

LARGE CASE DESIGN MEMORANDUM

Blinded by the Light

The first time I remember hearing the phrase, 'perception is reality', was at a GA meeting with Fred Carr, former CEO of Executive Life Insurance Company. Fred was referring to the public's perception that all of his company's assets were 'junk', when in reality the vast majority of the bonds, known at the time as 'junk bonds', turned out to be hugely profitable. Unfortunately, they were only profitable for the French buyer of the portfolio after California state authorities, emboldened by the media circus surrounding Michael Milken, stripped them from Executive Life's hands.

Perception, it seems, is only reality in the heat of the moment. In hindsight most decisions based purely on perception result in something far more nuanced as time passes and markets adjust. Had Executive Life been allowed to manage their portfolio through the crisis without lawmaker's meddling, it very likely would have survived and thrived, saving thousands of policyholders from the abysmal financial results they were forced to accept as the buyer of the assets realized the gains.

Based on factual historical analysis a more enlightened person may come to the conclusion that, *'perception distorts reality'*. Our desire to favorably portray the future based on limited data received in the present results in outcomes that are far from optimal.

I bring this up to make a point about the vast amount of flawed insurance sales materials disseminated by insurance companies, General Agencies, and national marketing groups. Since

the introduction of VisiCalc (the first computer generated spreadsheet) creative insurance marketers have found innumerable ways to dress up life insurance to make it more palatable to an audience with an ever decreasing attention span and ever expanding financial opportunities. Every salesperson wants to illustrate the bigger better deal and every client wants what he or she logically knows they can't have. As with most intangible assets; it's very easy to 'put lipstick on the pig' when you're using magic make up.

Unfortunately, in their zeal to make a sale most insurance agents succumb to what I like to call the 'illustration distortion field'. It's difficult not to succumb to this phenomenon when you see a presentation that purports to deliver benefits that look too good to be true. You want to believe it even if you know in your heart of hearts there must be a problem that you can't identify. Historically, much of the distortion centered on tax benefits and interest rate projections. Although, some are much more insidious, such as outright omissions of facts, omitted tax costs, ridiculous mortality assumptions (i.e. policies that lapse at age 87), and unsupportable policy structure projections (i.e. max term blends).

Looking back at 30+ years of policy performance it's easy to see where the bodies are buried. Dividend projections are worthless, Whole Life with term blends fell apart, UL interest rate projections were uniformly over-optimistic, mortality and persistency bonuses are being paired down or eliminated, and tax laws have not only changed regularly but have become temporary fixes with no permanent legislation in sight.

How then are we to properly portray our products to the public while at the same time providing enough legitimate enticement to induce them to make a purchase?

Based on competitive intelligence gathered through our brokers the answer seems to be creative obfuscation. In a low interest rate, uncertain legislative environment, insurance carriers and GA's have re-entered the Illustration Distortion Field. Of the many presentations we've seen, two jump out as being particularly pernicious; 1) Indexed UL paired with premium financing and, 2) minimum pay GUL with a catch-up at age 90 or 95 paired with a side fund with unrealistic returns and no accounting for taxes.

The marketers of these 'proprietary' strategies give them all sorts of cute names that slyly imply their superiority over the simple purchase of life insurance. As if calling a product Tasty Treats makes it more than just cat food.

I'm not impugning any specific presentation, but I am saying that before you drive that lemon off the lot you really ought to check under the hood. To that end let me offer you the following:

If you receive a spreadsheet from one of our competitors that purports to convey advantages that seem too good to be true, or seems to utilize a product or concept in a way that you can't easily reconcile with your knowledge of insurance and or tax law; send it to us for a free analysis.



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I'm sure there are many legitimate and valuable ideas coming out of the General Agent community. We are nothing if not creative. But I'm equally sure that some of the more esoteric ideas you've seen are little more than smoke and mirrors.

When evaluating these ideas you need to know what you don't know, or maybe just aren't being told. Often the numbers are correct but the strategy is all wrong. What if the investment results aren't linear as illustrated? Will the client really have the cash to play catch-up at age 90? More to the point, will he or she remember about the catch-up 20 years hence, and will you be party to a law suit? These are just a couple of obvious examples we've see hidden behind the Illustration Distortion Field, there are many others that aren't as easy to spot.

Send us the most creative ideas you've seen. Our design team really enjoys tearing things down and putting them back together. We promise to look at every one with an optimistic eye, and just as happy to confirm the veracity of the presentation. On the other hand, if we spot something amiss we are happy to point out the issues and recommend a more suitable alternative.

With careful conservative planning and product selection you can make today's perception tomorrow's reality.

~ Ron Sussman

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