FORTUNE STRATEGIES™

CASE of the MONTH

Multi-Purpose Premiums: Stretching Premiums in Turbulent Times

Problem:

Many clients who are in their late 50s or early 60s currently pay premiums for term insurance, long term care insurance, disability insurance, etc. Problems with this approach include:

(1) Most term insurance expires before life expectancy. Less than 1% of term policies actually pay a death benefit.

(2) While long term care insurance can provide substantial benefits if the insured becomes incapacitated, many of these policies are a "use it or lose it" proposition. If the insured does not qualify for long term care benefits before they die, none of the premiums are returned.

(3) Many disability policies contain clauses that limit benefit amounts and periods past age 60. These policy provisions become even more restrictive as the insured ages.

In short, if clients have a need for such coverage later in life, they may find that they are inadequately protected.

In these turbulent economic times, it may be impractical to convert term policies into permanent coverage, and still be able to afford benefit rich long term care and disability insurance.

Solution:

Instead of buying separate life, disability and long term care coverage, there are specialized policies that can (1) provide a guaranteed death benefit whenever death occurs; (2) provide for accelerated death benefits for chronic, acute or terminal illness; (3) provide disability coverage that doesn't diminish over time; and (4) provide long term care insurance if needed, but does not penalize the insured if such coverage is not used. Furthermore, in many instances, such a specialized policy can provide this superior protection for less than the aggregate cost of separate term, disability and long term care insurance policies.

Patricia Tanner, CLU, ChFC, CFP®
CA Agent License 04022292
30 Years in the financial services industry
CEO & Founder of
Fortune Strategies, Inc.
patricia@fortune-strategies.com

James B. Hodge, JD, MBA
CA Agent License 0736381
20 Years in the financial services industry
james@fortune-strategies.com

Case Study:

Client: Female 61, business owner paying $20,000 in annual premium for the following insurance coverage:

- 10 year term insurance with 3 years left for the term
- Long term disability insurance for $14,000 a month

Comparison of benefits before and after planning:

	Cost/Benefits Before Planning*	Cost/Benefits Post Planning**
Annual Premiums	20,000	18,700
Death Benefit	3,000,000 (lapsing in 3 years)	$1,000,000 (to age 100)
Monthly Benefit Disability	14,000	18,700
Maximum Benefit Period	24 months	N/A
Maximum Benefit	336,000	1,000,000
Benefit Provisions	Cannot perform substaintial & material duties of occupation	Cannot perform 2 of the 7 daily living functions*** or is mentally impaired
No Benefits	After 65	N/A

*Disability policies prior to planning are disability income policies with only 2 years of benefit due to clauses that reduces benefits as the insured ages (62 plus)

**Benefits (referred to as disability benefits) paid on the policy after planning are actually cash payments under an accelerated death benefit rider that enables the insured to collect the monthly benefits as long as they meet the provisions in the contract (2 out of 7 daily living requirements). If benefits are received under this rider, the future death benefit and net surrender value will be reduced. The payments are made directly to the insured or their appointed representative for any use.

***The 7 daily living requirements are: bathing, dressing, eating, transferring from bed to chair and back, continence, using the toilet, and walking.