THE HITS JUST KEEP ON COMING

Once again a major insurance carrier, this time Lincoln Financial, has announced an increase in monthly deductions for the cost of mortality on an older block of business. The affected policies were issued by Jefferson Pilot Life between the years 1999 and 2007 and include policies with secondary guarantees (a first, I think). COI rates for these policies will be increasing by 100%! This rate increase, not the first for Lincoln, will affect an additional 25,000 policyholders and 5,000 agents.

The impact on policyholders with non-guaranteed universal life policies will be a large increase in the premiums necessary to maintain coverage. The impact to those who purchased secondary guarantee products will be a large **decrease** in their cash value.

A common theme among the carriers that have, so far, announced these COI increases is that the insureds most affected are 70 and over, and most will be unable to replace their coverage due to age, medical conditions, and the cost of suitable replacement policies. If Lincoln's clients react similarly to Transamerica, Voya and Banner, expect to see a large number of lapses and very unhappy (and litigious) clients.

Lincoln's stated reason for the COI increase is the prevailing low interest rate environment which is wreaking havoc on insurer portfolios. The actual, and possibly intended, consequence of these COI increases will be a high percentage of lapsed policies, which will surely benefit the carrier. One cannot help but wonder if these rate increases were really designed to cull a significant portion of insureds from the portfolios of the carriers. There is no question that a policy that lapses or is surrendered with diminished value is the insurers best path towards renewed profitability. Unfortunately for the insureds and their families, they will lose everything they saved for over the last 17 or so years.

With no indication that interest rates will rise in the near term, there is a high probability that this COI cancer will spread to many more carriers. As an agent whose income is predicated on people purchasing life insurance you should be concerned. This is a clear and present danger to your practice.

While the carriers may be operating within their rights as dictated by the contract(s), the decision to crank up COI rates by 100% or more seems like an arrogant and irresponsible decision by those in charge. This public show of disregard for policy owners will likely rebound on the industry in ways that we cannot yet fathom.

But what I can say for sure is that there is a growing sense of alarm among the buying public that insurance companies cannot be trusted. As these grievances begin to surface in the media and through class action litigation a very disturbing picture begins to form. And that picture is one of an industry with little regard for its clients or its future.

Yes, it's important for insurance companies to remain solvent and make profits. I don't think any of us would want to see more consolidation or bankruptcies.

On the other hand, when you dig into the financials of the companies that are announcing these increases it becomes readily apparent that this is not about survival at all. In most, if not all cases, these rate increases are being instituted to boost the return on investment on these older blocks of business. Of the carriers that have already instituted COI increases, two in particular (that we know of) have participated in complex captive reinsurance transactions that freed up significant capital that was then up-streamed as dividends to their European corporate parents.

We are talking about many BILLIONS of dollars that could have been used to stabilize the carrier financials and prevent them from having to raise mortality rates. Since it is hard to make the argument that mortality is the actual culprit, these carriers are claiming that they need this extra money to fund "expected shortfalls in the future". Conveniently this is just a legal ruse, as the law allows carriers to raise COI's in anticipation of future losses, but not to recover past losses.

It's hard not to come away with the feeling that this isn't about actual losses, but rather about return on investment. Returns on these blocks of business are overwhelmingly positive, but not anywhere near the corporate parent's target returns of low double digits. So this is really about keeping up the stock price and pleasing executives with loads of stock options. Meanwhile, we as agents can expect our business to be truly disappointing in the near term as this scandal widens and becomes more public.

At this point, I think it's incumbent upon us as agents to seriously consider our place in this storm. With the information we have it should be readily apparent that we've been lied to for decades by corporations that put profit and share price above all else. Can we trust that IUL, the new darling of the insurance world, won't eventually become the next COI or options trade debacle? Now that we know carriers have no problem throwing clients under the bus at the absolutely worst possible time, can we continue to recommend products that may realistically be headed for the same fate?

Those of you who have latched on to IUL and current assumption UL because of their ability to illustrate low premiums beware, there is a lesson to be learned here. With few exceptions, carriers, most of whom are stock companies, cannot be trusted to put our client's interests ahead of their shareholders. And while there are few indications that agents are being sued over the rosy illustrations their clients relied on, it isn't rational to believe that this will be the case in the future. Angry clients that pay significant sums for coverage that gets yanked out from under them at the least opportune time are looking for someone to blame. Are we in some way culpable? Unfortunately, yes.

You see, a 100% increase in the monthly deduction for COI does not mean that the future cost of coverage will increase by 100%. The vast majority of policyholders will see cost increases as much as 600% because the cost of continuing their policies is dictated by how the policy was funded from the start, including any riders such as Return of Premium that may have been added at inception and may be critical to the client's planning.

The most common reaction to hearing about the cost to maintain coverage at wildly inflated rates is disgust. Disgust with the industry, with agents, and regulators.

We continue to receive many calls from aggrieved policyholders who tell us that they will no longer recommend life insurance to their friends and family. I don't blame them. Life insurance, an intangible investment in future liquidity, has always had its doubters. Whether it's an aversion to dealing with the inevitability of death, or a cold calculation of return on investment, potential clients routinely eschew insurance because of its unknown "trust me" components. Now those clients can see first-hand they were right. When we lose our clients trust, our industry, and by that I mean life insurance sold by agents, is in danger of extinction.

Discussions with executives at several carriers indicate that they know this will cause a huge problem, but they believe it will be short lived and that the public will forget about it eventually. I don't think so.

Interest rates are unlikely to rise fast enough to satisfy the carrier's shareholders and I believe there will be more of these announcements in the very near future. Every block of business is being examined to find the "pony in the manure". Wherever possible, industry executives are attempting to extricate themselves from underperforming assets, clients be damned.

It's an interesting series of events for an industry whose sales have been relatively flat for decades. Are we witnessing the beginning of the end of life insurance as we know it? Will any of us ever trust another sales VP again? Maybe, and definitely not.