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Fee-Only Insurance Advisors Provide Large Client Savings

Fee-only insurance advisors serve in a true fiduciary capacity for their clients, providing independent, unbiased advice. These advisors receive no other form of compensation other than the hourly fees paid by their clients. They do not receive compensation from insurance products that their clients may decide to purchase, nor do 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 advisors have absolutely no vested interest in the insurance decisions their clients make.

Working with a fee-only advisor in the life insurance arena can save a client far more than the cost of the consulting fees, particularly with the purchase of new insurance. In the example below, working with a fee-only advisor could save the client anywhere between 10% and 33% of the overall premium cost, depending on which option the client would have pursued in the absence of the fee-only advisor. For this particular example, the actuarial present value (which is a discounted value that reflects both interest and mortality) of the savings could range from $150,000 to $525,000 – and the consulting fees would likely range from $5,000 to $10,000, depending solely on the number of hours required to complete the case.

<u>Representative Example</u>
Assume that a 50-year-old non-smoking male in great health needs to purchase $5 million of permanent death benefit coverage. Also assume that an annual premium of $125,000 will be paid for the next 50 years, and that the amount of death benefit will increase over time (dictated by the policy design). (For context, the actuarial present value of the total premium commitment is $1,650,000.)

Let’s examine three policies that a client could potentially end up without the involvement of a fee-only insurance advisor: a “no-load” policy (favored by the financial planning community because it eliminates commissions entirely), a full-commission policy from an average company (which represents what a typical consumer would buy), and a full-commission policy from a premier company (which represents what a fortunate or educated consumer would buy).

Here are the actuarial present values of the hypothetical death benefits for each of these three policies (with a higher actuarial present value denoting superior client value):

Policy from no-load company:	$1,000,000
Policy from average company with full commissions:	$1,100,000
Policy from premier company with full commissions:	$1,375,000

Adjustments were made to the illustrations to reflect that the status quo is not likely to continue indefinitely – for instance, the interest rate on the no-load policy was increased to bring it more in line with its historical relationship to the other companies.

Clearly, the choice of policy and company is absolutely critical for maximizing policy value. The underlying fundamentals of a company – investment earnings, mortality experience, expenses, and policy persistency – are the driving forces of long-term policy values. Another critical component is how a company has treated its policyholders over time, as some companies are in the habit of treating new policyholders better than old ones – and most new policyholders will eventually become old policyholders.

But the added value from a fee-only advisor doesn't stop there. If no life insurance agent has been involved in the process – or the client feels like the agent has not earned his/her commissions – then it is also often possible to reduce commissions from a "retail" level to a "wholesale" level. Doing so in the above example produces the following actuarial present value:

Policy from premier company with reduced commissions: $1,525,000

In all likelihood, this reduced commission option would never be shown to the client without the involvement of a fee-only advisor. Depending on where the client would have ended up without the presence of a fee-only advisor, the savings in today's dollars could range from $150,000 to $525,000, less the cost of the hourly consulting fees.

<u>Other Areas of Expertise</u>
Fee-only advisors can also provide great value by:

- Maximizing client value through life policy design
- Analyzing life insurance proposals
- Evaluating existing life policies and optimizing client value through astute management
- Evaluating and overseeing life settlement offers (with no commission)
- Evaluating annuity, disability income, and long-term care policies and proposals

Without an advocate that is looking out for their best interests, insurance consumers are at the mercy of their insurance agents and the companies represented by those agents. Even the most well-intentioned agents suffer from an inherent conflict of interest, as agents derive their compensation from the products they sell.

Fee-only advisors not only generate savings that generally outpace the costs by a wide margin, they also generate peace of mind for their clients – which is really what clients are after when they purchase insurance.