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Introduction to Techniques for Exploring Personal Markets

Overview and Learning Objectives

This class focuses on the course objectives and introduces the selling/planning process. It discusses briefly the value of life insurance and how that impacts your role as an advisor. This class will help you identify your product as it relates to the skills and knowledge you offer, the solutions you provide, and the ethical manner in which you practice your profession. It will also examine the centerpiece products—term and whole life insurance.

By reading this chapter and answering the questions, you should be able to

- 1-1. Explain LUTC rules regarding attendance and grading
- 1-2. Explain the course objectives by listing the four questions explored in this text
- 1-3. Describe aspects of the client-focused selling philosophy
- 1-4. Identify the eight steps of the selling/planning process and the three steps that comprise the focus of this course
- 1-5. Describe the solutions to financial problems that life insurance provides and how you can make a difference by selling it properly
- 1-6. Differentiate the three components of the product you sell
- 1-7. Describe the client's emotional and psychological needs using Maslow's Hierarchy of Needs
- 1-8. List the basic financial needs for which life insurance can be used to protect a family

- 1-9. Describe the difference between compliance and ethics
- 1-10. Describe the role of the federal government, state government, and the company in advisor compliance
- 1-11. Compare the features and benefits of whole life and term insurance

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Introduction to Techniques for Exploring Personal Markets

Welcome to *Techniques for Exploring Personal Markets*, a course designed to help you market life insurance. The material covered in this course and its companion course, *Techniques for Meeting Client Needs*, is discussed below.

The Course of Study

Marketing and Selling

An advisor's primary concerns are based on the companion goals of marketing (how to get in front of the right people) and selling (what to say once before them). *Techniques for Exploring Personal Markets* is designed to help you find qualified prospects through the use of target marketing and segmentation. The purpose of *Techniques for Meeting Client Needs*, the companion course to this one, is to guide you in identifying and appropriately addressing your clients' needs. Both courses focus on building a consultative, mutually beneficial, long-term relationship with the client. This proposed objective will result in a win-win relationship for both the advisor and the client.

Personal Markets

Both *Techniques for Exploring Personal Markets* and *Techniques for Meeting Client Needs* focus on marketing and meeting insurance needs for individuals and families. Contrast that with the business insurance courses offered through The American College's LUTC Program, *Essentials of Business Insurance* and *Essentials of Employee Benefits*. These courses discuss the unique needs of business owners and explore insurance concepts like key-person and split-dollar insurance.

Insurance

While life insurance is the main topic of this course, we will also cover some individual health insurance products and touch briefly on other

financial products. It is important to remember that the selling of life insurance should not take place in a vacuum, even if that is the only product you can sell. By understanding a client's broader financial picture, you will be in a better position to propose solutions that will truly meet his or her needs and align with his or her values.

Advisors, Producers, Financial Services Representatives and Others

This course is written for anyone who sells life insurance, regardless of his or her title. As some companies move toward financial planning and a more complete array of variable and securities products, a variety of titles for the salesperson have emerged that represent the varying attitudes, philosophy, positioning and direction that different companies are taking.

Traditionally, the term *agent* is used, which implies that the salesperson has a contract and represents a company to the public. The term used in this course, *advisor*; has been broadened to include anyone involved with life insurance planning and sales (see **page xv for and explanation of the meaning of the term “financial advisor” or “advisor” as used in this book**). You should, however, be aware of some of the other names used to refer to those who sell life insurance, as follows:

- *Producer*—represents an inclusive generic term. State insurance departments use this term for licensing in response to the differing titles applied to people who sell insurance.
- *Registered Representative*—refers to salespeople who have obtained NASD (National Association of Securities Dealers) registration to sell variable products
- *Financial Services Representative*—portrays more of a financial planning approach than a traditional life insurance sales approach
- *Financial planner* or *financial advisor*—connotes someone who receives a fee for their advice, which can take the form of financial advice, advice given in conjunction with the sales product, or a combination of advisory services. (Note: The use of these titles is inappropriate and, in most cases, illegal, unless certain qualifications, licensing, and state-mandated registration requirements are met.)

Overall Course Objectives

Successful sales and client building begins with the selection of the right prospect. Up until now, you may have thought a prospect is anyone with a pulse. It is not the number of people you see, but that you see the right people. Who are the right people? They certainly do not walk around wearing a sign saying, “I want to buy insurance.” To further complicate matters, the right people for one advisor may not be the right people for another.

The goal of this course is to help you market effectively and efficiently by finding the right prospects and building long-term relationships with them. In other words, you want to create clients, people who value the advice you provide, the products you sell, and the way you do it. With the use of a systematic and targeted approach to marketing, you can find the right prospects and turn them into clients who will represent repeat sales and, equally important, referrals. Such an approach will save you time, energy, and frustration.

When you have completed this course, you will walk away with the tools to build a very basic marketing strategy, which answers the questions:

- What am I marketing?
- To whom will I market?
- How will I market to them?
- How effective am I?

What am I marketing? Most importantly, you are marketing a product: YOU, specifically your technical knowledge and relationship skills. (This is discussed later in this class.) The rest of the course will help you develop product YOU. The textbook will look at insurance products, beginning with life insurance and including disability income, long-term care, and Medicare supplements. You will be exposed to the insurance planning concepts that will enable you to uncover needs and propose solutions. This approach allows you to “taste” concepts like estate planning and retirement planning and gives you an idea of the many financial planning concepts with which insurance planning integrates.

To whom will I market? This course emphasizes that you should target the groups of people that represent the most profit with the lowest

number of appointments needed to obtain a sale. The text will look at the role your natural market and target marketing can play in locating such optimal markets.

How will I market to them? Selecting and approaching prospects requires planning. The course will review methods of finding prospects in your desired market and techniques to ask for an appointment. Supporting that approach is a look at your market in terms of a life cycle: age and life events. Understanding the role they play in the need for insurance products can help you to effectively approach a person based on their goals, values, and needs.

How effective am I? Activities designed to allow you to develop and test your knowledge and skills are found throughout the course in the textbook, student workbook and classroom activities. The textbook focuses on prospecting and marketing life insurance products, but also reviews the products and related issues like taxation and life cycle events, which will build your overall understanding of insurance products and improve your confidence in discussing them with others.

Getting the Most from This Course

Attitude

Keep an open mind. Develop your skills and knowledge by trying the offered suggestions more than once. Put your skills and knowledge into action. Remember that only activity produces results. This course is designed to improve the quality of your activity so you can improve your marketing efficiency and sales results.

The Textbook

This book was written to give you a balanced knowledge of the course content and a practical ability to present and discuss these concepts with prospects. This is a sales training course dedicated to marketing and prospecting, the activities that will put you in front of the people you need to see and create the clients that will lead to a successful career. Use the chapter study aids to learn the material well enough to pass the chapter quizzes and final exam. These include the chapter outline, headings, key terms and concepts, review questions and answers, and

self-test questions and answers. The final exam will have multiple-choice questions very much like those in the textbook self-study questions and the workbook chapter quizzes.

The Workbook

The workbook contains assignments to be completed for each class, including breakouts, quizzes, action and sales planning projects. The breakouts consist of a set of questions, exercises, and case studies designed to apply the text material. These activities encourage you to consider the text in light of your own experiences, and then put this information into action to make the information you learn more personal and practical.

Sales Planning and Action Projects

The sales planning and action projects allow you to put your knowledge into action. You will experiment with and explore new target markets. You will meet new and interesting prospects. By doing more than the minimum within an assignment, the action project will help you to discover a target market in which you can make repeated sales.

The Classroom

The students in an LUTC Program's classroom represent various levels of knowledge and experience in the life insurance and financial services industries. This course offers a mixture of time-tested and cutting-edge ideas. Any repetition of material already familiar to you will reinforce its significance and remind you of its application in your daily marketing and selling activities.

The philosophy of LUTC is that you should share what you know with others, and others should share what they know with you. In this way, all the students in the class will have an opportunity to grow in proficiency, professionalism, and productivity as salespeople. This only happens if everyone is prepared and participates.

Regardless of the products you personally sell and all the conversations you might have with other advisors about the relative merits of your products, there will always be differences in the fine points—you can calculate and compare policy values forever. However, when you look at the protection the insurance provides, remember this: the best life insurance policy is the one that is there to pay the benefit when a claim is filed.

Introduction to the Selling/Planning Process

The foundation of any process is its underlying philosophy. In this section, we explore the selling philosophy successful advisors have used for many years, and is gaining a dominant position today. This discussion reflects a client-focused sales approach to the selling/planning process.

Client-Focused Selling

A selling/planning process is based on a selling philosophy. Over the years, many authors have written about selling the “right” way; that is, what is the most effective method to sell products and develop a loyal clientele? Growing dissatisfaction with the old “hard-sell” tactics of coercing and manipulating prospects and pushing products on people has led to dissatisfaction by both producers and the public with the transactional sales process, and a need for a new way to sell financial products. In doing so, teachers and authors have used many terms to describe the “right” way: relationship selling, client-centered selling, counselor selling, consultative selling, needs-based selling, values-based selling, and the list goes on. This course looks at the general principles of cultivating a long-term, mutually beneficial relationship with clients, one that produces satisfied and loyal clients, and a successful career for the advisor.

The *selling/planning process* is the 8-step procedure for the advisor to follow from selecting the prospect to completing the sale and servicing the client. It is very similar to the financial planning process; both processes are interrelated. Because of the blending of the functions and processes of the financial services industry today, we have adopted this phrase to incorporate the understanding that financial services advisors need sales skills, that the client-advisor relationship typically involves a selling process, and that financial advising and counseling have sales elements. On the other hand, the financial planning movement has been very strong in recent years. The industry and the public recognize the

comprehensive nature of our financial lives and the need to take an integrated approach to planning our financial security.

To distinguish this philosophy from the old-fashioned transactional “hard-sell” approach, we will use the term *client-focused* throughout this course and in the companion course, *Techniques for Meeting Client Needs*.

Clients versus Customers—The primary objective of a successful career is to build clients, not simply create customers. What is the difference? A customer is someone who buys your product. A client is someone who buys you (your knowledge, skills and personality), which can translate into repeat business and referrals. This objective dictates your need to prospect for and develop clients and not just customers. That means marketing strategically and systematically—a theme explored in this course.

Client-focused versus Advisor-focused—Part of seeing more of the right people is earning the right to be referred by them. It begins with this focus: who is the center of the relationship? Successful advisors have always put the needs of the client or prospect ahead of their own. They have made it a practice to advise the client or prospect to do what is right rather than what will earn the highest commission. They know in the long run, they win if the client or prospect wins. A client focus allows you to build a foundation of trust. Always remember, the entire process is about them, not you.

Relational versus Transactional—Actions that build trust are the building blocks of any relationship. Obviously, being knowledgeable and professional is a must because that is how you build that trust. Remember that a client who believes in you will not only be a repeat buyer, but more importantly, they will have the confidence to refer you to others.

Unfortunately, the pressure to make a sale or to earn a higher commission can push an advisor to think only about the immediate sale (transactional) rather than a client’s long-term worth (relational). The *transactional selling* mentality focuses on the transaction—the sale—as an isolated event, a one-shot deal. Once completed, one moves on to the next transaction. Forget service for or developing a relationship with that customer. That would take time away from selling. In this view, selling is a “numbers game” and the objective to see as many people as possible

in the shortest amount of time. Canned, razzle-dazzle sales pitches, manipulative closing techniques, and arm-twisting are the foundations of this approach. Fact-finding is all but non-existent, and what little is done is used for closing points, rather than discovering needs. As a result, the advisor does things to get the immediate sale and chooses the short-term value of the sale or a higher commission over the value of the long-term relationship that could generate repeated purchases and referrals.

Values versus Needs—It is most important to understand not only the needs of clients and prospects but also their values. A client’s values have everything to do with the actions he or she will take after you review their financial situation. It is vital to understand that not everyone appreciates insurance and the solutions it provides for financial problems the same way we do. We should respect this attitude, however. Pressuring people to implement solutions they do not hold high in value can only erode their trust in you and waste your time. Successful advisors are patient and educate their clients and prospects to understand the value of a particular solution, to do otherwise can cause a prospect or even a client to walk away.

| The Lifetime Value of a Client | | | |
|---|-----------|---|-----------|
| Customer | | Client | |
| You are able to “talk” (persuade) the customer into a sale for \$450 in premium. Assume he or she keeps the policy. The value of this customer is as follows: | | In this case, a person’s needs and values dictate that the premium is \$200. You continue to build a relationship by keeping in touch and monitoring his or her plan. The value of this client is as follows: | |
| Initial Sale | \$ 450.00 | Initial Sale | \$ 200.00 |
| Repeat Sale | \$ _____ | Repeat Sale | \$ _____ |
| Referrals x Premium: | \$ _____ | Referrals x Premium | \$ _____ |
| Total Value | \$450.00 | Total Value | \$ _____ |
| <p>You fill in the numbers. What are your numbers for repeat sales (either more of the same or another type of product)? Studies show people buy life insurance, on average, seven times throughout their lives. How many referrals do you get from a satisfied client? What is the average amount of those sales? Do not forget that you have to factor in the referral from a referral, and so on. That client may only have purchased \$200 in premium, but what is that client really worth to you?</p> | | | |

Partner versus Adversary—By working within the framework of the prospect’s or client’s values, you become a partner with them, not an adversary or opponent. The prospect or client understands you are motivated to help them. Successful advisors take a collaborative rather than a combative approach.

Some of the books selling on the market present the prospect-advisor relationship as a competitive one. You are told you must out-think and out-manuever your prospects. It is this kind of attitude that has diminished the salesperson’s status in the eyes of the public, and leads people to avoid and disrespect people who sell for a living. By following a client-focused approach, we can elevate the position of financial advisor to the professional level it truly is.

“Don’t Let the Prospects Close on You!”

Prospects have a very successful closing technique and advisors buy it virtually every time. It is called the stall. Most advisors are so involved in the emotions of their own closing process they do not recognize when the delaying tactics of the stall are occurring. If you do not walk away with a signed application and a check, you have been stalled—successfully.

Is this a relational or transactional point of view?

What attitude does this sales “tip” convey about closing? If you do not want the prospect to “close” on you, then why would they want you to “close” on them? The words “delaying tactics” connote a battle. The emphasis on walking away without an application and a check as the only definition of success ignores the possibility that there are legitimate reasons why the prospect is not buying right now. In these situations, to make the sale could result in a not taken policy, a policy lapse, or a potential lost client. It is the last that hurts the most because of what a client means in terms of revenue from future sales and referrals.

To build clients instead of customers, the selling/planning process must have an eye on the future—that is the philosophy in both *Techniques for Exploring Personal Markets* and *Techniques for Meeting Client Needs*. We need to do the things that will create long-term, mutually beneficial relationships. We will now turn our attention to the process that can help you accomplish this objective.

The Steps in the Selling/Planning Process

We have divided the selling/planning process into eight steps. Knowing what you want to accomplish and why will guide your actions in each step of the process. We will briefly explore the selling/planning process in light of the previously discussed material.

1. Identify the Prospect—Effective selling begins with getting in front of the “right” prospect. Who is the “right” prospect? Not only do you want to look for prospects who have a high probability of needing, wanting, and being able to afford your products, but you also want to find people who will value you and become a source for repeat business and, more importantly, referrals. A systematic approach can help you find target markets of potential clients and enable you to market efficiently and effectively.

2. Approach the Prospect—This is done either on the telephone or face to face. If you are cultivating relationships, you will generate more referral-based business. With the negative feelings people have toward telemarketers and the resulting “Do Not Call” lists, cold calling is becoming more difficult and referrals are becoming that much more critical.

3. Meet the Prospect—This is where you establish rapport, explain your business purpose, explain your services and the process involved, ask some thought-provoking questions, and listen, listen, and listen. The importance of listening cannot be overstated; it is essential when building any relationship. Your goal is to establish a mutually beneficial reason to do business. You need to gain the prospect’s agreement to proceed with the gathering of pertinent information about them. You must let them know what you can do for them in general terms, and help them to see your value. You must answer their key question: Why should I do business with you?



Questions to Ask

A proven technique in effectively approaching prospects at any stage in life is to ask them questions. A tantalizing question that kindles their interest or one that refers to a major need will often get their attention. Here are a few questions that could arouse interest when used in an approach or in fact finding:

- What do you feel is your most important financial goal?
- How do you feel about your present insurance program?
- How much money would your family need to pay your bills, expenses, costs, taxes and other immediate cash needs at the time of your death?
- At what age do you want to be financially independent?
- How do you feel about the current beneficiary and settlement arrangements regarding your life insurance?
- What is your greatest concern regarding your disability income and health insurance?
- Where do you want your family to live in the event of your death?
- Are you completely satisfied with your savings up to this point?
- How are you planning to handle the increasing cost of providing for a college education?
- Are you maximizing your savings and investments in view of the tax consequences they create?

The first impression made by the advisor is extremely important in determining the future of this relationship with the prospect. A professional impression in manner, speech and appearance is a must in order to succeed.

As you help the prospect identify and recognize needs for insurance, you will communicate how you are equipped to help them solve these needs. Begin by explaining what you do and how you do it. This positions you to gather the personal and sensitive information you need to make recommendations. When the prospect agrees to work with you, you have begun to establish a professional relationship that is essential to client building.

4. Gather Information and Establish Goals—When you think of the word *interview*, you think of someone asking someone else questions. That is exactly what you want to do with your prospect. Questions help you uncover the prospect's needs, goals, priorities, and attitudes. Try to discover as much about the prospect's financial situation as you can. Your objective is to gather sufficient information in order to make

suitable and sound recommendations to the prospect. For example, life insurance may be important to the prospect, but how important? Is it more important than a summer vacation? If it is not and you do not know that, you could be wasting your time. Your company can recommend an effective and compliant fact-finder system designed for this purpose.

In order to be thorough, ask prospects to collect their insurance plans and benefit statements from work for you to look over and discuss during this meeting. You can also request their most recent Social Security statement. The personal plans we make often enhance employer-provided plans and Social Security benefits. You need to know as much as you can about each prospect's financial situation.

Before you leave this interview, obtain a dollar commitment from the prospect so you will know how much money is available to buy insurance. Your recommendations must be based on the prospect's premium commitment or your suggestions will not be relevant to the needs you uncover. There can be no sale without the money to pay for it.

The key skills in the interviewing process are:

- Questioning. Ask open-ended questions to probe for needs, goals, attitudes, and values. Ask confirming questions to clarify.
- Listening. Actively listen, rephrase and reflect to ensure that you and the prospect are on the same page.
- Uncovering. Provide information or ask open-ended questions designed to help the prospect see the reality of the situation. Be fair and honest, not manipulative.
- Taking notes. Jot down numbers, goals, needs, priorities, and feelings.
- Summarizing. Review what the prospect has told you and confirm that you have clearly understood him or her.
- Acting. Agree on a proposed next action.

5. Analyze the Information—Once you have a good idea of the needs, goals, priorities and attitudes of the prospect, analyze the concepts and products you have that might best fit the prospect's situation. Organize these into a plan—no matter how basic or sophisticated, it is an insurance plan.

You will analyze the case by:

- reviewing the facts about what the prospect has told you
- identifying the needs by priority and by their monetary value

- coordinating any current plan with your recommendations for an additional purchase
- determining what protection is needed
- deciding on your recommendations for specific product solutions
- checking the premium of the proposed solution against the budget

The final question might be: is there enough money in the budget to pay for the prospect's needs for this insurance purchase?" If not, should you help the prospect prioritize these needs and work with the top of the list now?

It may be possible to uncover additional money from another source, such as a savings account through the prospect's credit union that could be used to supplement premium payments. This is an example of the technique of capital transfer. Money earmarked for savings is moved to another plan where added benefits can be derived from the same savings dollar.

If your product does not fit correctly, send the prospect where they can get what they need. For example, if the person has the money to invest but is not contributing to his or her 401k plan, advise him or her on the benefits of such an action. Because you focus on the long-term relationship, the prospect may not do business with you today, but he or she will remember that you were honest even when it meant you did not write the business. People want to do business with those they trust!

6. Present the Plan—You will be ready to propose and present your suggestions after you have analyzed the case and developed solutions for the insurance needs. Next, you will meet with your prospect, make your presentation of recommendations and help the prospect realize the importance of acting now to solve the problems you have helped uncover. This is a crucial and exciting part of the sale. Here you demonstrate to your prospect just how much you know about solving the problems you have discussed. Now the sale can be made.

Before presenting recommendations you should

- review your prospect's needs, wants and desires again
- restate the situation to confirm your understanding of it
- identify the solutions and any additional alternatives that will cover the needs
- make your recommendations

"Success is going from failure to failure without loss of enthusiasm."

**—Sir Winston Churchill
(1874-1965)
British Prime Minister
during WWII**

Understanding and Accepting the Existence of a Need—We must help the client understand and accept the existence of a need. In this case, the need is to be protected against the loss of life and subsequent loss of income for survivors. This means helping the client recognize why he or she needs life insurance and how it will affect his or her family.

We must help the client uncover his or her need and assist the client in understanding how life insurance will fill the void in the client's plan and provide the protection that is needed. Once the concept of need is accepted, then and only then will clients be open and receptive to seeking a solution.

Every sales presentation should be approached with the objective of doing what is morally and ethically correct for your client. Never try and sell your client something he or she does not need or cannot afford and never use scare tactics to close a sale. As salespeople, we are there to do what is right for the client. You will always have earned the right to ask your client to take action if you have his or her best interest as foremost. Helping a client make an informed choice about a suitable, life insurance product that will protect the client's family is consistent with doing what is right for the client.

Often it seems salespeople forget that their job is to influence their clients to take action. There seems to be a progression to a more passive form of selling; salespeople today seem reluctant to motivate their clients to make a decision. Many act as if their role is to simply educate, go away, and then let the client come to a conclusion on his or her own whenever he or she gets around to it.

If we are doing what is right for the client and we truly believe the client will be better off by acting on our advice, then we should do everything within our power to influence the client into making a decision now. We are not merely doing our jobs when we influence clients to take action; we are helping to protect our clients and their financial security. This is the fine line between client-focused selling and motivating the client to take action for their best interest.

Position your product based on the information gathered in the interview. Cover only relevant features and benefits to the prospect, based on what you have learned about the prospect. Confirm throughout the presentation that the prospect is in agreement so you can address any questions or concerns that arise. Immediately deal with any miscommunication or misunderstanding.

The next step is to ask them to implement the plan.

7. Implement the Plan—If the fact-finding has been done properly and completely and the solutions suggested are based from the fact finder, implementing the plan should be simply the logical next step in your work together. That does not mean the client won't have some concerns or misunderstandings. It does not mean that the plan does not have drawbacks. But if you have done your job uncovering their attitudes and values as well as their financial situation, you will be prepared to explain to them how the solution fits into their framework.

If you don't walk out with an application and a check, you can be assured of two things:

- Your client remains unprotected.
- You have earned nothing for your time.

When you uncover a need for your client and you are presenting your product from a morally and ethically correct position, then you have earned the right to ask the client to move ahead. It is only when you complete the application and get the check that both you and your client win. Stop leaving money on the table and focus on exactly what you are trying to accomplish and make it happen. Think about how you are approaching your sales. Are you prepared, knowledgeable and committed about what you are trying to accomplish? Or is it just another appointment on another day that you may or may not close? Decide what it is that you want to accomplish and go after it. Success is closer than you think!

Do not be discouraged. The ideal closing situation does not occur regularly for most advisors. It may take an advisor several attempts to close. Sometimes prospects postpone purchases and the advisor is forced into several appointments and lapsed time between presentation and close. As frustrating as this will be to you, there are recognized closing techniques that can be used.

Some sound advice is shared to help the advisor through tense closing situations.

- Plan the steps you will take to close each sale.
- Focus on the need of the prospect.
- Recognize the prospect may struggle to understand new concepts and to commit to a long-term financial plan.
- Do not talk too much or too fast.
- Ask questions to understand the client's concerns and questions.
- Let your honest interest and integrity show.

Help the prospect acquire the financial products and services required to put the plan into action. Ask if the prospect has further questions or concerns. If so, address them immediately. Complete the application, perform all field underwriting requirements that are needed, and submit the case to the company. Advise the prospect of the time frame and any responsibility they may have (such as having a medical exam). Use this opportunity to proactively discuss situations that might result in a rating.

Underwriting is the name given to the process by which insurance companies analyze risks to decide if they want to insure them, and at what rates. Much of this work is done by the home-office underwriting department of the insurance company, but the first step in the process is the gathering of prospect information on the application form. The advisor takes the first step in the underwriting process.

Your job is to make sure the information is complete and accurate on the application. You will be responsible for setting up any home office-requested medical examinations and getting all the pertinent names, addresses, and telephone numbers of physicians with whom the applicant has consulted in the past.

Underwriters examine the information they have on the applicant, provided by the application and other sources, and then compare it with the statistics of the general population. The first question underwriters must ask is: How long is the applicant likely to live? Health is a major consideration. Occupation, hobbies and lifestyle may also be important considerations.

There are three general classifications of risk:

- *standard*, where the vast majority of applicants will fall. This is considered “normal” mortality, meaning there is no reason to believe that these people will not live to life expectancy for their age group
- *substandard*, where insureds will be required to pay additional premium based on the fact that their life situation, at the time of application, posed an additional risk to the company, because of individual impairments and hazards they have, that are not common to all applicants
- *preferred*, where an applicant is classified above standard and eligible for reduced or preferred premium rates because they do not have a history of tobacco use and they are in good health

If you are in a preferred classification, you will pay less than those who are standard. In the same way, substandard risks will pay higher premiums than standard.

The prospect is now a policyowner. Your goal is to convert him or her into a client. That process begins in earnest with policy delivery, although it has actually been going on since you first met. At delivery, review the benefits you are providing and what they do to resolve the applicant's problem. Reinforce the concept of an insurance plan and the need for monitoring their situation to ensure they remain properly insured as time passes and lives change. You can do this by offering a periodic review, annually or some other agreed-upon time frame.

8. Service the Plan—This is the step in which your goal is to develop policyowners into lifetime clients. Through service, you cement your relationship with each new policyowner. This gives you the opportunity to make additional sales and referrals. Some service is reactive—the policyowner or client initiates with you when they have to make a change, such as a beneficiary or a dividend option. The receipt of excellent service in these situations is expected. What differentiates an advisor from other advisors is the proactive element of his or her service strategy. Many policyowners purchase a policy and never hear from the advisor again. Proactive servicing strategies, such as monitoring the plan through periodic reviews, newsletters and sending birthday cards, allow an advisor to stay in touch with his or her clientele. It is this high-contact service that builds clients. You need a clear understanding of what you can deliver in both of these situations.

One critical part of the selling/planning process is asking for referrals. (This is discussed in depth further in chapter 3). Asking for referrals can occur any time during the selling/planning process. The key determinant is that you ask when the client has clearly perceived value in the service you provide.

Both *Techniques for Meeting Client Needs* and *Techniques for Exploring Personal Markets* concentrate on helping you learn each of these steps and the skills necessary to do them well. *Techniques for Exploring Personal Markets* teaches you how to market and prospect for the “right” prospects in the personal market. Essentially, it focuses on the steps where marketing and prospecting are predominant:

- Step 1—Select the Prospect
- Step 2—Approach the Prospect
- Step 8—Service the Plan

The material you read in this textbook, discuss in class, and apply in the sales planning and action projects explores effective prospecting methods and marketing strategies.

In *Techniques for Meeting Client Needs*, we complete the selling/planning process and focus on what to say when you meet with a prospect or client. Essentially, this covers steps 3 through 8 in the selling/planning process. You will develop your communication skills and discover tools you can use to help your prospects and clients make sound decisions about their financial future. Naturally, some steps of the selling/planning process overlap both courses. When overlapping occurs, the topics are handled in a different manner within each course.

Techniques for Meeting Client Needs helps you develop new insights into the time you spend with your prospects, uncovering their needs and priorities through interviews, analyzing needs, and closing by reinforcing good buying decisions.

Enrolling in the other course is the next step you will want to take in your personal development program for a successful career. You may ask your moderator when the other course will be offered in your community or with your company. In the meantime, we look forward to helping you develop new prospecting and marketing skills. Once you have mastered these, your performance as a salesperson should improve dramatically. Marketing and prospecting enable you to work with the numbers of qualified prospects required to continue to sell life insurance successfully.

The client-focused selling philosophy is the basis for creating and building clients, people who have bought you and your ideas. The selling/planning process described here is a way of making this philosophy practical. Contacting the right people means you will have more appointments with people who are “client material.” By focusing on their needs and values during your interviews, you build the trust needed to produce sales and referrals. Through monitoring and servicing the plans you have implemented for policyowners and clients, you cement trust and open the door for further sales and referrals. All of these elements of the selling/planning process will help you develop a thriving business.

The Value of Life Insurance

When you think of your job with life insurance, whether you are an advisor, a broker, a producer, or a financial services representative, you have the ability to create solutions that truly can mean the difference between a family having to struggle to make ends meet or having a

financial foundation upon which to pursue their dreams. While many occupations have a significant impact upon a family's financial security, few have the ability to deliver more at the time of need.

After a loved one dies, those left behind can find themselves searching for solutions to problems such as

- paying for final expenses resulting from death
- maintaining a desired standard of living
- replacing the missing income
- paying on or liquidating the mortgage
- paying for education costs
- paying estate and other taxes
- ensuring the continuity and security of business interests

"Life insurance isn't for the people who die; it's for the people who live."

Life insurance can help to solve these problems. In general, through the products you sell, you create money in situations where money did not previously exist or would not otherwise have existed. You create money when it is needed the most. Insurance provides time for people to recover from a tragedy without the need to cope with a financial burden as well.

The above is a list of financial needs for which life insurance can provide solutions. Examining these needs makes it easy to understand why life insurance is an emotional purchase. Probably the most common reason for buying it is the love someone has for those who may survive him or her. For example, final expenses are funded so the people who are left to pay them are not strapped at the time they can least afford it. Insurance provides the money so heirs can maintain a lifestyle to which they have grown accustomed. People want to make sure that the family they love is as financially secure after their death as they are during their lifetime. Insurance provides income after death to keep people from suffering the unnecessary loss of income compounded by the loss of the loved one.

Unlike property insurance, life insurance does not replace what it insures. A life is irreplaceable. Instead, it replaces what the insured would have been able to provide had his or her life continued. It is the creation of capital by installments. No matter what happens, as long as the installments are made, the capital is guaranteed. It is more than insurance—it is comfort, lifestyle, education, peace of mind, assurance that life for a person's loved ones can continue successfully in the future after the insured's death.

Although people can generally sense there is a need for life insurance, they seldom think about it without your help and they often do

not know the extent of their need. They need help understanding the law, their financial obligations and opportunities, and what they are realistically capable of doing in their present situation. While we cannot and should not coerce people into buying life insurance, our job is to help them identify and understand their needs; and, for those who decide to address them, our job is to implement and monitor an appropriate insurance plan.

Life insurance has made a difference to so many beneficiaries by easing the pain and preventing further financial loss. Clearly, life insurance is for the people left behind.

As you read the case study at the end of this chapter, “Guardian Angel,” think about what life insurance and insurance in general can do for your clients. Think about whether this is a worthwhile product for you to sell—a product that can make a difference in the lives of so many at one of the hardest times of their lives.

Your Product—What Are Clients *Really* Buying?

It is important to clearly define what you are selling. Specifically, define your product from the client's perspective. What are your clients *really* buying? Are they buying a life insurance contract? If they are, it will often be difficult to differentiate your product from those of other companies of the same type, because life insurance does not vary greatly from company to company. Obviously there are differences in products, but many of those differences, and the reasons for those differences, are technically sophisticated and beyond the understanding of the layperson, as well as many advisors.

A pencil and paper in the hands of an artistically challenged person is probably something of little worth. But give that pencil and paper to Leonardo da Vinci and the result would be priceless art. The same holds true with a life insurance contract. In the hands of successful and skillful advisor, it is transformed from ink and paper to something priceless and irreplaceable.

This section will examine what people are really buying when they purchase life insurance. We will discuss three aspects of their purchase:

- They buy an insurance product.
- They buy the solution that the product provides both financially and emotionally.
- Most importantly, they buy you—the skills, knowledge, and ideas you provide them that no one else can provide in a more satisfying manner.

The Insurance Product

We will examine insurance products throughout this course, beginning with a section on whole life and term in this class. When a prospect purchases an insurance policy, he or she has purchased a contract that guarantees them a specified payment in the occurrence of a specified hazard in exchange for premium considerations made for a specified period of time. But if people wanted to buy only a contract, we would

expect them to favor mail order, the Internet, or some other direct distribution system, and that has not been the case.

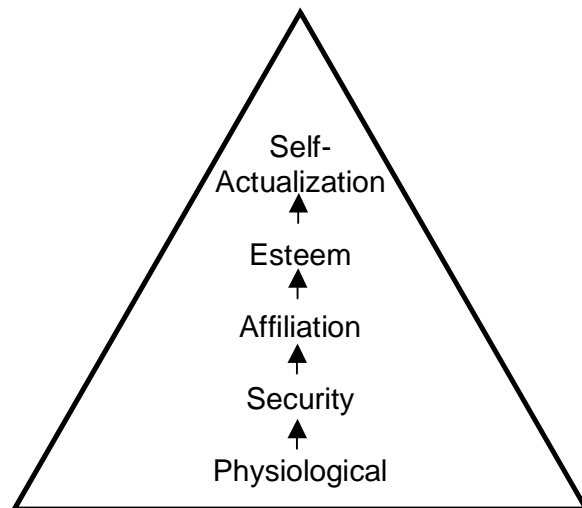
Solutions the Product Provides

What do people really buy when they purchase your products? They buy the solutions to financial problems that insurance products can provide. This is the second aspect of the product: insurance solutions are both financial and emotional. To understand the relationship between the two, think of the financial need as a logical and numerical expression of the emotional need. For this reason, it is important that you understand both types of needs.

Emotional and Psychological Needs

One of the biggest mistakes marketers make is to assume that people's buying behaviors are logical. Just ask Coca Cola. When they rolled out New Coke in April of 1985, they did so after extensive taste tests that indicated clearly that Coke drinkers preferred the New Coke taste. What they underestimated was the emotional attachment that people had to the original. Coca Cola's reformulation was seen as sacrilegious and "un-American." The lesson learned: Buying is as much, if not more, an emotional and psychological decision as it is a logical one. What holds true for soft drinks holds true for life insurance.

Maslow's Hierarchy of Needs



To understand why people want life insurance protection, let's spend a little time thinking about human needs in general. Many psychologists have studied the needs of human beings in a variety of circumstances and at many levels, but none with the effectiveness of Abraham H. Maslow, author of "Maslow's Hierarchy of Needs." His work identified five primary needs that every individual strives to satisfy, and the order in which those needs arise. The five needs, in ascending order of importance, are shown in the graphic below.

Maslow added four basic assumptions to this hierarchy of needs:

1. Satisfying a need is not enough. Another one will always arise. People are always trying to satisfy some need.
2. An individual's needs are usually complex, many times involving more than one level. These needs drive behavior and personality.
3. The most basic needs must be satisfied before higher-level ones are strong enough to drive behavior.
4. There are more ways to satisfy higher-level needs than to satisfy the most basic needs.

This is important. Review these points again because you have just read the key to why people are willing to buy from you. To discover how this affects the purchase of life insurance, let's briefly examine each level of need.

Physiological—Physiological needs are for food, water, air, shelter, and clothing. People who want for any of these things are preoccupied with attaining them first. Until they are satisfied, there is really no ability to consider satisfying higher level needs. One has only to remember stories of families caught in a war zone without shelter and food to visualize this level of need.

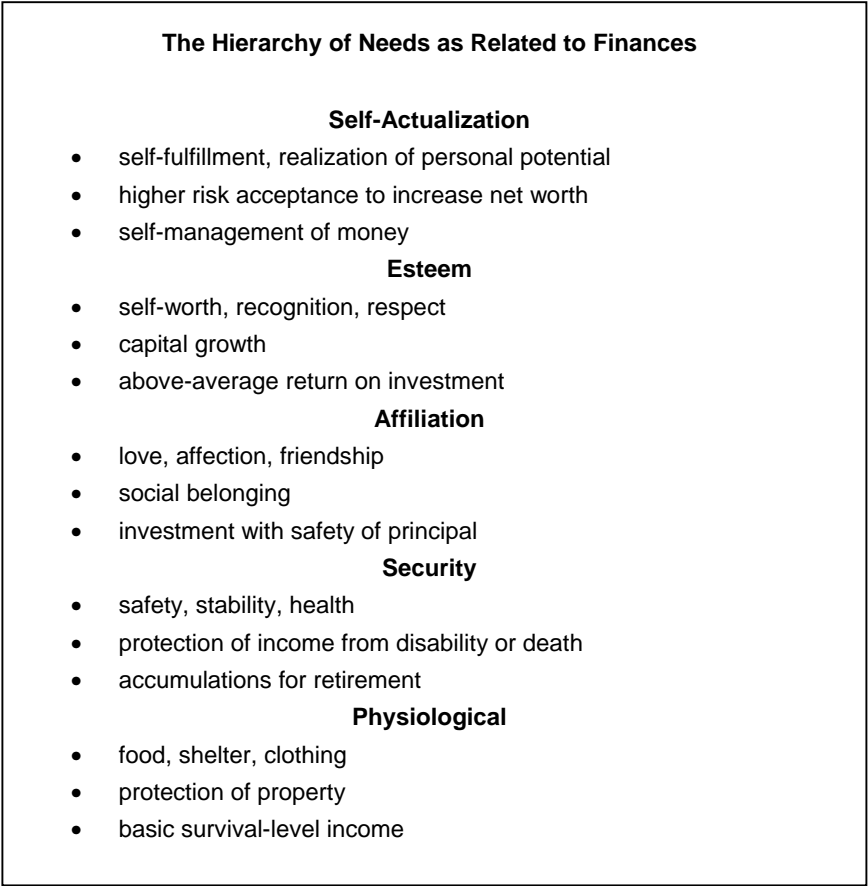
Security—Security needs are for safety, stability, and the absence of pain or illness. Again, people with these needs become preoccupied with satisfying them. Many workers require medical, unemployment and retirement benefits to help satisfy needs in this level of the hierarchy.

Affiliation—Affiliation needs are for love, affection, and a feeling of friendship and belonging. When the physiological and security needs are satisfied, the social or affiliation needs arise to motivate individual behavior. These needs are most evident in a person's behavior as it

relates to job satisfaction, the work ethic, team participation, family ties, and general well-being.

Esteem—Esteem needs include personal feelings of self-worth, recognition, and respect from others. People with esteem needs want others to accept them for what they are and to view them as capable. They are fulfilled when they receive recognition and feedback from others regarding their competence and ability.

Self-Actualization—Self-actualization needs are the highest in Maslow’s ranking. They are the needs for self-fulfillment and the realization of personal potential. People striving for self-actualization are usually accepting of themselves and others, superior at problem solving, more detached, and possess a desire for privacy. One irony is that people



driven by ambition often willingly sacrifice everything to achieve their quest.

Maslow’s Hierarchy Applied to Financial and Insurance Products—

In Maslow’s pyramid, the fundamental needs are at the base. Until they are satisfied, the rest of the structure cannot be properly supported. Using this image to translate “Maslow’s Hierarchy of Needs” to needs satisfied by purchasing insurance, we can see how fundamental insurance is to people’s financial lives. Putting “first things first” means purchasing insurance to satisfy and guarantee the continued fulfillment of basic needs before investing dollars to realize higher-level needs.

Life insurance can be used to provide protection and needs fulfillment for one’s self and loved ones at the first three levels of the hierarchy. Once individuals have satisfied needs at these levels with insurance, savings, home ownership, and other basics in life, insurance becomes only part of the individual’s total future financial strategy. Investments are used to solve higher-level needs. Insurance is not the only answer, but it is the first answer to guaranteeing that basic needs are never jeopardized.

Financial Needs

Peace of mind and love are examples of motives for people to purchase financial and insurance products. The product is the physical representation of the motive. This is true of any purchase. For example, when someone purchases a new sports car, they are really buying an image or status in the form of transportation. Regardless of their motive, the car is the physical, logical expression of their emotional need. When it comes to life insurance, we find a similar situation. Financial needs are the logical expression of a prospect’s emotional desire to protect his or her family. What are these financial needs?

Insurance and Accumulation Needs—Specifically, we can identify seven insurance and accumulation needs. Some of them are beyond the scope of this course, but they determine how much money a person has to spend on life insurance and other products you sell. Note that some of these will be seen as a higher priority than life insurance. For example, by law everyone is required to carry auto insurance. Mortgage companies require fire or homeowner’s insurance. What is left over in the person’s insurance budget purchases health, life, long-term care, disability, and so on.

| Insurance or Accumulation Need | Appropriate Product |
|---|--|
| Protection against personal property loss and personal liability claims | Auto, Fire, Personal Liability, Umbrella, Personal Article, etc. |
| Protection against health or hospitalization expenses | Health |
| Protection against loss in the event of premature death | Life |
| Protection against the long-term costs of living too long | Long-Term Care, Annuities, Mutual Funds |
| Protection against the loss of income in the event of disability | Disability Income |
| Funds to cover unexpected emergencies | CDs, Money Market, etc. |
| Funds to take advantage of investment opportunities | Mutual Funds, Stocks, Bonds, etc. |

Let us turn our attention to life insurance, the focus of this course. It would be difficult to convince people that they need to protect against dying too soon without some numerical evidence of a need. As the counselor who helps prospects uncover the needs in their lives, it is vital to understand primary needs, which are different for every person.

Income Replacement—When a wage earner dies, the family will probably need to replace the lost income to meet continuing and future financial needs. This is the most common purpose for the purchase of life insurance.

Every person has an economic value in life, much of it associated with potential income. Each income producer should be considered, and any shortfall at death properly insured whenever someone depends on that income for financial security.

We do not want to overlook the need to insure a homemaker. Although he or she does not earn an income, there is value to do the work that he or she does. Without the homemaker, would there be a need for domestic services such as a maid? Will daycare costs cause financial stress on the surviving spouse?

Final Expenses—There are always expenses related to dying. Some examples of final expenses are costs related to burial, medical bills, probate costs, and estate taxes. If your prospect wants to establish a goal

to pay them, you can estimate the need to be about four to five times current gross monthly income. Life insurance is an excellent way to pay these expenses when no other capital is available or when the prospect desires to allocate existing assets for family income.

Emergency Fund—If there was not one prior to death, an insured may want to have one set up to provide a cushion should some expensive repairs to the house or the need for a new car arise. A rule of thumb is five times the monthly family income, or 3-6 months of expenses.

Adjustment Income—Sometimes prospects desire to provide money that enables survivors to adjust to the death of a parent or spouse. Life insurance can establish a “cushion” to keep a now-single parent at home for a few months to care for the children, to consider career alternatives, or to remove the pressure to make quick decisions.

Mortgage Liquidation or Payment—A prospect may want to use life insurance to liquidate a mortgage or establish a fund for future mortgage payments. Families who rent may consider establishing a fund for future rent payments. Doing so ensures housing for survivors or, in the case of homeowners, prevents the need to sell quickly and below the fair market value.

Debt Repayment—Most of us do not hesitate to use credit because we are comfortable that we can repay our debts from future earnings. Short-term debt, such as credit cards and auto loans that can be paid off in a relatively short time, should be paid when the insured dies.

Education Fund—The most common concern for families is their children’s post-secondary education. For most families, these costs rank second only to the mortgage on their home. Many see the need for higher education since people with post-secondary education, whether in college or a trade school, can expect to earn more during their careers than those with high school diplomas. Parents who want to provide college or other post-secondary education for their children must plan carefully to save for these costs. Life insurance cash value can assist with future bills and the death benefit guarantees the money to pay the education if the insured parent dies.

There are two other scenarios to explore. Some parents want their children to attend private schools and may want to ensure this will still

be possible. Also, one spouse may be considering going back to school to learn new or better skills. The death of the other spouse can make the need for this additional education critical, since now only one parent must shoulder the entire responsibility for the family. In either situation, life insurance can provide the funds needed.

Bequests—Religious bequests and charitable gifts to special organizations or causes are as common in estates as philanthropy is during a benefactor's lifetime. Most insurance underwriters consider gifting to charity a sufficient insurable interest, but they will usually recommend that other financial needs and obligations—especially to family—be met first.

Taxes—Sizable estates will have taxes to pay, and taxes cannot be postponed. Regardless of the circumstances, estate and final income taxes must be paid before other creditors and survivors get their shares.

For example, if the family's only asset were their farm, the insurance proceeds could be used to pay taxes and protect the land and equipment from being sold to raise the necessary cash. The same applies to the other family assets. Money tied up in stocks, bonds, vacation homes or even the family's primary residence is protected from forced sale, perhaps below its value, by the use of life insurance in estate conservation planning. When there is sufficient liquidity in an estate to pay taxes without insurance, a prospect can use insurance to keep the estate whole.

Business Continuity—Business interests may be severely devalued at the death of an owner. The deceased's family may assume it can rely on the business to help financially. The business, however, will have its own problems coping with the loss of an owner. Life insurance can provide the cash needed to preserve the business whether it is retained for the family, run by a hired manager, or sold. Life insurance can assure that both the heirs and any surviving owners receive full value for their interests in the business.

Supplemental Retirement Income—Permanent plans can offer the added living benefit of supplementing retirement income. Although not a primary source for income, the guaranteed cash value can assist with unforeseen expenses or increases in standard of living during retirement.

Estate Accumulation Goals and Considerations

| | | | | | | | | | | | | | |
|---------------------------------|---|----------------|-----|----------------------|-----|----------------------|-----|----------------------|-----|--------------------|-----|---------------------|-----|
| Final Expenses | doctors, hospital, funeral, unpaid bills and loans, estate taxes, legal costs, executor's fees. Budgeting experts find costs are related to income level with an average of four to five times the current gross monthly income. | | | | | | | | | | | | |
| Mortgage Liquidation | saves future interest charges, reduces the income required for basic needs, keeps surviving family in the home | | | | | | | | | | | | |
| Rental Continuation | provides the ongoing money to pay the rent | | | | | | | | | | | | |
| Education Fund | provides the capital to send children to college and allows a surviving spouse to acquire additional knowledge and skills if needed for self-support. For a sample worksheet, see appendix page A-2. | | | | | | | | | | | | |
| Reasonable Cash Reserves | for unforeseen expenses connected with the children, house, car, family health, family opportunities. Some suggest 50 percent of annual income. | | | | | | | | | | | | |
| Adjustment Income | sufficient income to allow survivors to adjust to the new situation | | | | | | | | | | | | |
| Income Replacement | income necessary for the family to maintain its way of life, assuming home and education are provided. Income should equal the percentage of the insured's gross annual income shown below, or calculated using an income needs analysis. | | | | | | | | | | | | |
| | <table border="0"> <tr> <td style="padding-right: 40px;">Up to \$48,000</td> <td>70%</td> </tr> <tr> <td>\$48,001 to \$53,000</td> <td>66%</td> </tr> <tr> <td>\$53,001 to \$59,000</td> <td>63%</td> </tr> <tr> <td>\$59,001 to \$65,000</td> <td>60%</td> </tr> <tr> <td>\$65,001 and above</td> <td>57%</td> </tr> <tr> <td>Two-income families</td> <td>70%</td> </tr> </table> | Up to \$48,000 | 70% | \$48,001 to \$53,000 | 66% | \$53,001 to \$59,000 | 63% | \$59,001 to \$65,000 | 60% | \$65,001 and above | 57% | Two-income families | 70% |
| Up to \$48,000 | 70% | | | | | | | | | | | | |
| \$48,001 to \$53,000 | 66% | | | | | | | | | | | | |
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| \$59,001 to \$65,000 | 60% | | | | | | | | | | | | |
| \$65,001 and above | 57% | | | | | | | | | | | | |
| Two-income families | 70% | | | | | | | | | | | | |
| Other | religious bequests, charitable gifts, real estate property taxes, business interests | | | | | | | | | | | | |

Note: This is a summary of the needs we will discuss individually. You will notice it fits "Maslow's Hierarchy of Needs" as it moves through the financial needs traditionally met by life insurance benefits. This would be a good page to show prospects before you present your company's material, to let them know the range of topics you will be addressing. If you want to cover only one topic, do not use this summary page. This, and a number of future summaries can be reproduced to begin your sales presentation book. LIMRA's book College Costs will give you accurate, annual references for every college in the country. Another LIMRA publication, "What Do You Do Now?" is useful to all survivors who must deal with the practical aspects of death in a family.

Connecting the Financial and Emotional

A person must have financial needs in order to buy life insurance. But many people have financial needs and still do not buy life insurance. It is how people feel about their financial needs—their emotional needs or motives as described by Maslow—that triggers the purchase. A good marketer seeks groups of people who are more likely to have the emotional needs for life insurance. That is why the personal or family market is such a good market. The emotional bond between family members opens the doors for life sales. The primary motive for most purchases of life insurance is love (Maslow calls it affiliation). You may hear an experienced advisor say, “Insurance is not bought unless somebody loves someone.”

How do you find somebody loves someone enough to buy life insurance? Love is best demonstrated by the goals people set for themselves and others. It is exemplified by how hard they are willing to work or sacrifice to achieve these goals.

Ask and Listen—Find out the person’s goals for himself and for his family. Many times the conversation can be as simple as asking, “What are your dreams? What do you wish to see happen with your family in thirty years?” You will then find out what is important to them. Strive to find out what is truly important to them by asking something like, “Which of these would you like to see happen even if you were not alive?” Finally, determine how they envision that their dreams will still happen by asking, “How do you feel you can make that happen?” In the event that they do not have a viable solution, insurance is there.

As you can see, the dynamic between goals and insurance needs often go hand-in-hand. A goal to see children receive a college diploma from the University of Pennsylvania corresponds with a possible life insurance need to create a college fund to pay tuition. By listening and observing what is important to someone, you can see what needs they may want insurance to protect.

Be Creative—Of course, it helps to have some creativity to uncover your prospect’s needs. Long-time life insurance guru Ben Feldman made a living with his creativity. He talked about his products in terms of what it would do for the client. He would sell a plan to take care of Johnny’s education or a guaranteed buyer for your business. He made millions because he understood that he was not selling life insurance; he was

selling the solutions it could provide. One of Ben Feldman’s favorite approaches (to a business owner) was:

“Put me on your payroll. What do you pay for a good clerk—\$200 a week? Will you hire me? I’ll work for \$100 a week. What will I do? Something you find it very hard to do—I’ll accumulate cash! For whom? For you....But beyond accumulating cash for you, I’ll do something else. The day you walk out, I’ll walk in—and put \$300,000 in the cash register tax-free.”

Did you think creativity was just for selling sneakers and colas? What has a stronger connection, saying to someone, “I sell insurance, are you interested?” or saying, “I sell the peace of mind that only insurance can create for you,” or “I sell packages of love that come in denominations of \$1,000 in insurance coverage—are you interested?” Marketing insurance is about creating curiosity for the solutions you can provide for financial needs. Good marketing creates an emotional and rational connection between the client and the needs that you can meet with the products you sell.

The need is personalized. It ceases to be “education funding” and becomes “Sara’s Education Fund so she can have a good life because I love her.” Would you jeopardize that?

Your Knowledge and Skills

The third aspect of the product you sell—and the most important—is YOU. Product YOU is your knowledge, ideas, skills, and personality which differentiate you from others who sell insurance products. It is the sum total of these things that create your image as the trusted advisor. That trust is what people are really buying.

By knowledge, skills, and ideas we mean your understanding of the products you sell, the needs they can meet, the process you use to determine the need, and the best way to integrate them into a client’s insurance and/or financial plan. Personality plays a role as well. All things being equal, people would rather do business with people they like. In chapter 2 we will explore how this impacts marketing.

A Sample of What to Say about Your Knowledge and Skills

“When you are dealing with top companies, a small difference in cash values or premium should not be the determining factor. Any discussion of price and product only is not meaningful. The particular advantages I bring to the relationship are knowledge and service.”

Examples of Knowledge, Skill, Idea and Personality

Knowledge—permanent products accumulate cash value, Roth IRA's provide tax-free growth, disability income benefits are not taxed as income

Skill—ability to conduct a thorough needs analysis, listening, asking precise, open-ended questions

Idea—supplementing retirement income with cash value from a permanent plan, contributing to a 401(k) plan where the employer matches employee contributions, buying convertible term to allow conversion if your needs become permanent or long-term

Personality—you are analytical, extroverted, a teacher

In the Leonardo da Vinci analogy, it was not the pencil and paper that was valuable, it was the art that da Vinci created with it. But really, the value was in da Vinci—he gave that paper value. In the same way, we give value to the products we sell by providing professional advice and creating customized solutions.

You will find that your knowledge and skills will dictate what you can sell to a target market. You will also find that a target market will dictate what knowledge and skills you will need. Pay close attention to this because opportunities abound when you can match your skills and

knowledge with what people need. Unlike something that truly takes only skill, like playing shortstop for the hometown baseball team, you can learn what you need (find a mentor, take more LUTC classes, and so on) to put yourself in a position to provide tremendous value to your clients.

The important thing is to define clearly what types of markets you are able to provide solutions for, based on your present knowledge and skills. Successful advisors know their limitations. It helps them maintain their professional image and avoid breaches in ethics and compliance. They also keep an eye on the future and set goals of where they want to be so that they can make a plan to get there. You will do this later on in the course.

The competition in insurance and financial services has expanded. It will continue to change as new distribution and marketing models emerge. Customers have also changed. They expect more, probably because they can go somewhere else if they do not get what they want. Customer demands are forcing the insurance and financial industries to provide quality service, ethical conduct, and professionalism. These factors provide less differentiation of one company from another. The true differentiator is you, the advisor, and your ability to deliver your expertise and quality service, and to cultivate a relationship of trust.

Compliance and Professional Ethics

Compliance and ethics are building blocks in the development of trust that forms the foundation of client relationships. Today's customers expect ethical treatment and professionalism from the advisor and the insurance company.

This section examines how compliance and ethics are a source of trust. It reviews compliance by looking at the key state and federal regulations governing the sale of insurance products. In addition, we will see how company policy and procedure help protect the reputations of the advisor and company. The section closes with a discussion on professional ethics and the difference between compliance and ethics.

A Matter of Trust

In the overview of the selling/planning process, it was stated that its goal is to create long-term, mutually beneficial relationships with clients—people who “buy” us, and not just the products we sell. The key to building such relationships is doing the things that build trust and rapport. Ultimately, if people trust you, they will elect to do business with you, and in many cases they will want to do business exclusively with you, in areas related to your expertise.

One aspect of building trust is compliance and ethics. Everyone who sells insurance products should practice the profession with compliant sales practices and the highest ethics possible. Customers expect it. Unfortunately, this is not always the case. What makes this even more difficult is that the actions of one person erode not only the trust people have in him or her, but also the trust people have in our industry. This fact is reflected clearly in the public's opinion of insurance agents. According to a 2003 Gallup Poll regarding the ethics and honesty of various professions, insurance agents finished third from the bottom, just ahead of advertising executives and car salesmen, and just behind stockbrokers and HMO managers. Selling in that type of environment makes your job that much more difficult. With that ranking as the backdrop, we will begin our discussion of compliance.

Compliance

“Prospects don’t care what you know until they know that you care.”

Definition—Compliance is what you must do in regard to your professional conduct. It is the letter of the law. In the case of the state and federal governments, failure to comply with the law will result in fines, loss of licenses, and possibly imprisonment. In the case of the company or companies you represent, failure to comply with their standards will result in their eventually not allowing you to represent them.

The following is a review of state and federal regulations along with company policy and procedures. Many of these topics will be a review of

About the Society of Financial Service Professionals Code of Ethics

Men and women who have chosen to enter into membership in the Society voluntarily bind themselves to this Code of Ethics of their professional organization.

The purpose of the Code is to give further force to the Pledge taken by all holders of the CLU and ChFC designations and to provide a series of standards by which those involved in providing insurance and financial planning and economic security may conduct themselves in a professional manner. The Code is founded upon the two ethical imperatives of competent advice and service to the client and enhancement of the public regard for the CLU and ChFC designations.

Competent advice and service to the client is at the very essence of any professional calling. Enhancement of the public regard for professional designations gives voice to the concept that in accepting Society membership, an obligation is also accepted to all other holders of similar and allied professional designations and degrees.

In its design, the Code presents the two ethical Imperatives, supported by Guides that give specificity to the Imperatives, and interpretive comment, which is intended to aid in a uniform understanding of the Guides.

A violation of the Code would expose a member to sanctions, which range from reprimand to revocation of membership in the Society. A member is in violation of the Code when a final judgment is made that the member has breached an ethical imperative through failure to adhere to one or more of the Guides.

For ease of drafting and reading, the masculine gender has been used. When appropriate, masculine is to be read as feminine and singular as plural. The word “client” is used under the First Imperative since standards concerning advice and service have greater applicability to the relationship of client to professional insurance and financial services practitioner.

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things you have already studied to receive your insurance license, but it is usually good to refresh your understanding.

State Regulations

Currently, the insurance industry in the United States is regulated primarily by the individual states, not by the federal government, although this is the subject of ongoing debate. Each state has its own laws and regulations dealing with insurance sales. Likewise, each state has its own rules for the approval and licensing of insurance products and advisors. For a particular product to be marketed and sold in a given state, both the company and the product must be approved.

While state laws regulating insurance vary, the state commissioners work together through the National Association of Insurance Commissioners (NAIC) in an attempt to identify the issues of greatest

Fraternal Insurance Counselor Code of Ethics

PREAMBLE: As a fraternal life underwriter, I will maintain the utmost professional standards toward my client and at the same time maintain a position of trust and loyalty to my society. I will maintain the highest ethical balance between these two obligations.

I believe it to be my responsibility:

To hold the life insurance profession in high esteem and to constantly strive to advance the prestige of legal reserve Fraternal Life Insurance.

To develop my ability and improve my knowledge through regular study; and encourage other underwriters to do likewise.

To respect my client's confidence and to hold in trust any personal information.

To present accurately and completely all of the facts essential to my client's decision and to always place his best interest and welfare above any personal consideration.

To refuse any person or persons any part of my commissions or earnings as inducement to purchase life insurance.

To submit complete applications for membership and insurance on only those persons whom I believe to have the proper moral and medical requirements that conform with my Society's underwriting rules.

To cooperate with my fellow associates in all insurance organizations in furthering the best interests of the Institution of Life Insurance.

As a Fraternal Counselor, I pledge myself to uphold and maintain these principles and responsibilities.

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importance to consumers and to set legislative standards through model legislation. Through their work, there is general agreement when it comes to some practices involved in insurance sales. For example, all but two states—California and Florida—prohibit rebating, the practice of sharing or returning part of the premium to a client as an inducement to purchase a policy. Rebating is viewed as a discriminatory and unfair trade practice.

License—Each state is responsible for authorizing the advisors who will be permitted to sell approved products. Generally, advisors must hold a resident license in the state in which they live and also hold a nonresident license in any other state in which they do business. Nonresident licenses are often granted through reciprocal agreements between the states, without additional testing. Licenses are granted for a specific time period, and almost all states now require proof of continuing professional education before a license is renewed. *It is illegal for anyone to solicit insurance business unless he or she is properly licensed.*

Typically, the basic life insurance license allows its holder to sell most life insurance and fixed annuity products. Variable life insurance, variable annuities, and other investment or equity-based products are generally not covered by the basic license. These products require special licenses and registration with the National Association of Security Dealers (NASD) and, depending on the state regulations, may require separate state licenses and exams.

The licensing process is a state's way of providing some control over insurance advisors' activities. If an advisor fails to comply with the state's regulations, the state has the right to rescind the license and may take legal action against the advisor and, possibly, against his or her company. The state's insurance department also serves as a place for consumers to turn if they have a complaint or feel that an advisor has misrepresented the facts in making a sale.

Misrepresentation—All states are concerned with the possible misrepresentation of insurance products and their benefits. Presenting an insurance policy as a savings plan, cash accumulation fund, educational savings plan, individual retirement plan, or as any other similar savings device, without making it clear that the underlying product is life insurance, constitutes misrepresentation and is illegal. Suggesting that a policy has certain features, benefits, values, or guarantees that are not

Unauthorized Entities

An unauthorized entity is an insurance company that has not gained approval to place insurance business from a department of insurance in the jurisdiction where it or a producer wants to sell insurance. These carriers are unlicensed and prohibited from doing business in that state. It is the responsibility of the agents to do their due diligence to make sure the carriers for which they are selling are approved by the department of insurance in that state.

In most cases, the operators characterized their entities as one of several types to give the appearance of being exempt from state regulation.

specifically guaranteed in the written contract is, likewise, misrepresentation. Failure to reveal limitations or exclusions of the coverage is also misrepresentation.

Life insurance has an excellent track record of performance. It is designed and guaranteed to provide a death benefit at the death of the insured. While the cash value on whole life insurance grows tax-deferred and can be used to supplement retirement income or act as an emergency fund, these are not the reasons people need it. They need it to protect their families from financial harm in the event of their death. When life insurance is sold for a primary reason other than providing a death benefit, there is a great chance that the product has been misrepresented. Make sure you follow company guidelines.

Replacement—Another major concern is the unjustified replacement of existing policies in order to sell a new policy. Replacement should always be in the best interest of the client. A good rule of thumb is to proceed with the assumption that replacement is not in the best interest of the client and replace only after a careful analysis on your part.

For example, many insurance practitioners believe that the replacement of existing permanent life insurance is almost never in the client's best interest. A newly issued policy is almost always more expensive than an old one. The new policy also creates new suicide and contestability periods. This puts the client's family at risk of not being able to collect benefits should there be a claim during those periods.

Because of these concerns, the NAIC has drafted a Replacement of Life Insurance and Annuities Model Regulation designed to provide policyowners with enough information to make a comparison of the current and proposed coverages.

Advice—States are also concerned with the kinds of advice advisors give to their clients and even with what they call themselves. Advisors who call themselves financial planners or financial consultants may be breaking the laws of the state unless they have obtained special licenses. In many states, financial advisors, planners, and consultants are considered a separate professional group and require specific licenses.

Likewise, even in routine contacts, an insurance advisor's discussions with a client may touch on legal or tax matters. Giving a client or prospect legal or tax advice could well be construed as practicing law without a proper license, which is illegal. While discussing legal or tax matters with clients in very general terms is allowed, an advisor cannot give specific advice in these areas. Instead, when advice is requested, the advisor should always direct the prospect to consult an appropriate attorney or tax advisor.

Federal Regulation

While the primary responsibility for insurance regulation falls upon the states, at times federal regulations will impact insurance companies and advisors.

NASD—Perfect examples of this are variable life and variable annuity products. The dual insurance and securities nature of these products causes them to be regulated under both insurance and securities laws. Insurance is the jurisdiction of the state. Securities are under the jurisdiction of the federal government.

To sell these products, an advisor must be registered with the National Association of Security Dealers (NASD). Without registration, an advisor is not allowed even to discuss equity-based security investment products with a prospective buyer.

Even for a licensed, registered representative, the regulations for marketing security products are extensive. The company must approve all advertising, including letters mentioning the sale or availability of securities products.

This also means things like stationery and business cards used by registered representatives must meet certain standards. Failure to follow any of these rules can lead to the loss of licensing, significant fines and penalties, and can even lead to a suspension of a company's right to do business. Clearly, a failure to follow the proper procedures can be a very costly mistake.

**The National Association of Insurance and Financial Advisors
Code of Ethics**

Preamble

Those engaged in offering insurance and other related financial services occupy the unique position of liaison between the purchasers and the suppliers of insurance and closely related financial products. Inherent in this role is the combination of professional duty to the client and to the company as well. Ethical balance is required to avoid any conflict between these two obligations.

Therefore,

I Believe It To Be My Responsibility:

- To hold my profession in high esteem and strive to enhance its prestige.
- To fulfill the needs of my clients to the best of my ability.
- To maintain my clients' confidences.
- To render exemplary service to my clients and their beneficiaries.
- To adhere to professional standards of conduct in helping my clients to protect insurable obligations and attain their financial security objectives.
- To present accurately and honestly all facts essential to my clients' decisions.
- To perfect my skills and increase my knowledge through continuing education.
- To conduct my business in such a way that my example might help raise the professional standards of those in my profession.
- To keep informed with respect to applicable laws and regulations and to observe them in the practice of my profession.
- To cooperate with others whose services are constructively related to meeting the needs of my clients.

Before security products can be sold, the law requires that prospects be provided with information about the product in a form known as a prospectus. As with the other materials associated with the sale of securities, the prospectus must follow certain formats and guidelines.

As part of the licensing process, an advisor learns the basic state and federal rules that apply to him or her as a registered representative. The rules are complicated and, in the case of insurance regulations, vary from state to state. The best way to be sure that you comply is to rely on your company and agency for help. Their policies and procedures are designed to meet the legal requirements of both the federal and state

governments. By following the company rules and procedures, compliance issues should not be a problem.

Company Policies and Procedures

Protecting the Advisor—Company rules are designed to help advisors make sure that they meet all applicable legal requirements. Keep in mind that an insurance policy is a legal contract between the policyowner and the insurance company. If it is not carefully and properly executed, it could lead to serious legal complications for the insured, the company, and the advisor.

This is the major reason companies require that the company home office approve all advertising and sales materials used by an advisor in advance. It is a simple way for them to make sure that their products and benefits are not being presented in a way that goes against federal or state regulations.

Protecting the Company—If you function as an agent of the company you represent, you have a limited right to speak for the company. What you say and do as an agent may be binding on the company. Clearly, companies must take extraordinary care to protect themselves from the possible misadventures of those representing them.

Professional Ethics

Many people confuse compliance and ethics. But the two concepts are different. Burke A. Christensen, JD, CLU, former vice president and general counsel of the American Society of Financial Services Professionals, in an article for the Society's Journal, wrote:

. . . remember that there is sometimes a gap between what is legal and what is ethical. According to Potter Stewart, retired justice of the United States Supreme Court, that gap represents “the difference between what you have a right to do, and what is the right thing to do.” To infuse your character with ethics, you must not be content to merely comply with the law.

Definition—Professional ethics can be defined as behaving according to the principles of right and wrong that are accepted by the profession. It is doing what is right by putting the prospect's best interest before your

own and maintaining the highest possible standard of behavior in all your business dealings. An example of such standards is the National Association of Insurance and Financial Advisors (NAIFA) Code of Ethics. By adopting and practicing this code, you will achieve the high standard of professionalism that selling insurance and financial products requires.

Insurance Marketplace Standards Association (IMSA)—Beginning in 1998, qualifying companies could advertise their membership in the Insurance Marketplace Standards Association (IMSA). IMSA is a voluntary organization of life insurance companies selling individual life insurance and annuity products and seeking to promote ethical marketplace practices. Adoption and implementation of IMSA’s Principles of Ethical Market Conduct and its Code of Life Insurance Ethical Market Conduct is required for membership.

There are six components to the IMSA’s Principles of Ethical Market Conduct that affect the sale of individually sold life insurance, long-term care insurance, and annuity products. Member companies commit to these standards of market conduct:

1. To conduct business according to high standards of honesty and fairness and to render that service to its customers, which in the same circumstances, it would apply to or demand for itself.
2. To provide competent and customer-focused sales and service.
3. To engage in active and fair competition.
4. To provide advertising and sales materials that are clear as to purpose and honest and fair as to content.
5. To provide for fair and expeditious handling of customer complaints and disputes.
6. To maintain a system of supervision and review that is reasonably designed to achieve compliance with these Principles of Ethical Market Conduct.

The Principles are designed to set out general standards to foster ethical market conduct practices in the life insurance industry. The Code of Life Insurance Ethical Conduct focuses on specifying means for achieving the broad principle statements. The Code is intended to apply to individually sold life insurance, long-term care insurance and annuity products but does not cover the sale of individual disability or credit insurance products at this time.

A company gains IMSA membership through an assessment process that gauges its systems and programs designed to encourage ethical market conduct behavior. The process begins with self-assessment using an IMSA-prepared questionnaire and handbook. This is followed by a review conducted by independent third-party IMSA-approved assessors. Participating companies will, where necessary, create and apply new procedures designed to assure company-wide compliance. Client education on product operation through the home office might, for example, be part of this process. This process must be repeated every three years to retain membership.

Over the past 15 years, the industry has experienced significant negative publicity. IMSA offers the industry an opportunity to provide a mechanism to reinforce good marketplace conduct. It is anticipated that IMSA will improve public confidence in the industry, which in turn should make customers more receptive to you and your product.

The difference between compliance and ethics is that compliance is what you *must* do. Ethics, on the other hand, is what you *should* do. Failure to comply with the law is illegal and thus unethical. However, there is a gray area where what is legal still may not be ethical. How you resolve that gray area is a matter of ethics. And your ethics not only reflect upon you, they reflect upon your company and all other advisors.

Term and Whole Life

Life insurance is the centerpiece of this course. We will discuss several other products in later classes. We begin with the basic life insurance products, term and whole life (or permanent). This section will first review some general characteristics of insurance products, followed by a discussion of term and whole life insurance. We will end with a comparison of the two products.

General Characteristics

Insurance products are often described as being mathematically and scientifically created by calculating mortality, time, and the financial values attached to each. This calculation allows the insurance company to establish the premiums at which a product can be sold to the public.

Every company adds its own variables to reach a final price. Of course, this occurs with all products on the market, whether it is a car or a 20-year term life insurance policy. These variables are why no two life insurance products have the same premium, even though they may appear identical in value to you or to your prospect. A variation in price could be affected by operational efficiencies, investment performance, mortality assumptions, underwriting practices, profit objectives, and the commission structure paid to the field force.

Statistically Predictable

Company pricing variations aside, the statistical predictability of mortality factors provides a basis to begin to price and design life insurance products. First, we know that everyone will die. The problem is that we do not know when death will occur for each policyowner. The time of death is a critical factor because that is when the contract benefit must be paid to the beneficiary.

Mortality tables, now hundreds of years in development, and updated periodically, have allowed insurance companies to create statistics about age of death as well as the predictable cause of death. Mortality tables predict only the statistical probability of the time of death for a given number of people in an identifiable group—not for an individual. For a

company, such a table creates an extremely accurate record so it can risk selling the guarantees of life and annuity insurance products.

Understanding Mortality Tables

Every 20 years or so, new mortality tables are developed for individual life insurance products by the *National Association of Insurance Commissioners (NAIC)*. In December 2002, the NAIC adopted the 2001 CSO (Commissioners Standard Ordinary) Mortality Table, the first step in replacing current insurance reserve valuations based on the 1980 CSO Mortality Table. As the various states adopt the 2001 CSO table, the impact on the life insurance industry will be significant. Although full adoption of these changes will extend over the next several years as state insurance departments approve the new rates, changes have begun to appear as companies develop and market products that take advantage of these changes. Reflecting improving mortality over the last 20 years, the resulting tables should lower rates and affect many of the products you sell.

2001 CSO Tables—With the significant improvements in mortality over the last 20 years since the introduction of the 1980 CSO Mortality Table, the 2001 tables reduce reserve requirements, the amount of money states require a company to maintain to support its products. Generally, the reduction for males is more significant than for females, and for nonsmokers than for smokers. However, with this lower cost of insurance, companies may need to restructure expense charges to make up for lost policy revenues.

One significant change is the extension of life mortality to attained age 120 (compared with age 100 with the 1980 CSO). Longer period and level premium term policies and riders, like 20 or 30 year term, will be expected to show the largest reduction in premium, whereas annually renewable term premium will most likely experience only slight adjustments. Traditional whole life premiums are expected to decrease. These changes will affect newly issued policies only, since in-force policies will continue under their prior mortality and expense criteria.

Marketplace Influence

The needs and interest of the marketplace influence the development of new and different types of policies. You will see this illustrated in chapter 3 when we review the background and development of universal

and variable insurance products. The life insurance advisor cannot simply be satisfied with knowing how the types of products offered by his or her own company are designed. You will need to be able to compare policies, to understand the different components in each, and recommend a product that addresses a particular prospect's needs and goals.

Function of Insurance Products

Life insurance companies sell two general types of insurance products, life insurance and annuities. The function of life insurance is to create a principal sum of money, either through the death of the insured or through the accumulation of cash value (for permanent plans). The function of an annuity is to liquidate a principal sum of money regardless of how that sum was created. In other words, an annuity provides a way for the contract holder who has created a sum of money to then receive it as guaranteed income, at regular intervals, for a specific period of time or for life. Annuities are discussed in chapter 4.

The remainder of this chapter will be about three types of insurance contracts: term insurance plans, whole life, and endowment contracts. We will discuss universal life and other interest-sensitive permanent plans and annuity contracts in chapter 3.

Term Life Insurance

Term life insurance provides temporary protection. Term will initially cost much less than other types of insurance, particularly for most adults under age 40. It offers the maximum coverage at minimum cost at the time of purchase.

Term insurance is suitable when the need for protection is temporary, or the need for protection is permanent but the insured cannot afford to pay the premiums for permanent life insurance. Among the many temporary needs that can be met through term protection are:

- cash to pay an outstanding mortgage at the insured's death
- collateral to obtain a loan to protect the lender should the owner die before repayment is completed
- replacement funds used for income should the insured die
- coverage for working parents who may likely need more insurance than they can afford when children are dependent

- riders to increase coverage on the insured's life and for other family members
- in many business situations

Features

The marketability of term life insurance contracts is greatly increased by the renewability and convertibility provisions that are available in most plans. Because these two provisions put a company at a higher risk, they will generally increase policy premiums. Normally the extra benefits and flexibility these provisions provide are well worth the small extra cost to the policyowner.

Renewability Provisions—The renewability feature allows the insured to extend the contract beyond the original period of insurance without new evidence of insurability. It provides a guarantee to the right of continued protection in the insurance plan. Each renewed period of insurance is usually for the same duration as was provided in the original contract period, the most common of these being a one-year term, which renews annually. The premium for the renewed coverage will increase based on the insured's present or attained age. If the insured's need for protection goes beyond the original period of the term, this protection is valuable.

Convertibility Provisions—The conversion feature gives the policyowner the privilege of exchanging the term contract for a permanent life insurance contract. This adds additional flexibility to term insurance and makes it attractive to insurance buyers. It allows buyers to postpone the higher premium associated with permanent insurance until they can afford a higher premium payment. It is also useful when the buyer may not know what type of permanent insurance to buy. He or she buys the insurance protection today and makes other decisions about conversion later.

The conversion is made to a permanent plan without additional underwriting. The conversion may be effective as of the date of the exchange or as of the original date of the policy. If the term policy is converted as of the current date, conversion is usually referred to as the *attained age method*, since the current age determines the new premium. A conversion using the original date of the term policy for the conversion is referred to as the *original age method* or as a *retroactive conversion*.

Some companies allow policies to be converted retroactively within the first few years after issue. When the conversion is effective as of the original date, the premium rate for the permanent contract is that which it would have been had the permanent insurance been purchased rather than the term. The insured is required to pay the difference in premium between the two plans. There are several methods used to achieve this; you should check to determine the practice of your company.

Waiver of Premium—A third feature, the *waiver of premium feature*, is available to both term and permanent insurance policies. The waiver of premium rider, available to policyowners at issue for a small cost, offers added value if an insured becomes disabled. This rider will pay the premiums of the policy should the insured become totally disabled, usually after an elimination period of six months.

Term Insurance Plans

Term life policies usually provide either a level or decreasing death benefit. There are a few term riders being offered that provide an increasing death benefit.

Level Face Amount Term Life Policies—Most term life insurance sold today provides a level death benefit over a specific period of time. The premiums on these policies either increase with age or remain level. Most increase with age.

Increasing Premium Contracts—Term policies with increasing premiums have level death benefits and are renewable. They include products like the annual renewable term (ART); 5- or 10-year renewable term; and re-entry term.

The *annual renewable term* policy (ART) may be referred to as *yearly renewable term* (YRT) by your company and may have a renewal duration of one, 5, 10, 20, 30 years, or to age 70. The ART contract is the most common. Other policies have become more popular as companies have sought new ways to minimize the adverse effects of high ART lapse rates. The trend over the last few years has been to lower premium rates with longer renewal periods. Some plans extend to age 100 and have a large number of rate bands for sums ranging from \$100,000 to \$1 million. Many offer different premium categories based on underwriting qualifications. The nonsmoker/smoker or tobacco user/nonuser is probably the most common way of establishing premium differences.

Re-entry Term—Companies use *re-entry term* as another method to develop more competitive ART rates. Also known as *select* and *ultimate term*, the mechanics of re-entry term are based on the three types of mortality tables used by companies: select, ultimate and aggregate. A select table reflects the mortality experience of newly insured lives only. They are known to have superior mortality compared to others of their age because they have recently been underwritten for insurance. The insurance company is in a better position to predict this group's mortality picture. This select period usually extends from 5 to 15 years.

Over the years, people have changes in health, lifestyle, habits, and occupations. As a result, mortality worsens. This other extreme is known as *ultimate mortality* and applies to people who have been insured for some years and are statistically more likely to have higher mortality as time has passed since company underwriting.

The aggregate table uses experience from both tables. The traditional ART plans have used this aggregate table for mortality experience. By using the other two tables, select and ultimate, in re-entry term, a scale of rates can be more accurately determined for age and duration since the insured last provided personal insurability. Better tracking permits the most recently insured to obtain the lowest premium rates available.

The re-entry name comes from the fact that in this contract an insured may be able to re-enter the select group periodically, often on a 5-year basis, by submitting to new underwriting requirements for satisfactory insurability. If this is not done, or the insured does not satisfy the underwriting standards to “re-enter” with select rates, the policy premium jumps to the ultimate rates, where they will remain for the duration of the contract.

Nonlevel Face Amount Term Life Policies—Some term insurance products have face amounts that decrease over time. Decreasing term policies are commonly used to pay off loans at death. When used as a mortgage liquidation policy, decreasing term can be tailored to reduce at the same rate the home mortgage reduces.

Some companies may offer a straight reduction schedule as well. This plan is used when the insured has a specific length of time for which to buy coverage, such as with a growing family. It is often used in combination with permanent plans.

In decreasing term, the premium is fixed for the length of the contract, while the face amount gradually decreases. The premium is

generally higher than for the same initial amount and premium for level ART term.

Term Riders—Companies allow policyowners to add term riders to a permanent policy. Although the same coverage is usually available as a separate term policy, the convenience of having term insurance as a rider and the advantages of combining different types of protection under one contract have earned term riders a lasting place in your portfolio. Because the policy fee is charged for the contract as a whole, the term rider would cut the cost of the policy by the amount of the fee for most company plans.

The level term rider is used to provide temporary additional term protection for the specific number of years it is needed. For example, income earners may wish to have extra income protection during their peak earning years. A 10- or 20-year level term rider added to a basic policy would meet this objective.

Other Family Members—Level term riders are also used to insure other family members. The spouse and children of the primary insured may be covered, individually under a spouse or children's rider, or collectively, under a family term rider.

Spouse—Spouse insurance riders are sold typically in \$1,000 and \$2,000 units to coordinate with amounts in the base policy. The rider's insurance continues to the spouse's age of 60 or 65, but can be converted to a separate, permanent plan before that age without proof of insurability.

Children—Children's riders provide level term insurance on the lives of all the children of the insured parent. It insures the offspring as a group instead of individually. Children's riders can be purchased to the age of 18 generally, again bought in units of \$1,000 or \$2,000 and are based on the sum of the underlying plan. Coverage for each child may continue until the child reaches 18, 21 or 25, depending on the policy. The rider is convertible to a permanent plan. In some plans a multiple of the face amount may be offered for each child without providing evidence of insurability (referred to as a Jumping Juvenile policy).

This type of rider offers protection to a growing family without additional underwriting. It could well provide insurance for a child who might otherwise be uninsurable as an individual.

Family—The family term rider is unique in that it covers each member of the insured's family under a single plan. Most family riders are sold in amounts geared to the basic plan's face amount. For example, a minimum \$10,000 base policy may enable the insured to add one unit of family insurance providing \$5,000 for the spouse's coverage and \$2,000 or \$2,500 for each child. The company would set maximums, but larger base policies could increase the available family term rider coverage. Premiums for this type of protection are determined by the insured's age when the rider is added to the base policy and are unaffected by the number and ages of the children. Coverage is generally convertible.

Young, growing families who have needs that exceed their premium paying ability will find the family term rider useful.

Endowment Life Insurance

While term policies provide for the payment of the full policy amount only in the event of death, *endowment policies* provide not only for payment at death before the endowment or maturity age, but also the full face amount at the end of the term, if the insured is still living. The policy matures, or is payable, at this point. It assures the insured (policyowner) that the policy's face value will be available at or before the endowment age whether the insured lives or dies.

A number of variations of endowment insurance exist. They may be written for set durations of 10 to 30 years, or more, or they may be arranged to mature at different ages, such as 65, 70, or higher.

The tax law changes in 1984 that extended the tax benefits available under most other forms of cash value life insurance do not apply to most endowment plans sold since then. Sales of this contract in the United States have come to a stop. Endowment policies sold before 1985 were grandfathered and retained the tax preference for policies of this type. You may find examples of these among your clients' old portfolios.

Many endowment policies remain in force in the United States, and it is useful for advisors to understand how the plans function. Outside this country, endowment insurance is a very popular form of traditional permanent insurance and is sold for the same reasons it was in the United States before the tax changes.

The sum of payment at maturity is called a *pure endowment*. It is paid only if the insured is living at the end of the specified period, with only the death benefit available for payment before that date.

Whole Life Permanent Insurance

Whole life, or permanent insurance, is designed to stay in force for the whole of one's life. This is in contrast to term life insurance, which pays benefits only if the insured dies during the specified term. Its name refers only to the duration of the protection and not to the manner in which premiums are to be paid.

If the premiums are to be paid throughout the insured's lifetime, the plan is called *ordinary life*. If the premiums are to be paid during a specified period of years or to a certain attained age, it is called *limited-pay life*.

Ordinary Life Insurance

The intention with the sale of ordinary life is for the premiums to continue over the whole life of the insured. Sometimes dividends (for policies that earn them) from such a policy are used to offset premium payments and will replace the need for continued payment. In other cases, the insured may plan to surrender the insurance and use its cash value to purchase a retirement annuity. Regardless of what may be planned, it provides the lowest total premium outlay for permanent life insurance. It is the most basic form of permanent life insurance.

At the end of the coverage period (the end of the company's mortality table used in its design) the plan will mature. The cash value will equal the face amount of the original policy and will be paid to the policyowner if the insured still is alive. This will usually be at an age of 100 under policies issued under 1980 CSO tables, and 120 under CSO 2001 tables. In this way, whole life is actually the same as endowment life insurance. Because so many people are living beyond age 100 today, some companies allow the policyowner to keep the proceeds with the company as an interest-earning certificate, or allow in some other fashion the policy to continue, although the insurance aspect has ended.

An ordinary life insurance policy is made up of a pure insurance element and a cash value element. As the cash value increases, the pure insurance decreases. The amount of life insurance at any time is the difference between the face amount and the cash value, and is known as the *net amount at risk*. Together, the sum of the cash value and net amount at risk (pure insurance) always equals the policy's face amount. Because the costs of underwriting, issue, sales commissions, and other expenses are taken out of the policy over the first few years, there will be little cash value buildup in most ordinary life contracts in the early years.

At any time during the life of the contract, the policyowner may surrender the policy for the cash value. Surrendering the policy automatically cancels the contract and ends the life insurance protection.

The policyowner may borrow against the cash value at an interest rate determined periodically by formula or some other procedure stated in the policy. Borrowing against the cash value does not cancel the contract unless the policy loan amount and accumulated interest exceed the cash value. If the insured were to die during the period of a loan against the cash value in the policy, the beneficiary would receive the face value less any loan against the cash value and the accumulated loan interest. Therefore, borrowing against the cash value reduces the death benefit.

Nonforfeiture Options—The nonforfeiture options of an ordinary life policy include the surrender value discussed above. In addition, the policyowner can take a reduced amount of paid-up insurance payable on the same conditions as the original contract. This is created with a single net premium for an amount of insurance that can be purchased with the net cash value plus accumulated dividends at the insured's attained age.

The third nonforfeiture option is called extended term insurance. This is paid-up term insurance in an amount equal to the original face amount of the policy, increased by accumulated dividends and reduced by policy indebtedness. The length of the term of the full face value of insurance under this option will be based on the insured's attained age and the amount of cash value available. This will determine the number of years over which the extended term coverage will be in force. At the end of the term, the coverage expires.

Market—Despite the popularity of interest sensitive and variable products, ordinary life insurance continues to be a popular form of insurance coverage. The draw is the guaranteed lifetime benefit for a guaranteed level cost. Along with these guarantees, ordinary life also can provide for needs of family expenses, estate conservation, last and final expenses, as well as a number of insurance applications in the business market.

Another use of whole life is surrendering or taking distributions from the cash value or dividends to supplement retirement income provided by Social Security, pension plans and personal savings. Whole life is useful for younger people who are just getting started and wish to take advantage of the low premium schedules.

**Life Insurance Product Lines
Annualized Premium Market Share**

| | <u>2002</u> | <u>2003</u> |
|-------------------------|-------------|-------------|
| Universal Life | 28 % | 35 % |
| Variable Life | 1 | 1 |
| Variable Universal Life | 21 | 15 |
| Term | 23 | 22 |
| Whole Life | 27 | 27 |

Source: U.S. Individual Life Sales, 2003, by LIMRA International, Windsor, Conn. Reprinted with permission.

Limited-Pay Whole Life Insurance

With limited-pay whole life insurance, the face value of the policy is payable at death but the premiums are charged for a limited number of years, after which the policy becomes paid-up for its full amount. These limited payments are designed to make the policy paid-up by a specific age, or in a specific number of years, from the issue date.

The greater the number of premium payments, the more closely the limited-pay policy resembles ordinary life. The annual premium payments under this arrangement must be larger than when they are designed to extend over an entire lifetime. Here, they are compressed into a shorter time frame. The shorter the premium payment period, the higher the premium and the faster the cash value accumulation. Theoretically, the premiums payable under a limited-pay policy would be the actuarial equivalent of the premiums payable for the entire projected lifetime of the insured. The ultimate limited-pay plan is the single premium limited-pay plan in which, at issue, the policyowner pays the full amount of premiums due on the policy in one payment.

An advantage of the accelerated cash value buildup in a limited-pay policy is that the sum available to borrow, or to surrender, will be greater than in ordinary life. It may be a larger asset to the policyowner in times of financial emergency, retirement planning, or other cash accumulation needs.

Alternate Premium Payment—Note the difference between a limited-pay policy and the alternate-premium (“vanishing premium”) paying

approach to premium payments. In limited-pay plans, a paid-up status is guaranteed at the end of the accelerated premium-paying period. Alternate-premium payments use policy dividends to pay all of the premiums after they have grown adequately to do so. It should always be communicated that dividends are never guaranteed. While they may increase over today's general scale of payment in the future, they could also decrease. A policy designed to pay premiums with dividends could suddenly have its premium reappear and require the policyowner to resume partial or full premium payments.

Market—Limited-pay plans are attractive to upper-income individuals who want to emphasize cash accumulation in addition to protection. Limited-pay plans make larger amounts of cash available sooner for specific planning purposes, such as college tuition, retirement planning, emergencies, or opportunities such as the equity down payment on a home or business. They also appeal to parents, grandparents, or other relatives who want to purchase life insurance as a gift for a child but do not want to take the chance that the child will not pay the premium later in life.

Modified Whole Life Products

There are a variety of other whole life products available to meet your clients' needs. Several of them, such as adjustable life, current assumption whole life, and indeterminate premium whole life, will be discussed with the interest-sensitive products in chapter 3.

One popular fixed-premium whole life product is the *modified whole life policy*. This product offers a lower premium for a period of time (such as 3 to 5 years) and a level face amount. After a premium increase, the premium stays level for the rest of the lifetime of the contract. This product is used for clients who may not have the money to purchase level premium whole life now but expect to be able to afford the premiums in a few years. Examples could include a young family or a medical intern or doctor just starting out in a practice.

Comparing Term and Permanent Insurance

Both term and permanent plans provide protection that once purchased can only be canceled by the policyowner. Permanent insurance should be purchased with the intention to be continued for life, or at least a long term, such as 20 years or more. Otherwise, term may be a better purchase. Term insurance is designed for special purposes or for specific

lengths of time. Permanent insurance builds equity through cash value accumulations and other nonforfeiture benefits serving as ownership rights in the policy.

Cash value life insurance is often the best solution for many people because it provides lifelong protection. With few exceptions, once you have been approved for the coverage, your policy cannot be canceled by the insurer. Regardless of your health, or any other insurability issues, the insurance will remain in force. This eliminates the problem of future insurability that is presented with term insurance after a certain period of time expires.

Of course, cash value life insurance builds cash value. This amount, part of which is guaranteed under many policies, can be used for future purposes as the policyowner may wish. It can be borrowed for supplemental retirement income, to help pay for education or make a down payment on a home, for example.

On the other hand, term insurance does not offer cash value buildup or other guaranteed benefits. The insured buys the term death benefit to last the period of time the policy is designed to cover. When term insurance is called *pure insurance*, this refers to the fact that cash values are not part of the design and only a death benefit is purchased.

Term insurance does have drawbacks. You have to die to “win.” Term insurance provides a death benefit only, for a specific period of time. When the coverage ends, so does your protection. If you stop paying premiums your coverage ends. For example, let’s say you own a \$250,000 term policy. You keep the coverage in force for 10 years and the policy expires at midnight on December 31. If you die at 11:59 p.m. on New Year’s Eve, your family receives the full benefit. If you die at 12:01 a.m. on New Year’s Day, your family receives nothing under the policy, since the contract has expired.

The concept of term can be compared to auto insurance, where protection against loss is purchased for the contract period. When an insured buys term life insurance, like an auto policy, it is a temporary contract. The company incurs no obligation to pay the death benefit unless the death of the insured occurs within the term of the contract. The same is so in the auto policy. If there is no claim because of accident or injury connected to the covered automobile during the contract period, no benefit is paid to the insured. All premiums paid are considered fully earned by the company at the end of the term period, even when there is no loss of life or, as in the auto policy, no claim. The policy offers no further value to the policyowner.

Buy Term and Invest the Difference?

It's been debated for generations. Term insurance versus permanent insurance—which one is better? Many argue that rather than buy permanent life insurance; you should purchase a lower-cost term insurance policy and invest the difference, usually in mutual funds.

Before one can answer this question, several questions need to be considered. How long do you need life insurance coverage? Which type of coverage can provide financial security for an entire lifetime? Do you prefer renting or owning? Where should you invest the difference? What investment and other risk exposures will the strategy present? What interest assumptions are required? What are the differences in taxes under each approach? Will you be able to invest regularly? "Pay yourself first" is a great strategy, but do you have the discipline to carry this out? How have you done so far?

Term versus whole life are often compared to renting versus purchasing a home. Term insurance, like renting, provides no permanence or equity. When you rent, you get full and immediate use of the house and all that goes with it, but only for as long as you continue to pay rent. As soon as your lease expires, you must leave. Even if you rented the house for 30 years, you have no equity or value that belongs to you. Whole life, on the other hand, provides permanence and equity build-up similar to owning a home, where the value of the home, in excess of any indebtedness, belongs to the homeowner.

While premiums for permanent insurance products are initially higher for the same age than they would be for a term insurance product of the same face amount, permanent premiums usually remain level while term premiums increase as the insured grows older. At later ages of a term insurance contract, the premiums for the same amount of insurance will be higher in the term contract than in a permanent plan of the same duration. The reason term premiums can be as low as they are is that most term contracts do not cover the period of old age when death is most likely to occur. This is because the cost of insurance is so high at older ages. Even after age 40, many contracts begin to experience a sharp premium increase. In a sense, term insurance is designed to expire before you do. That is why it is so inexpensive at younger ages and so

expensive at older ages. Eventually people drop the policy, not because they do not need or want the coverage, but because they cannot afford it.

There is a very real danger of becoming uninsurable when the term coverage expires. While many term policies are convertible to permanent coverage, others may not be. Even if coverage is convertible, there are time limits. If the policy is allowed to expire, you may be required to reapply. If you are found to be uninsurable at that time, you may be without coverage.

Term insurance is sold in the form of individual policies, through employer-provided group term life and is available in combination with permanent insurance as riders.

In summary, despite various names given to the types of contracts, there are still just two kinds of individual life insurance—term and permanent. And when the dust has settled, the best life insurance policy is the one that is in force to ensure the dreams and goals of a family remain intact. Whether that is term or permanent insurance will depend on many factors including the values of the prospect or client—something often overlooked. This is where your knowledge, skills, and ideas in insurance planning, retirement planning, estate planning, and other planning concepts will help the client make the best choice for their situations.

NOTES

1. Andrew H. Thompson, *The Feldman Method* (Chicago, IL: Longman Financial Services Publ., 1989), 98.
2. Burke A. Christensen, JD, CLU, “What Is A Profession?” *Journal of the American Society of CLU & ChFC* 48, no. 1 (January 1994): p.20.

Case History

Guardian Angel

To Ellen Day and her family, Grant Foster, CLU, ChFC, an insurance advisor, has served as a guardian angel. Time and again, Grant has gone well beyond the call of duty and provided the planning and creative solutions that have assured a bright financial future for Ellen and her two daughters. The story began in October 1987, when Grant made a routine call on neighbor Paul Day. The president of a local bank, Paul thought himself to be uninsurable due to a bout of cancer seven years earlier. Grant wasn't so fast to dismiss him. Working closely with his underwriters, Grant crafted a plan whereby Paul qualified for a rated policy with premiums that decreased the longer Paul stayed healthy. After four years, Paul qualified for a standard life insurance policy with \$750,000 of coverage.

In 1992, Grant ran into Paul at a local service station. Pale and weak, Paul was a mere shadow of his former self. He proceeded to tell Grant about his cancer relapse and stroke that occurred on the operating table. Grant reminded Paul that his disability qualified him to waive the payment of premiums on his insurance policy, and still receive all the benefits. Grant kept in contact with Paul and Ellen during the next few months, helping them prepare their affairs. Paul died on April 17, 1993 and [the insurance company] paid the death claim.

Grant Foster then took it upon himself to assure the financial security of Paul's widow and their two children, one of whom suffers from spinabifida. Working with Ellen, Grant established an investment program that has allowed the family to maintain their standard of living.

"Grant is much more than an insurance advisor. He has been my family's guardian angel," says Ellen. "When things looked worst, he was there to help us get through to the future."

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Chapter One Review

Key Terms and Concepts are explained in the Glossary. Answers to the Review Questions and Self-Test Questions are found in the back of the book in the Answers to Questions section.

Key Terms and Concepts

| | |
|------------------------------------|-----------------------------|
| marketing | selling |
| selling/planning process (8 steps) | client-focused selling |
| transactional selling | Maslow's Hierarchy of Needs |
| insurance needs | compliance |
| ethics | misrepresentation |
| replacement | NASD |
| NAIFA | IMSA |
| term | whole life |
| 2001 CSO tables | renewability |
| convertibility | re-entry term |
| endowment | ordinary life |
| limited-pay life | nonforfeiture options |
| net amount at risk | NAIC |

Review Questions

- 1-1. Identify the eight steps of the selling/planning process.
- 1-2. What is client-focused selling and how does it contrast with transactional selling?
- 1-3. List the needs that a family typically may have for life insurance.
- 1-4. How can Maslow's Hierarchy of Needs be applied to financial and insurance products?
- 1-5. Explain the difference between ethics and compliance.
- 1-6. Describe the main features and types of term insurance.

- 1-7. Describe the main features of whole life insurance.
- 1-8. What are the three nonforfeiture options of a whole life policy?
- 1-9. How does a limited-pay policy differ from an ordinary policy?

Self-Test Questions

Instructions: Read chapter 1 first, then answer the following questions to test your knowledge. There are 10 questions; circle the correct answer, then check your answers with the answer key in the back of the book.

- 1-1. The purchase of life insurance usually falls into Maslow's Hierarchy of Needs at which of the following levels?
- (A) physiological, security, and affiliation
 - (B) physiological, security, and esteem
 - (C) security, esteem, and self-actualization
 - (D) affiliation, esteem, and self-actualization
- 1-2. The organization that offers model regulations to states to provide uniformity to life insurance regulations is
- (A) IMSA
 - (B) NAIFA
 - (C) SFSP
 - (D) NAIC
- 1-3. The greater the number of premium payments in a limited-pay permanent life insurance plan, the more closely it will resemble
- (A) variable life
 - (B) ordinary life
 - (C) universal life
 - (D) single premium life

- 1-4. The newest mortality tables currently being introduced by the NAIC are called the
- (A) 2001 CSO Tables
 - (B) 2002 CSO Tables
 - (C) 2003 CSO Tables
 - (D) new morality tables
- 1-5. The Insurance Marketplace Standards Association (IMSA) is
- (A) sponsored by the federal government and regulates insurance activity
 - (B) a voluntary organization of the life insurance industry designed to promote ethical standards
 - (C) an organization that provides compliance approved sales materials to insurance companies
 - (D) a membership organization that requires annual membership renewal
- 1-6. Which of the following statements concerning selling is/are correct?
- I. Transactional selling focuses on the product and the sale.
 - II. Client-focused selling focuses on building relationships with clients.
- (A) I only
 - (B) II only
 - (C) Both I and II
 - (D) Neither I nor II
- 1-7. Which of the following statements is/are correct regarding compliance and ethics?
- I. Compliance means following laws and regulations.
 - II. Ethics means behaving according to the principles of right and wrong accepted by your profession.
- (A) I only
 - (B) II only
 - (C) Both I and II
 - (D) Neither I nor II

- 1-8. All of the following are examples of nonforfeiture options in a life insurance policy EXCEPT
- (A) paid-up insurance
 - (B) cash surrender value
 - (C) paid-up additions
 - (D) extended insurance
- 1-9. All of the following are needs met by life insurance EXCEPT
- (A) replacement income in the absence of the insured
 - (B) protecting a business interest against liability
 - (C) final expenses resulting from death
 - (D) mortgage payments or liquidation
- 1-10. All of the following describe client-focused selling EXCEPT:
- (A) It creates clients.
 - (B) It focuses on needs and values.
 - (C) It is transactional.
 - (D) It is relational.

Answers to Questions

Chapter 1

Answers to Review Questions

- 1-1. The eight steps of the selling/planning process are:
 1. Identify the prospect;
 2. Approach the prospect;
 3. Meet the prospect;
 4. Gather information and establish goals;
 5. Analyze the information;
 6. Develop and Present the plan;
 7. Implement the plan;
 8. Service the plan.
- 1-2. Traditional or transactional selling is salesperson oriented, emphasizing product, presentation skills, closing techniques and sales skills. Persuasion and salesperson talk dominate. Discovery occurs through objections rather than listening and fact-finding to develop prospect needs. Client-focused selling is client oriented with emphasis on listening, prospect talking, fact and feeling finding, and discovery of prospect needs. Helping, trust, and relationship are emphasized.
- 1-3. Common needs for life insurance include family/survivor income for readjustment and to supplement other income sources; cash to pay specific needs such as final expenses, establish an emergency fund, to pay mortgage and other debts, to make charitable gifts or specific gifts to heirs or others; an accumulation vehicle for supplementing education, retirement, or other purposes; and as a tax-advantaged vehicle to accumulate money.
- 1-4. In Maslow's pyramid, the fundamental needs are at the base. Until they are satisfied, the rest of the structure cannot be supported. To translate Maslow's Hierarchy to the needs satisfied by purchasing insurance, assume that insurance is fundamental to people's financial lives. Putting "first things first" means purchasing insurance to satisfy and guarantee the continued fulfillment of basic needs before investing dollars to realize higher-level needs. Life insurance can provide protection and needs fulfillment for one's self and loved ones at the first three levels of the hierarchy. Once individuals have satisfied needs at these levels with insurance, savings, home ownership, and other basics in life, investments are used to solve higher-level financial needs.

- 1-5. Compliance is what you must do in regard to your profession. It is the letter of the law. In the case of the state and federal governments, failure to comply with the law will result in fines, loss of licenses, and possibly imprisonment. In the case of the companies you represent, you must comply with their standards to continue representing them. Professional ethics can be defined as behaving according to the principles of right and wrong that are accepted by the profession. It is doing what is right by putting the prospect's best interest before your own and maintaining the highest possible standard of behavior in all your business dealings. The difference between compliance and ethics is that compliance is what you must do. Ethics, on the other hand, is what you should do.
- 1-6. Term insurance policies provide a death benefit if death occurs during the period of time that the policy is in force. The policy period is expressed as a number of years (such as 1, 5 or 30) or until a certain age of the insured (such as 65 or 70). If the insured dies during the policy period, the face amount of the policy will be paid to the beneficiary. If the insured survives to the end of the policy period the insurance company pays no benefit and the coverage ends. Term insurance is tied directly to the cost of mortality, which increases as the individual grows older. The premium is initially relatively low and increases periodically in most types of term insurance, to reflect the increased mortality of the insured. The older a person is, and the longer the period of coverage, the higher the premium and mortality costs will be.

Level Term—the premium is averaged over the years to achieve a level rate. The premium remains level but builds up a reserve in the earlier, low mortality years to offset the higher mortality risk in the later years of the term.

Decreasing Term—the premium is level, but the face amount decreases over the policy period. While the premium is level, it is generally higher than for the same initial amount for level or annual renewable term insurance.

Reentry Term—a yearly renewable and convertible level death benefit term product. Periodically (every fourth, fifth, or tenth year, for example) the policy renews and the premium is subject to two schedules. The insured is allowed to reapply at company expense for a lower rate, subject to new evidence of insurability.

- 1-7. If a person has a long-term need for insurance, whole life insurance guarantees coverage for the rest of life at a predictable cost. If their estate is large enough to create an estate tax bill, heirs can use the death benefit to pay the IRS or other final expenses, providing estate liquidity. If a person wishes to leave a legacy to grandchildren or a charity, whole life insurance can provide a guarantee to accomplish this. Providing a lifetime income to a surviving spouse can also be guaranteed. In the early years of a whole life policy the premiums exceed the amount necessary to provide the face amount of protection. A cash reserve is accumulated to offset the increasing cost of protection in later years, and to pay other future obligations of the insurer. These cash values are available to the policyowner to borrow, or may be left to accumulate for future needs—like retirement.

At any time the policyowner may surrender the policy for the cash value or borrow against it at an interest rate stated in the policy. The policy may automatically pay the unpaid premiums from its cash values by automatic premium loan provision. The policy may also be annuitized to produce an income. This is one of several settlement options, which is another way to continue the values in the policy, either during the life, or at the death of the insured. If disability occurs, the disability waiver-of-premium rider may pay the entire premium.

If a policyowner should stop paying premiums, he or she may convert the policy to a paid-up policy at a reduced face amount or continue the policy at the same original face amount as extended term coverage. The policyowner could also surrender the policy for its accumulated cash value. These options give the whole life insurance contract a degree of flexibility unavailable in any other financial vehicle a person might own.

1-8. *nonforfeiture options*—If a policy is terminated for any reason other than the insured's death, the nonforfeiture provisions allow the policyowner to receive the policy's cash value in one of three ways:

- *Cash Surrender.* The cash value may be received as a lump-sum payment or as income under one of the settlement options offered by the company.
- *Reduced Paid-up Insurance.* Under this option, the cash value is used as a single premium on a policy of the same kind as the one being surrendered, except that the face amount is reduced. While no further premium payments are made, the policy cash values continue to grow.
- *Extended Term Insurance.* The cash value may also be used to buy extended term insurance of an amount equal to the face amount of the original policy for as long a period as the premium can be paid by the cash value. When the term period expires, there is no more protection. The extended term option is usually automatic upon lapse.

1-9. *Ordinary life* provides level death benefit protection for a level premium. Premiums are paid to age 100, and the policy builds guaranteed cash values, which equal the face amount at age 100. At that time, if the insured is still alive and has paid all the premiums, the policy will mature. The cash value will equal the face value of the original policy and will be paid to the policyowner. Ordinary life offers the most permanent protection for the least premium.

Limited-pay life policies are designed for people who need permanent protection but who want accelerated cash accumulation, or who prefer not to pay premiums to age 100. With limited pay plans, insurance protection extends to age 100, when the policy endows as it would with ordinary life, but the premium payments stop before age 100, resulting in higher premiums and cash values. Generally, the shorter the premium payment period, the higher the premium and the faster the cash value accumulation.

Answers to Self-Test Questions

- 1-1. A
- 1-2. D
- 1-3. B
- 1-4. A
- 1-5. B
- 1-6. C
- 1-7. C
- 1-8. C
- 1-9. B
- 1-10. C

Chapter 2

Answers to Review Questions

- 2-1. Marketing is the planning and implementation of a process to identify specific consumer needs, isolate groups of people who have those needs, and then produce and customize the products and services that satisfy those needs. It is the art of planning when, where, why, how and to whom to sell. Successful marketing focuses on the needs of the consumer and produces a mutually beneficial relationship between a buyer and seller. Because marketing involves planning, much of marketing does not involve interaction with a buyer to make a sale. Many believe that marketing and selling are the same, but in reality selling is a part of marketing. Selling is the end result of successful marketing. It is the transaction resulting from the encounter between buyer and seller, the exchange of the product or service for the buyer's cash.
- 2-2. A qualified prospect is someone who needs and values your products and services, can afford to pay for it, can qualify for it (if applicable to the product), and can be approached by you on a favorable basis.
- 2-3. Your general market is whomever you can market to without a clearly defined strategy. It could almost be anyone, resulting from a "shotgun" approach to marketing. There are some boundaries in the general market such as where you and the company or companies you represent are licensed to sell. Establish some geographical boundaries by deciding the areas in which you are willing to market and sell, the time required to get from one place to another between appointments, traffic patterns, and the cost of driving there. Your general market is necessary if you have not developed a more focused market that can support your sales goals. Marketing and selling only in your general market will require a lot more work and cold calling.