ESI EXPERT SALES INSIGHT
From The Hartford's Estate and Business Planning Department
THE HARTFORD

Expert Sales Insight
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Policy Review – A Closer Look at Some of the Basics

Background:

Policy review is a "bread and butter" approach to building a book of business. It is valuable in helping build strong relationships with existing clients while helping ensure their existing coverage is still aligned with their overall objectives. Where appropriate, changes in coverage can help clients better prepare for contingencies and even save them money.

But reviewing coverage is not always something clients are eager to do. The following are some real-life things for clients to consider when they're not sure if a review is necessary. Have you heard responses like these?

- **"I'm not paying out of pocket, so I'm happy."** Owners of some whole life policies may think they're in a paid-up status, because they're not writing premium checks every month. Then one day they get a notice from the insurer informing them that all those checks they didn't write will be added to their gross income for the year because the policy is about to lapse from indebtedness. By the time this happens, it may be too late. A policy review can be an opportunity to help educate clients on the potential consequences of policy indebtedness.

- **"My marital status hasn't changed."** A change in marital status is an important reason to review coverage, but marital status itself may not be so obvious. Couples who enjoy a domestic relationship for years may not be married. A client may be separated long-term from a person who remains their legal spouse. Verifying clients' marital status is critical to helping them achieve their goals. Many states have laws revoking insurance beneficiary designations on divorce, but others don't, and even changing the beneficiary to the current partner may not remove the possibility of a claim by a still-legal spouse.

- **"I'm giving my policy to my kid."** Insured clients sometimes change policy ownership to a child to remove the death proceeds from their estate. If the insured survives the three-year look-back period, OK. But on death, the child owner may be deemed to have made a gift in the amount of any non-owners' share of the death benefit. Joint ownership between all beneficiaries may solve this problem.

- **"My lawyer already looked at everything."** It's tough to second-guess a client's counsel, but the insurance professional can be an equally important member of the planning team. If life insurance is owned by a trust, a review of the trust instrument can reveal potential issues. For example, if an irrevocable life insurance trust (ILIT) beneficiary turns out to be a revocable trust, the ILIT's irrevocable status is seriously jeopardized. In this situation, there are really only two options: petitioning a court to amend the trust, or stop funding the trust and start over. While neither of these is desirable in itself, they may be preferable to including the policy death benefit in the trust grantor's estate.

- **"My kids are out of the house, so I'm not sure I even need what I have now."** This scenario may be an opportunity to decrease coverage, or even to switch some focus to lifetime benefits. New, innovative types of coverage are available in the market. In particular, there are now riders offering long-term care coverage or accelerated benefits in the event of certified chronic illness. (Long term care coverage and accelerated benefits are different kinds of products – see "Definitions" below for more information.)

Significance:

Policy reviews are a great way to build trust and respect among your client base. In the process, you may also uncover new business opportunities, gain referrals and deepen relationships to increase the chances of retaining the future business of your clients' beneficiaries.

A simple invitation may be all that's needed. The Hartford offers a range of policy review marketing materials, including prospecting letters for individual and trustee clients, customizable with your contact information. A proper review can make the difference between coverage and the right coverage.

Additional Information and Considerations

The Hartford's Estate and Business Planning Department publishes these Expert Sales Insight (ESI) to report on a variety of topics (e.g., Private Letter Rulings, court cases) relating to life insurance, estate planning, business ownership and other items. These items may be of interest to agents who sell life insurance and to consumers (and their advisors) that may own or are considering purchasing life insurance. The Hartford is not authorized to practice law or to provide legal or tax advice.

DEFINITIONS OF TERMS

Irrevocable Life Insurance Trust (ILIT) - A properly drafted irrevocable trust can provide significant estate planning and transfer tax benefits. The gifts to the trust may qualify for the annual exclusion (currently $13,000 per donee) and the principal of the trust may be outside the client's taxable estate. Often, these trusts own and are the beneficiary of life insurance on the life of the client and/or the client's spouse.

"Three-year look-back" rule - Under Section 2035 of the Internal Revenue Code, if a decedent made a transfer of an interest in any property, or relinquished a power with respect to any property, during the 3-year period ending on the date of the decedent's death, and the value of such property would otherwise have been included in the decedent's gross estate, the value of the gross estate will include the value of the transferred property.

A qualified long-term care insurance contract or rider attached to a life insurance policy satisfies Section 7702B of the Internal Revenue Code and is a health insurance contract.

A policy rider providing accelerated death benefits paid by reason of a qualified chronic illness will be treated for federal income tax purposes as accelerated death benefits under Internal Revenue Code Section 101(g) and may be excluded from taxable income depending on the insured's particular situation. Such riders may not be marketed as qualified long-term care insurance products.

Life insurance contains fees and expenses, including cost of insurance, administrative fees and premium loads, surrender charges, transfer charges and other charges or fees that may be incurred under the policy.

If you have any questions regarding this article, please contact the Estate and Business Planning team at 800 800 2738, Option 4

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