

## Do Internal Fees in Life Insurance Make a Difference?

Morningstar, who created a system for ranking risk-adjusted performance, released a report<sup>1</sup> on August 9, 2010 stating that “Low fees are likely to be the best predictor of a mutual fund’s future success”. The study went on to say that “using low fees as a guide would give investors better results than even Morningstar’s own star-rating system”.

Likewise, “the internal costs of permanent life insurance also have a significant impact the performance of insurance policies,” says subscriber Timothy Cope of Fleischer Jacobs Group in Vermont. “The higher the cost the less money left for the death benefit and cash value.”

The largest single cost in any insurance product is the cost of paying claims. Payments of claims are referred to as the Cost of Insurance (COI) charges. With life insurance, COI charges can account for 75% - 80% or more of the total premium. Few clients or advisors know what they are actually paying for cost of insurance charges (COIs), fixed administrations expenses (FAEs), cash value based “wrap fees” (M&Es), and premium loads or what they are actually getting in the performance of invested assets underlying policy cash values.

Given findings from independent studies<sup>2</sup> indicating there can be as much as a 80% swing between best-available rates and terms and poorly-priced products, the opportunity to bring reduced policy expenses and/or improved performance of invested assets underlying policy cash values can be both significant and meaningful today.

Once you know what your client is being charged, how do you know if it is a suitable product for your client? The same way you would evaluate the performance of an investment -compare your client’s product against a benchmark. The definition of Benchmark (n) is a standard by which something can be measured or judged. So anyone can benchmark and most advisors do, but how do you know if you are using a benchmark with independent, 3<sup>rd</sup> party data?

For any such system/service to be considered complete, independent, and objective, it would have to be comprised of all required or customary characteristics (e.g., as defined by FINRA or the Prudent Investor Act), include reference to 3<sup>rd</sup>-party data/research beyond the influence or control of the preparer (e.g., like measuring investment performance against a widely accepted benchmark such the S&P 500, a Morningstar report or other applicable benchmarks), and be based on facts without influence of personal feelings, limitations, or bias.

“The problem is that finding the fees in any life insurance policy is very hard to do and confusing to understand,” Tim Cope says. “Insurance companies show premium, cash value and death benefit on their illustrations. What they don’t show are the internal expenses/cost on historical performance. Your clients deserve this information as they make their insurance decisions and fortunately Veralytic has this information in their 5 star rating system and also answers the “historical return” and financial rating questions.”

Veralytic provides the “transparency” needed to measure, monitor and manage your client’s life insurance policies. Veralytic is simply the fastest, easiest, and most credible, comprehensive and cost-effective way to independently prove to clients and particularly their advisors whether or not the pricing and performance of existing or proposed life insurance is suitable. Only Veralytic, endorsed by the New York Bankers Association (NYBA) and compliant with leading regulatory agency rules for fair and adequate disclosure and a strategic partner of the Financial Planning Association (FPA).

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<sup>1</sup> “Low Fees Outshine Fund Star System” Wall Street Journal 08/09/2010

<sup>2</sup> <sup>1</sup>Tillinghast Towers Perrin study referenced in the May 2003 issue of Trust & Estates, CASCO survey reported in the April 1999 issue of Trust & Estates magazine, and research from Veralytic database.