

# Paying for insurance advice

## 'Fee-only' advising slowly catches on

**BY KATHY BERGSTROM**

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Life insurance is one of the most complicated financial products available, yet many consumers don't get the objective advice they need to buy the right policies, one expert believes.

Scott Witt has started Witt Actuarial Services L.L.C. to provide that advice.

Witt is a "fee-only" life insurance adviser, one of few such advisers in the country.

He was an actuary for Northwestern Mutual Life Insurance Co. for 10 years before joining a Michigan fee-only firm for two years. He started his business in New Berlin six months ago.

True fee-only life insurance advisers do not sell any products or receive compensation from the insurance decisions their clients make, Witt said.

They save money for their clients by expanding the range of available products, because they are not limited by contractual obligations or financial motivation, he said. They also can select the companies or policies best suited to the client's situations, minimize agent commissions and help clients manage existing policies, he said.

"Even the most well-intentioned agents suffer from an inherent conflict of interest, because they derive commissions from the products that they sell," Witt said.

Witt works for an hourly fee of \$200. If a client decides to buy insurance, he works with agents to deliver the most efficient products possible.

"I don't care if my clients buy insurance. I'm just identifying the best value for them in the marketplace," he said.

Opportunities for saving money include making sure the client has a well-designed policy with a good company. He also can help clients drive down the commission or actuarial issues that can help maximize the policy's long-term value.

While he does work to minimize com-



Scott Paulus

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missions as much as possible, other just as important considerations are the underlying investment performance of the company, which is important in determining long-term value, and the mortality experience of the company's block of policyholders, he said.

Witt generally advises clients on permanent life insurance products and not term life insurance. He also provides advice on annuities, long-term care insurance and disability income insurance.

Most clients have a high net worth of \$500,000 and more, but Witt said people with much lower incomes could benefit and ultimately afford his advice.

### RELATIONSHIP-DRIVEN BUSINESS

He expects fee-only advisers to grow in popularity but said there are a number of factors working against them.

"Insurance is a business that people don't really want to talk about," he said. "Usually they don't talk about it until a life insurance agent thrusts it upon them."

It's also a relationship-driven business, and many people buy products from relatives or friends.

He finds most of his clients through referrals from professionals like estate planning attorneys, financial planners, accountants and insurance trustees.

Bill Ochowicz, of Pewaukee, who owns Medical Building Leasing L.L.C., found Witt's advice worthwhile in evaluating a life insurance policy he bought five years ago.

Witt told him he had the right amount of insurance and a good policy, and Ochowicz has now asked him to investigate long-term care insurance.

"It was a cheap insurance policy for me to really get a comfort level on the level of insurance I was buying," Ochowicz said.

Insurance commissions are not transparent, and it's hard for policyholders to know whether they've received good advice, said Jennifer D'Amato, an estate planning attorney and equity partner at Reinhart Boerner Van Deuren S.C.

# LIFE INSURANCE: Adviser charges a fee to find best value for clients

D'Amato does a lot of business succession planning, and life insurance is often a large part of the solution to estate tax issues, she said. She has worked with Witt on two cases.

In many cases agents have acted in good faith and provided good advice, but it's good to have confirmation from an adviser like Witt, she said.

"When you're making a purchase of a large amount of insurance you want to make sure that you're doing your homework," D'Amato said.

Life insurance advisers are better positioned to manage their clients' life insurance than commissioned agents, says Chuck Hinners, who is a commission-based agent for Northwestern Mutual Life Insurance Co., and a registered investment adviser in Middleton.

"The person doesn't have a stake in making a sale," he said. "They don't have a conflict of interest, and they can act as a fiduciary," he said.

Hinners spoke at the 2007 National Conference of the National Association of Personal Financial Advisors on the subject of fee-only life insurance.

He has worked with fee-based advisers around the country to provide policies for their clients and sells all of his policies at wholesale commissions.

He said commission savings of 80 percent or more are common for clients who

can buy life insurance products at wholesale rates.

## WHY IT'S SLOW TO CATCH ON

One reason that fee-only life insurance advising hasn't caught on as quickly as fee-only financial planning is a dearth of no-load or low-load life insurance products like the products that exist in the mutual fund industry, said Dave Evans, senior vice president for retirement and financial planning for the Independent Insurance Agents & Brokers of America, a Virginia-based trade group.

"The second issue is that there's still an inherent contingency in life insurance," he said.

Life insurance agents might work to sell a policy to a customer who might end up not being able to buy the product because of poor health.

That risk is why life insurance has traditionally had higher commissions, he said.

It might be difficult to come up with an appropriate fee that clients would be willing to pay if they didn't end up buying a policy, he said.

"People aren't in the mindset of spending money that they wouldn't get a benefit out of other than the fact that someone went and investigated the market," he said.

Evans said competition in the life insurance market, which has a lot of carriers, helps protect consumers. Independent

agents are not tied to particular carriers and sell policies from any company, he said.

Agents are motivated to provide good advice to their clients because of their relationships, Evans said. They might write a client's business liability and homeowner's insurance, and they run the risk of losing the whole package if they don't give good advice, he said.

## NEEDS-BASED SELLING

Northwestern Mutual's system of selling products through exclusive career agents has worked for a long time, said Jean Towell, the company's assistant director of media relations.

"Our feeling is that the commission-based system that we have in place . . . really encourages need-based selling," she said.

Northwestern Mutual agents conduct in-depth fact finding and a needs analysis before they sell a product or service, she said. Clients don't pay a separate fee for that fact finding and analysis, she said.

The company has one of the lowest expense ratios on ordinary life insurance in the industry, she said. State insurance guidelines also place ceilings on commissions, she said.

The company has high customer satisfaction, with 96.5 percent of customers keeping their policies from year to year, Towell said.