

Selecting the "Best" Insurance Product - 10 Questions

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As advisors, dealing with many different clients on varied matters, we are regularly asked **“What is the best product?”** The simple answer is **“It depends”**.

It would be impossible to describe in sufficient detail in this e-mail all of the factors that go into selecting the correct product. And sometimes there is more than one product that will fit so it becomes a matter of personal preference.

But at the risk (actually, the certainty) of oversimplifying, here are some key questions:

1. How long is the coverage required? Five or ten years, that's easy. Fifteen or more, we look at longer options.
2. Is the insurance to be held (premiums paid by) a corporation or personally? Pre-tax cost will be an important factor.
3. Are there budget constraints limiting product selection?
4. If the need disappears (eg. funding a shareholder's agreement or for capital gains tax and the business is sold) will there continue to be a need, or can value be recovered in some other way (transfer to corporation, donate to charity, etc.)?
5. Some contracts offer to change to joint life from single life. Will this be useful to realize long term value?
6. What are the relative IRR's (internal rates of return) of the various products? This is an important measure which we use to clear away the confusion about cash values and investment accounts. If the insurance is being purchased to be kept until death (ie. there is a “permanent” need) the only measure of any interest/importance is “What is the IRR on the premiums resulting in death benefits at various points in time?”

7. If choosing a “cash value” product, does the client have confidence in the insurer to both invest and distribute returns on a fully discretionary basis or would he/she prefer to self-manage on a fully transparent basis?
8. How important are long term guarantees to the client with respect to mortality charges, expenses and investment returns?
9. Is “creditor proofing” of importance? Just the death benefit or more?
10. Is the policy to be assigned as collateral and the premium deducted for tax purposes? Some products are more practical for that purpose.

After 40+ years, we continue to see a great deal of confusion around product selection. While it's not always easy to decide, the fundamentals are straight forward and when applied to a particular situation should be helpful.