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High-net-worth immigrants may be a potential market that you haven't considered. Some information on what drives this emerging market and details you must consider in obtaining coverage for foreign nationals.

How to Prevent Life Insurance Buyer Amnesia

SEPTEMBER 2014

BY: RON SUSSMAN

For years, those of us in the life insurance industry have suspected – and bemoaned – that life insurance policies too often are tossed in a drawer immediately after being signed.

Clients, we have feared, have not given their life insurance policies the same treatment they might extend to other forms of

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insurance, let alone the constant monitoring and evaluation they might extend to their retirement plan.

To understand the extent of this behavior, PolicyAudits.com commissioned a national online survey conducted by Harris Poll. The survey was conducted in May 2014 among 807 holders of privately purchased life insurance policies.

Sadly, our fears were not allayed by the results of this poll.

More than a quarter of U.S. adults who have privately purchased life insurance (29 percent) said they have not reviewed their policy since they first acquired it. Nearly 1 in 10 (9 percent) said they have never reviewed their policy.

That alarming statistic speaks to the behavior, but what does the survey reveal about attitudes of policyholders toward their coverage?

The survey demonstrated that 60 percent of life insurance policyholders think their policy terms are “set in stone,” while another 60 percent believe that their policy benefits are guaranteed forever.

As we have seen time and again, neither statement is universally true.

From my business role – and as a policyholder myself – I understand the vast array of complicated products, features and benefits sold by insurance carriers who fail to provide adequate and timely communications with their clients.

Policyholders, through no fault of their own, often are ill-equipped to interpret the dense legal language contained in standard policy forms and often overlook opportunities to take advantage of benefits. Sometimes they don't realize these opportunities even exist. Some policyholders unknowingly allow coverage to lapse – a tragic albeit preventable situation I've seen in my practice – when that consequence could easily have been avoided with an annual audit.

Life Insurance Agents as Client Advocates

I was not surprised to learn the survey found nearly half (47 percent) of those with a privately purchased life insurance policy agree their agent has never encouraged them to monitor their policy's performance. This is not purposeful or by design; it is often because of the life insurance agent's simple lack of knowledge about a complicated policy's intricacies. Consumers are not being educated about the products they purchase, and they lack the tools to ask the right questions.

Life insurance is a dynamic product that requires continual review and revision to meet a policyholder's specific needs. As life circumstances change, so do the needs for the benefits life insurance provides. Life evolves; so should life insurance.

The poll results suggest the life insurance industry is ignoring opportunities to assist the buying public in making the most of their insurance products, not to mention neglecting to educate policyholders about the importance of reviewing their terms annually and following all major life changes.

Obtaining the Right Policy for Your Clients

A common mantra in our office is "The life insurance policy you think you have may not be the one you actually own."

The survey findings bring a specific client to mind. This client's corporation funded a significant amount of insurance on a key shareholder when he was in his early 70s. His accountant made the purchasing decisions and determined all the policies should be funded to provide coverage to age 92. The insured is now 94, and the premiums to maintain coverage have increased three to five times. Some coverage has been terminated, and the corporation will likely have far less coverage than necessary to repurchase the insured's shares

of the company. The corporation was caught unaware because it never had access to updates and did not understand the magnitude of this problem.

By the time this company hired an auditing team, there wasn't enough time to rectify the issue – one that was devastating to company leaders who assumed they had great coverage.

I share this cautionary tale to shed light on the gross misinformation many policyholders and companies believe regarding their policies and also as a plea to agents and clients alike to seek a knowledgeable advocate in the industry.

If a policyholder pays early or late just once, or if he fails to monitor a policy at least annually, his coverage may change dramatically. Terms can be altered by 10 years or more; premiums can increase without notice. An annual audit will identify and correct these issues before it's too late, but only if a policyholder knows this resource exists in the industry. Without a system for review and remediation, clients may find themselves without coverage at the time it is most needed.

Have a team take an in-depth look at your financial goals and a policyholder's existing policies to find the optimal terms and benefits. Discuss specific needs, future goals, lifestyle, financial situation and dependent considerations.

Most important, educate and empower clients, enabling them to begin to see the power of their life insurance policy as an investment similar to their retirement funds.

The Benefits of an Annual Audit

Our survey found only 2 in 5 (44 percent) of those with privately purchased life insurance believe their life insurance policy is an investment like their 401(k) – and this is a huge area of opportunity for policyholders.

Although life insurance is clearly not the same as an employer-sponsored retirement plan, permanent life insurance policies offer the opportunity to enhance retirement income by virtue of their tax-deferred accumulation and potentially tax-free distribution features. These features are often overlooked by owners of whole life, variable life or universal life policies.

And since 47 percent of those policyholders report never having been encouraged by their agent to monitor their policy's performance, it's easy to see how many important opportunities are lost due to this level of apathy about consumer education.

Empower your clients. Help them understand that life insurance policies are an investment. They should track performance the way they would monitor an individual retirement account or 401(k).

By advocating for consumers, you can bring attention to the issues and encourage a more engaged and dynamic conversation between life insurance producers and the clients they serve. An educated consumer is your best customer!

The life insurance industry is an important part of the fabric of our society, not to mention our nation's economic health. By continually evaluating and improving the value we bring to clients, we ensure the future of our industry.



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