STONE POINT FINANCIAL GROUP
CASE STUDY

HIGH PROBABILITY OF OUTLIVING COVERAGE

LEADS TO A COMPARISON OF COVERAGE OPTIONS

THE SITUATION

Nick Anderson, age 50, and his wife, Sarah, age 48, own a successful architectural firm. In 2003, the couple had their trust purchase a $5 million Variable Adjustable Second Death policy on Nick and Sarah's lives.

- When the policy was purchased, Nick had a "flat extra" underwriting penalty due to his driving history which added $2,500 or 39% to the annual premium of $6,500.
- In 2011, the trust missed a premium payment resulting in an automatic premium loan of $6,500. The loan had accrued $4,300 of interest at 8%.

THE PROBLEM

When we had the Policy Management Company (PMC) team review the policy in 2018, they discovered that the unpaid premium and under-performing subaccounts caused the projected coverage age to drop from age 120 to age 75 and the guaranteed coverage age was only 59. There was a very high probability that the healthy couple would outlive their coverage.

THE SOLUTION

The PMC team recommended corrective action and worked with our underwriting team to perform a private Underwriting Risk Evaluation (PURE) to determine if Nick's underwriting classification could be improved. They found that the "flat extra" penalty did not apply to all carriers. With the knowledge that the flat extra penalty could be removed, the team then compared recalibrating the existing policy versus replacing the policy with new coverage to extend the coverage duration.

After investigating six different options, the team found that a policy replacement would significantly improve the coverage for the client, including: 1) an improved underwriting class making the policy more cost effective, 2) providing lifetime guaranteed coverage, and 3) reducing the annual premium by 26%.

THE TAKEAWAY

If it were not for our team's review of the policy and its proactive inquiry to remove the flat extra underwriting penalty as well as addressing the situation with the unpaid loan balance, the problem would have compounded with the likelihood of the policy lapsing well before Nick and Sarah's life expectancies.

[1] Client name has been changed to protect confidentiality. Securities offered through Valmark Securities, Inc. Member FINRA/SIPC. 130 Springside Drive, Akron, Ohio 44333. (800) 765-5201. Stone Point Financial Group is a separate entity from Valmark Securities, Inc. and Valmark Advisers, Inc.

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