

ASH LIFE AUDIT <sup>SM</sup>

CRITICAL FIDUCIARY RESPONSIBILITIES

# Life Insurance Portfolio Analysis <sup>SM</sup>



*Presented by:*





The Life Insurance Portfolio Analysis (LIPA) provides trust fiduciaries with a comprehensive evaluation of the performance of Trust-Owned Life Insurance (TOLI), as well as recommendations to optimize these policies.

## A Heightened Level of Accountability

Fiduciaries face many responsibilities regarding trust asset portfolio management. Given the volatility of today's equity marketplace, it is necessary to perform periodic reviews of trust assets. However, since life insurance is often viewed as a long-standing asset whose purpose may not be needed for decades, TOLI policies are often overlooked; failure to review them could be detrimental.

### The Uniform Prudent Investors Act [UPIA]

- Sets standards for managing, reviewing and monitoring trust assets, including TOLI policies, for the benefit of all beneficiaries as any prudent investor would
- Holds them to a standard of reasonable care, skill and caution
- Adopted by most states, however states are not compelled to adopt uniform laws
- Those states that do adopt the laws may vary from the uniform act
- Financial advisors must become familiar with the laws of their states

\*The UPIA was drafted and recommended for enactment by individual states at the National Conference of Commissioners on Uniform State Laws in 1994. States have not been compelled to enact the UPIA and there are a wide variety of methods by which states have adopted the provisions.

Fiduciaries are required to manage the costs and maximize the benefits of TOLI policies. This entails a sophisticated risk/return analysis to investigate the suitability of underlying costs of insurance charges, policy expenses and policy-earning assumptions.

Due to the great level of care required in managing asset portfolios, fiduciaries are permitted to delegate certain responsibilities to third-party advisors. In accordance with UPIA, the LIPA provides access to resources and solutions, which encompasses most fiduciary responsibilities. Performing the analysis fulfills many UPIA requirements by evaluating and possibly improving the performance of TOLI policies.

# 65%

of in-force coverage  
can be improved by a  
contemporary policy\*

\*Based on over 6,000 portfolio reviews from 2010-2017

## Standards

There are many standards set, but the ones particularly relevant to life insurance policies are:

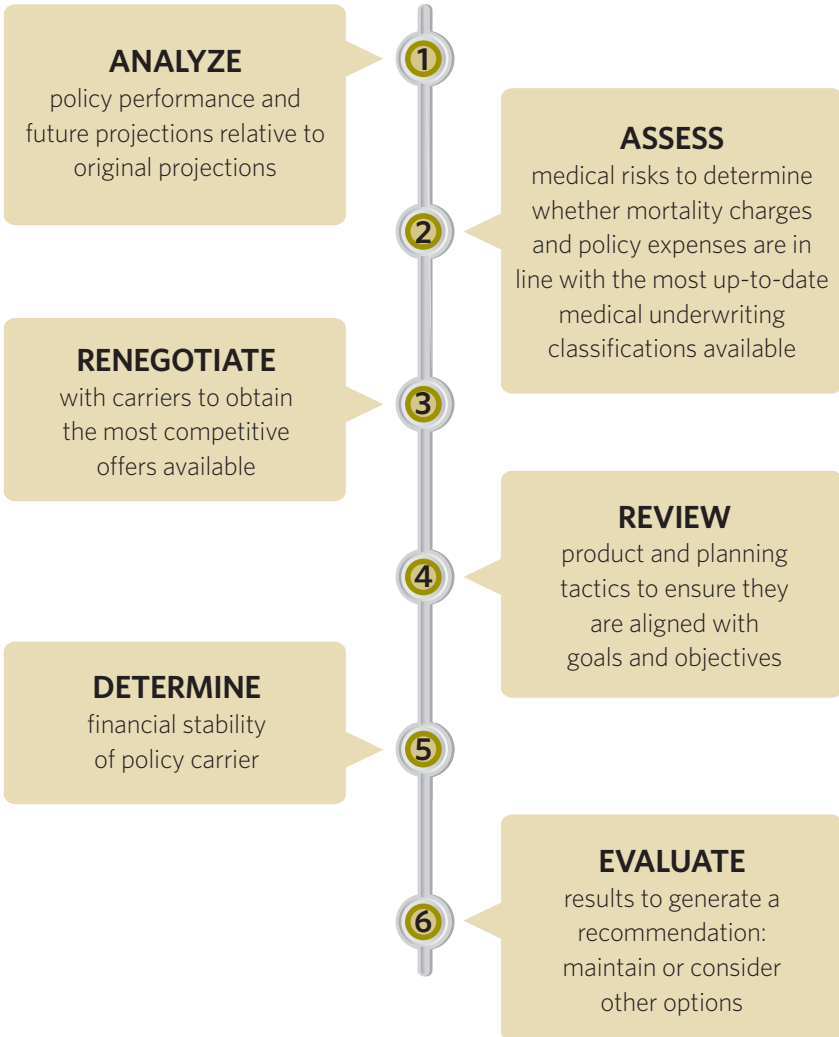
- Assess risk tolerance, taking into consideration the purposes of the trust and the relevant circumstances of the beneficiaries
- Consider the general economic conditions and expected tax consequences of investment decisions or strategies
- Adequately diversify the trust assets
- Consider an asset's special relationship or value, if any, to the purposes of the trust

## Factors

Outcomes can be affected by any of the following:

- Fluctuations in interest-crediting rates or dividend rates
- Inflation
- Longer life expectancies
- Medical advancements
- Industry improvements in product and pricing
- Availability of secondary guarantees
- New riders
- Changing client needs

## The LIPA Process





## Case Study

### Current Policy Facts

- A corporate executive owns Whole Life policy held in an ILIT
- He was issued as a Select Non-Tobacco user
- \$1 million death benefit, including \$728,457 of one-year term insurance
- Cash surrender value of \$81,488
- Annual premium of \$8,743

### LIPA Results

- New premium of \$4,773 (annual savings of \$3,970) through a 1035 exchange of \$81,488
- Assumes he is approved at Preferred Non-Tobacco
- Death benefit projected for his lifetime

Case study results are for this fact pattern only. Results for others will be different based on their circumstances.





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