Risk Management and the Evaluation of Life Insurance Policies For the Professional and Amateur Trustee, And Anyone Else Who is Interested

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Abstract

With the advent in the late 1970s and late 1980s of flexible premium, non-guaranteed universal life insurance, or any other policy whose performance is based on nonguaranteed elements, the risk of policy sustainability, performance and solvency was shifted from the life insurance carrier to the policy owner. Yet the nature of this risk shift, the risks assumed, the effect of volatility in investment returns, both for fixed accounts and equities, on policy account values, and the inadequacy of the traditional policy illustration tool to measure and account for these risks, is either, at best, completely misunderstood or, at worst, thoroughly ignored; resulting in policy insolvency and lapse. This is particularly a problem for trust-owned life insurance (TOLI) where the trustee is under a fiduciary duty to manage the risks and monitor the performance of the trust estate policy assets. This presentation will explore the risks in life insurance policies and provide a process for managing the life insurance policy risk, as well as the proper "dispute defensible" evaluation of non-guaranteed life insurance policies, which account for policy return volatility and place a statistical confidence of probability on policy results.