Perspectives
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Is Your Life Insurance Policy on Auto Pilot?

By Pam Soult
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Life insurance has been a safety net against financial devastation in the event of premature death for many households and businesses. You've likely purchased life insurance for yourself, your spouse and/or your business, but when was the last time you reviewed your life insurance policies to determine whether this coverage is still the most prudent risk management vehicle for your current financial goals? If your answer is longer than the past 24 months or so, you're likely in need of an audit.

A life insurance audit assesses your insurance contracts to determine the stability and accuracy of your current risk management program as a part of your overall holistic financial plan. You and your financial advisor work together to review and analyze four major areas to uncover any potential deficits in your existing coverage and help to determine the next steps in securing the proper life insurance coverage and contracts based on your current goals, objectives and needs.

Area #1 – Policy Performance

To evaluate the performance of the policy, you and your financial advisor can compare policy costs to determine if the policy provider has raised the internal costs of the policy to highest cost rates. Policy providers also sometimes lower the interest or dividend rate and credit rating of the policy to minimum crediting rates. You can also analyze whether actual market returns have varied from original projections when the policy was issued. It's also important to determine whether premium payments have been discontinued or if any loans have been taken out that are affecting policy performance.

Area #2 – Contract/Policy Structure

The contract and policy structure of your life insurance policy can change due to external events, such as a marriage or death in the family. When reviewing it with your financial advisor, it's important to review the policy ownership or beneficiary designations for accuracy. If the original insurance company has been sold or has merged with another insurance company, the contract may need to be updated. Other events that can affect your contract and policy structure are the insurance company financial rating being decreased or if you have paid premiums on a level term policy past the guarantee rate.

Area #3 – Updated Needs/Goals

Your needs may have changed since you established your insurance policy decades ago. You may have selected a policy that now provides inadequate coverage or provides too much coverage. You may have also decided to leave a legacy through a charitable donation or endowment in your honor. Meeting with your advisor to complete the life insurance audit will allow you to consider your needs and current financial situation to ensure that your legacy goals will be met.

Area #4 – Life Changes

Insurance companies are underwriting individuals differently today than they have in the past. Thanks to medical advancements, companies can now underwrite certain medical conditions more favorably. Or perhaps you've adopted a healthier lifestyle since your policy was written by making the decision to quit smoking or lose a significant amount of weight. These factors can affect your policy. If your life insurance policy was written with a pre-existing condition or your health has improved, your financial advisor can help check to see if your solution is still appropriate for you today.

Where to Begin the Audit Process

Just as you go through an annual review of your health, job performance and your investment plans, you should take the time to review life insurance coverage to make sure that the plan is meeting your current goals and objectives.

The life insurance audit is an interactive process between you and your financial advisor and will require some information from you in order to provide the most accurate analysis of your overall life insurance plan. Contact your financial advisor today to obtain a Life Insurance Audit Checklist and begin the process of this critical assessment. If you don't currently have life insurance, now is the time to speak to your financial advisor regarding this important component of your financial plan.

Example Case Study

During a recent life insurance audit, a financial advisor gathered basic health information to review an existing life insurance policy on a 63-year-old female client. After receiving all pertinent data on the current policy, he discovered that her current life insurance policy would only provide coverage to her until age 78. After assessing her current health, he was able to determine she would be underwritten at a Standard Non-Smoker rating. Based on the same premium she was paying, he was able to deliver a more competitive life insurance solution that would extend her guaranteed coverage to age 100.

After seeing the successful results of this analysis, the client's 73-year old husband asked the financial advisor to review one of the couple's joint survivorship policies. On this policy, the coverage was only guaranteed to the wife's age 83 (husband's age 93). After gathering the same health information on the husband, it was determined he was uninsurable. However, since the policy is written on the health information for both lives, the financial advisor was able to provide a solution to guarantee coverage to the wife's age 95. This new policy reduced the annual premium outlay by $10,000 and the clients were able to forgo the next year's premium altogether based on cash values transferred from their existing contract prior to the audit.

The Rule of 72: A Double Take on Your Portfolio

By Andy Laster
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Iconic physicist Albert Einstein is probably best known for E=MC2 — his groundbreaking formula expressing the correlation of energy to matter. But he's also credited with discovering the Rule of 72, a mental math formula that offers investors a simple way to calculate the future value of an investment that receives compound interest continuously.

What is the Rule of 72?

The rule simply states that if you divide 72 by your expected annual rate of return, you can determine approximately how long it should take for your savings to double. For example:

72 ÷ 8% (expected return) = 9 years

It doesn't matter whether you have a starting balance of $500 or $50,000; if you earn a real rate of return of 8 percent annually, the Rule of 72 says you would double your savings after nine years. The formula illustrates the power of compounding: Your savings generate interest earnings, which then generate additional earnings when they're reinvested.

A lifetime of Rule of 72

Think about it ... with life expectancy in the U.S. at almost 79 years,[1] how many potential doubling periods might you have in your life? As the chart below shows, that depends on your portfolio's annual rate of return. But let's go back to our hypothetical 8 percent scenario above: If you started saving at age 31 and retired at 67, you could possibly double your tax-deferred savings roughly four times.

How Many Doubling Periods in Your Life?

Annual Rate of Return (%)	Years to Double	Annual Rate of Return (%)	Years to Double	Annual Rate of Return (%)	Years to Double
1	72	6	12	11	6.5
2	36	7	10.3	12	6
3	24	8	9	13	5.5
4	18	9	8	14	5.1
5	14	10	7.2	15	4.8

This table illustrates how the Rule of 72 works mathematically. It is not intended to represent an investment. The calculations reflect constant rates of return, unlike actual investments, which fluctuate in value, and do not include fees or taxes, which would lower performance. It is unlikely that an investment would grow 10 percent or more consistently, given current market conditions.

Tax-deferred investing + Rule of 72

Tax-deferred investing means that you delay paying income taxes until you withdraw your money, ideally at retirement. At that point, your decreased income will likely put you in a lower tax bracket than while you're working.

Adding tax-deferred investing to the Rule of 72 may help your portfolio grow faster. Here's why:

1. According to the Rule of 72, it takes nearly nine years to double your savings at an 8 percent annual growth rate in a tax-deferred account. If that account were taxed at a 28 percent rate, it would take roughly 12.5 years to double in value.[2]

2. After 30 years with a $50,000 initial investment and an 8 percent annual growth rate, a tax-deferred account would be worth $503,133 ($362,256 after you pay your deferred taxes) compared with $268,295 for a taxable account.[2]

Putting tax-deferral investing to work for you

Two types of vehicles allow you to accumulate tax-deferred savings:

1. **Tax-deferred accounts.** These include IRAs or employer-sponsored retirement plans —including 401(k), 457 and 403(b) plans — that offer different types of investments.

2. **Tax-deferred annuities.** Fixed annuities offer a guaranteed rate of return, while variable annuities offer a variety of investments.

Talk with your financial advisor about tax-deferred investing and what type of account may be appropriate for your needs. While Einstein's Rule of 72 can be a handy shortcut for evaluating a portfolio's potential, your advisor can help you build a plan that's tailored just for you.

[1] Source: Center for Disease Control and Prevention, 2014

[2] Source: Invesco. The hypothetical examples are for illustrative purposes only and are not intended to represent the performance of a particular investment product or a real investor. Actual return and tax bracket aren't likely to be consistent from year to year, and there is no guarantee that a specific rate of return will be achieved. The example assumes that an individual in the 28% tax bracket and assumes no withdrawals; it doesn't reflect the performance of or fees and charges associated with any specific investment or account for the effect of inflation. Tax rates and brackets are subject to change. The tax-deferred account will be taxed as ordinary income upon distribution, while the lower maximum tax rates on capital gains and qualified dividends would make the return on the taxable investment more favorable, thereby reducing the difference in performance between the two accounts shown. Investment returns fluctuate over time and losses can occur. This hypothetical is based on current tax laws, which are subject to change. This information is not intended as tax advice; investors should consult a tax advisor.

Important Information

Variable annuities usually carry mortality and expense charges, administrative fees and possibly sales charges, which can lower tax-deferred performance.

Invesco Distributors, Inc. does not offer any variable products.

Guarantees are based upon the claims paying ability of the issuing company and do not apply to the investment performance or safety of the underlying investment options.

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