced proprietary products.

Do insurance companies benefit from institutionally priced products?

Absolutely. They understand volume, they understand growth, and they understand profitability. Hence, they want to develop institutionally priced products specifically for your marketplace to generate more quality business, growth, and profits. Think about it from this perspective. If you have millions of dollars at a bank, would you expect to be treated in the same manner as someone who has a simple checking account? If you control a large block of stock at a publicly traded company, wouldn't you expect to be treated differently than someone who owns 100 shares? The same thought process applies to the life insurance industry. Why subject yourself to a retail experience when you have a better alternative? You deserve access to these better priced and better performing proprietary institutional products because you create the value through superior experience. And because your behavior and wealth creates this opportunity, you have the right to share in this value.

Conclusion

You are a desired client of life insurance companies. Therefore, the life insurance placement process should be attractive and convenient. Working together with an experienced advisor will create the best results for you. Make sure that your estate planning life insurance strategies seek the best long term policy performance, and remember to ask yourself "Do I want an advisor with access to life insurance products for people like me?" or "Do I want to participate in the pyramid model?"

1 M Financial Group products
2 Source: M Financial Group data

For More Information

To learn more, please contact:

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