

The Need for Fee-Only Life Insurance Advice

Without an advocate that is looking out for their best interests, life insurance consumers are at the mercy of their life insurance agents and the companies they represent. Even the most well-intentioned agents suffer from an inherent conflict of interest, as agents derive their compensation from the products they sell. A closer look at a number of areas reveals how damaging this can be to life insurance consumers:

Universe of Available Products

To maximize policy values, consumers need access to the entire universe of insurance products, not just those that a particular life insurance agent can access. Many agents are either contractually obligated or financially motivated to place their business with a certain company. These agents spend their resources trying to convince potential clients of the merits of “their” company, rather than investigating which company can offer the right policy for the given situation.

Retail vs. Wholesale Commissions

Agents will naturally design and sell the type of policies that maximize their commissions, assisted greatly by the fact that there is little to no disclosure to the consumer regarding agent commissions. In some cases, the agents very well may have earned these large commissions. But in other cases it makes sense and is possible to reduce the agent commissions from “retail” to “wholesale”. This can save the consumer as much as 50% of the first-year premium or more, but it’s an option that few if any agents are going to show of their own accord.

Policy Design

Agents are often poorly trained to provide expert advice on the most technical issues surrounding the design of life insurance policies. For instance, many variable life policies with minimal funding would never have been sold that way if consumers and agents fully understood the implications of that design. Policy design is absolutely critical for accumulation-oriented policies, and there are several key decisions that can greatly influence long-term policy values.

Servicing Existing Policies

Because the life insurance industry focuses on selling new policies, existing policyholders often receive poor service or worse yet, damaging service. Again there is an inherent conflict of interest – agents and/or life insurance companies often have a financial incentive to get their policyholders to behave in a manner that is not optimal from a policyholder perspective. When situations arise where a policyholder can benefit at the expense of the agent and/or company, who is going to make them aware of these opportunities? And if the agent that sold the policy is no longer servicing the



policy (which describes the overwhelming majority of policies in force), then the “servicing” of the policy usually boils down to putting the policy on cruise control or attempting to replace the policy with a new one that will generate another round of commissions. Life settlement transactions are another area where consumers desperately need a knowledgeable advocate in their corner.

Fee-Only Insurance Advisors

Fee-only insurance advisors can serve in a true fiduciary capacity for their clients, providing independent, unbiased advice. These advisors should receive no other form of compensation other than the hourly fees paid by their clients. They should not receive compensation from insurance products that their clients may decide to purchase, nor should they receive any financial incentives from steering clients toward a particular agent or company. Other than providing clients with the most knowledgeable and expert advice possible, fee-only insurance advisors have absolutely no vested interest in the insurance decisions their clients make.

