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Life Insurance During the Pandemic

How to handle possible changes in the industry due to COVID-19.

Henry Montag | Jul 14, 2020

Whether your client is purchasing a life insurance policy for the traditional death benefit protection to offset the loss of a wage earner or to pay for the increased future tax liability imposed on his beneficiaries as a result of the newly enacted Setting Every Community Up for Retirement Enhancement (SECURE) Act, he should be aware of changes in the life insurance industry, which will affect him and the tens of millions of other existing policy holders

Just a few short months ago, there were no shortages of life insurance companies that would have gladly accepted a life insurance application from even a not-so-healthy 80-plus-year-old. But today, as a result of the pandemic, there are fewer life insurers offering life insurance coverage to people aged 70-plus throughout the country. Life insurance companies are generally risk averse, but in today's pandemic environment, they're more apt to limit their risk exposure in every manner possible. The Prudential Life Insurance company recently announced that as of July 13, 2020, it will no longer be offering one of its most popular products, a guaranteed universal life (GUL) insurance product, throughout the county. That's like Starbucks deciding to stop selling coffee.

Easier for Young and Healthy Clients

The good news is that it's become easier for the young and healthy consumer to purchase new life insurance coverage as they can now do so entirely online. A 20- to 50-year-old can now qualify for up to $2 million of death benefit without ever having to see a life insurance professional or a paramedic for a typical life insurance medical evaluation, as everything can now be submitted and obtained online and signed electronically.

More Information Sought

Insurers are continuously creating new supplements and addendums to get the most up-to-date comprehensive written disclosures regarding a potential insured's current health and travel plans. Most applications already ask the question "Are you planning any foreign travel" or "Have you recently returned from a trip abroad?" Whatever the question or situation, it's important for your clients to be thorough and honest in answering the questions when completing their application.

If Client Tests Positive for COVID-19

If in between the time a client completed an application and the time the policy is delivered, the client tests positive for COVID-19, an insurance company's supplemental application at the time the policy is being delivered will bring this to light and will prevent the policy from being delivered. Usually, if the client no longer tests positive after 30 to 60 days, the insurer will provide coverage, subject to a written medical confirmation attesting that the insured is no longer infected.

It's important for the client to be honest because the life insurance company has the right during the first two years to contest a claim and adjust or decline to pay out the death benefit in the event an individual made a material misrepresentation at the time an application was taken. Keep in mind that an insurer will do its own online investigation involving your client's financial dealings, medical records, prescriptions and driving record. So, the insurer will have a lot of information about the client applying for coverage. As a professional, you should advise your client to fully disclose any personal medical issues before the insurance company discovers them, as this will usually be accompanied with a lower rating and a higher cost.

Dealing With Uncertainties

The insurance underwriters and actuaries are now first beginning to deal with the uncertainties regarding any long-lasting physical or mental impairments, post recovery. How each company will classify the new applications, as well as the effect this virus will have on the tens of millions of existing insureds is yet to be determined. Some insurers will assess a lower rating and higher cost for an individual who may have been hospitalized, as opposed to an individual that may have been diagnosed but remained asymptomatic; some won't.

This judgment call will vary from one insurer to another and will result in many insurers using this pandemic as a valid reason to increase their cost of insurance (COI), which will result in some insurers charging a higher premium than another, for a similar condition. This increased COI will, in my opinion, pass through to the tens of millions of existing insureds with a nonguaranteed universal life type of policy. This action will unfortunately further exacerbate an already deteriorating situation causing more nonguaranteed universal life policies to expire more quickly than in the past. Therefore, existing insureds with nonguaranteed universal life policies should make certain to evaluate the performance of their existing policies to determine exactly how much longer they'll remain in force based on their current premium, along with the new set of circumstances.

Offsetting Increased Tax

For example, if your client is purchasing life insurance for the traditional death benefit protection used to offset the future increased tax liabilities of an individual retirement account beneficiary as a result of the SECURE Act, he should use a guaranteed product that will remain in force for the balance of his life. He should also consider a second-to-die policy because the increased tax will first be due 10 years after the death of the second spouse. Doing

so will be significantly less expensive than purchasing a traditional policy on either one of the spouses.

It's not up to the insurer to suggest that your client change the current premium your client is being billed to keep his coverage in force. Nor is it the insurer's obligation to suggest the most cost-efficient product to use in various circumstances. That's your client's responsibility, and you can be of significant assistance in reminding him that life insurance is an asset class that requires active management just like any other stock, bond or real estate portfolio. If your team doesn't have the necessary expertise to evaluate the performance of your client's portfolio, guide him to the proper resource as he and his family will thank you for making them aware of a potential problem.

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He has appeared as a guest on Wall Street Week, Fox Business News & News 12. He's provided CPE & CLE continuing education credits to NYSBA, ABA, AICPA, NYSSCPA, & the estate Planning Council. He co-authored an American Bar Association Flagship publication, Jan 2017, titled; "The Advisors' & Trustees' Guide to Managing Risk" The Jan 2019 issue of Commerce Clearing House, referred to him as; "One of today's best brains in life Insurance.