Palladium Group
BY ASH BROKERAGE

INSURANCE

3 Insurance Solutions for Financial Advisors

BY: **SAM ROCKE, CFP®** 04/26/2022

> **These three themes are broadly successful with financial advisors, but every advisor offers a different and customized value proposition to their clients. No matter what, Palladium Group's commitment to you is similar: we will align solutions, resources and our expertise to seamlessly integrate insurance into your practice.**

Over the last decade, we've seen a dramatic shift in the way insurance is delivered to consumers. In the early 2000s, many financial professionals were insurance advisors, whose primary business was to solicit, execute and provide service for life insurance transactions. Those who were most effective sourced their business from client referrals and partnerships with trusted tax and legal professionals.

Today, the script has almost entirely flipped. Americans seem to prefer holistic financial advice as opposed to single-function "salespeople" providing each specific piece of their financial picture. And who can blame them? What was once a process that left the client to decide when to engage financial specialists, clients now rely on a single trusted professional to coordinate their various financial needs.

As the market has moved to a full service, client-centric model, insurance has become less of a sales process and more of a planning process. Financial professionals establish an overall plan while looking for an insurance partner to implement products to solve their client's defined planning objectives. This model aligns hand in glove with our philosophy. Simply put, Palladium Group is not interested in products or strategies that don't serve the end user.

To best solve the specific needs of your clients, we see three emerging trends in the insurance marketplace that protect your clients and, by virtue, protect your business.

Trend #1: Risk-Adjusted Legacy Assets

At its core, life insurance is intended to provide a death benefit for those closely tied to the insured. This benefit is intended to cover lost income, provide needed liquidity or serve estate planning objectives. Since there is an overall social and familial benefit to insurance, the government looks favorably upon policy ownership and provides unique tax incentives. Any investment growth inside a life insurance contract is income tax-deferred until surrender and income tax-free if paid out in a death benefit. Virtually no other asset enjoys similar incentives. Additionally, one of the more appealing aspects of life insurance is the ability to effectively tap into a life insurance company's mature and scaled fixed income portfolio.

However, these characteristics are only relevant for clients with a demonstrable need for a death benefit. Some of the key indicators that your client could benefit from this asset-class are:

- Large and illiquid estate that cannot easily and readily be sold or exchanged for cash without a substantial loss in value
- The desire to pass a specific amount to family
- The possibility of substantial long-term debt holdings
- Having a blended family with equalization needs

Trend #2: Asset-Funded Long-Term Care

It's at the top of mind for many planners: the impact of a long-term health care event for one of their clients. It is estimated that nearly 10,000 baby boomers are retiring every day[1]. In light of advancements in longevity and skyrocketing costs of medical care, the statistics around projected long-term care (LTC) needs are staggering. Virtually all of us have witnessed a family affected by a prolonged LTC event. However, many families still choose to fund their own LTC costs with retirement assets, which significantly increases the risk of asset insufficiency and jeopardizes any wealth transfer objectives.

The question that inevitably arises is how to cover the costs of an extended LTC event. Here, the insurance landscape is somewhat complex, and the industry has a history of significant rate increases on traditional LTC insurance. This leads many planners to look at asset-based solutions, which have been particularly effective in simplifying the narrative. Asset-based solutions are typically the most straight-forward, have strong contractual guarantees and negate the "use it or lose it" mindset of traditional LTC insurance. Additionally, coverage is obtained through a simple repositioning of assets — which can be done as a single lump sum or spread over a period of years

— that creates a leveraged pool of money available for LTC with a relatively nominal death benefit. The rationale for this type of approach is twofold:

1: Coordination of Care Benefits: One of the most challenging aspects of an LTC event can be as simple as finding good care. It doesn't matter how much money clients have if they don't know where to turn when something happens. We've seen families acquire LTC coverage specifically for this benefit after experiencing how difficult the logistics of extended care can be.

2: A Discounted Pool of Dollars: By way of example, a hypothetical 60-year-old male client could reposition $100,000 to create an LTC pool of roughly $425,000 of initial benefits that grow at three percent compounded annually. The internal rate of return, should this client use the full benefits at age 85, would be approximately eight percent. Note that this return is net of fees, taxes, and expenses and the benefits and pricing are contractually guaranteed[2].

As this market has developed over the last several years, we've seen new innovations that include lifetime benefit features, joint coverage options and the ability to add an LTC benefit to a fixed annuity. Asset based solutions can appeal to most segments of the market and can be customized to fit planning circumstances.

Trend #3: Tax-Efficient Retirement Savings

One of our team's favorite themes over the last year was to create what we call "Tax Alpha" by using an insurance chassis for non-qualified assets. Virtually all non-qualified assets have taxable distributions on a routine basis, often annually – think dividends on equities or interest on fixed income. Depending on the asset class, we've found that assets lose, at a minimum, 0.50 percent to 1.25 percent in annual return to taxes based on these taxable distributions with a greater tax impact if the asset is liquidated. When an insurance contract is structured to have less overall expense than the tax cost of the underlying assets, the client wins while also receiving a tax-free insurance benefit.

It should be that simple, but our industry has created complexity where simplicity is required. With Palladium Group, we simplify the conversation and thoughtfully design the products involved. Our approach is to take an asset class the client already owns, then protect it with an "insurance wrapper." The underlying asset can be a proxy for fixed income, a volatility-controlled indexed asset, or a basket of insurance-dedicated mutual funds. Regardless, these contracts can be structured to have projected expenses that are lower than the long-term impact of taxes, creating a net benefit for your client.

These three themes are broadly successful with financial advisors, but every advisor offers a different and customized value proposition to their clients. No matter what, Palladium Group's commitment to you is similar: we will align solutions, resources and our expertise to seamlessly integrate insurance into your practice. We would love to hear your story, share ours and grow together to best serve you and your clients – reach out today!

1: *Source: **https://www.investopedia.com/articles/personal-finance/032216/are-we-baby-boomer-retirement-crisis.asp***

2: *Source: Hypothetical LTC scenario reflects Lincoln MoneyGuard II for a male, age 60, couples discount, 6-year benefit period with 3 percent compound inflation, and a $100,000 single payment. This is not a guarantee of coverage and should be accompanied by a NAIC compliant full illustration.*

**This material is for Financial Producer and educational use only. Not to be reproduced or shown to clients*

***The information has been prepared for informational purposes only and is not intended to provide, nor should be relied on for tax advice. You should consult your own tax advisor before engaging in any transaction.*

ABOUT THE AUTHOR

Sam Rocke, CFP®, SVP, Advanced Markets & Advisory Solutions

ASH EXPERT

SHARE: