



ALL LIFE INSURANCE IS NOT CREATED EQUAL

By: Sabrina Winters, Attorney at Law, PLLC

Many families depend on life insurance proceeds to do accomplish a variety of goals at their death. It could be that it is to be used to fund a college account for children or pay off the mortgage for example. Determining which insurance company may be just as important as determining the type and value.

There are a number of factors that should be considered when deciding on the right insurance company or companies for your insurance needs. The final decision will depend on what your ultimate goals are. Some factors that are commonly used by advisors when consulting with clients about their insurance needs include the following:

1. Ratings

Ratings help in a general way to determine which companies are the strongest financially. Most ratings systems work on an easy-to-understand alphabetical structure similar to the credit markets. So a company that has a triple-A (AAA) rating is likely to be more financially sound than a company with a B rating. These ratings involve the opinions and judgments made by the ratings services.

There are five key ratings services in the market today, including Standard and Poor's, Dun and Bradstreet, Weiss Research, Moody's Investor Services, and A.M. Best. The problem is that these various agencies have different scales with different letter ratings that do not necessarily correspond from one agency to another. In addition, not all insurance companies have ratings from each of the agencies.

In addition, there is a rating scale called Comdex. This places the company on a percentile ranking from 1 to 100. An insurance company with a Comdex score of 90 would place it in the top 10% of all companies in financial strength. This percentile

15720 John J. Delaney Drive, Suite 300, Charlotte, North Carolina 28277

(704) 843-1446

swinters@sabrinawinterslaw.com * www.ncestateplanninginfo.com

ranking has greatly simplified the understanding of all of the various ratings for the consumer. A Comdex score of at least 75 is desirable.

2. Underwriting

In addition to ratings, another key factor in your decision will be to look at how each insurance company rates you as the insured person. This is important because the better the rating you are assigned, the lower the insurance cost.

Some companies, often those with higher credit ratings, are very selective about who they select to insure. This results in lower claims and higher profit for the company. Other companies specialize in insuring people with health problems. These are companies that are generally charging higher premiums to compensate for the increased risk. Unfortunately, this means that if you are in poor health, your choice of carriers may be limited.

3. Insurance Pricing

The actual pricing offer you receive for your insurance is also a factor in choosing a company. In larger cases, you will want to make sure that your underwriting file is seen by more than one company so that you will receive competitive bids. As long as the company with the lower premium meets the minimum rating screen that you and your advisor have established, it may make sense to go with the lowest premium possible.

4. Costs and Internal Rate of Return

A calculation of internal rate of return (available from most companies as part of their illustration) will help you to compare one policy illustration or design with another. Because insurance costs, crediting rates, expenses, and other moving parts in an insurance contract vary from company to company, a way to compare the whole picture is to look at the death benefit at a given point in time relative to the premiums paid to that point in time. A good place to start is to look at the period of time around your life expectancy. If one policy shows that the internal rate of return (IRR) of 8.5% at life expectancy and another is showing an IRR of 6.8%, you will want to explore the policy features that are creating the difference.

In the end, your choice of company is likely to be driven by a combination of all of these factors, resulting in your choosing a company that has good ratings, offers a product that fits your needs at a price you can afford, from a company that has a good financial track record.

Your final decision on which company to be insured by is an important one. Knowing what you should consider in making your decision is a worthwhile conversation to have

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with your financial advisor or planner. Ultimately, the proceeds will be the assets left for your family to provide for them after your passing – it should be with a stable, dependable and strong company.

If you need assistance in determining how a life insurance policy can factor into an estate plan, call our Wills and Trust Law Firm in Charlotte, North Carolina at (704) 843-1446 or email Sabrina Winters at swinters@sabrinawinterslaw.com. (Sabrina Winters is a licensed attorney in North Carolina and is not a licensed financial planner and does not provide advice on life insurance products. This article is only meant to provide basic information to discuss with a licensed North Carolina financial planner or advisor.)