REPLACEMENT

Philosophy

Replacing an existing life insurance policy is a decision you do not want to make lightly. Some believe older policies should never be replaced, considering it unethical on principle alone. Others believe that newer product design make the older contracts dinosaurs –"dial-up" policies in a "broadband" world. Both positions are exaggerations.

Some replacements are justified, some are not. Situations, objectives, and policies change over time. If a new policy might be better for you than an existing one, would you want your agent to share this with you or keep silent?

Your Agent

When an agent knows that a policy applied for may cause you to cancel an existing policy, they have a legal duty to disclose it. This gives the existing company an opportunity to explain why the replacement may not be in your best interest.You are under no obligation to talk with anyone with the existing company, but this is your opportunity to hear both sides.

You won't know for sure if the replacement is appropriate until you go through the underwriting process to determine the actual rates and values with the new company. You should not terminate your existing policy until you are covered by the new one.

You may have policies with companies that your original agent is no longer with.The fact that your agent is no longer appointed with that company is rarely a good enough reason alone to justify a replacement.

If your existing agent recommends that you replace a policy they wrote for you previously, they will likely be compensated for this replacement. I believe the agent should disclose this to you. If the replacement enriches you financially, it is reasonable that the agent is compensated for their ability to add this value to you.I want the client to know that I have a financial interest in their decision to replace or keep the existing policy, and I want them to hear it from me.

The Numbers

The agent will likely compare "illustrations" from both companies. The existing policy will probably look better than the proposed policy for the first several years. At some point, the values of the proposed policy should overtake the existing policy. If it doesn't, there is no case to be made for replacement – at least from the numbers alone.

How do you intend to use the policy? For example, what if the existing policylooks better for 10 years before the new policy overtakes it? If you plan to keep the policy for 7 or 8 years and then surrender it, maybe you should keep the existing policy. But what if your goal is to keep the policy until retirement (20 years away) and use the cash values as a supplemental income? Same numbers – different objective – different decision.

There are times that the numbers can be deceiving. For example, two policies may accumulate similar values, but one policy charges a higher loan rate than the other policy. If you plan to use the cash value to supplement income or to access the values along the way before retirement, these policies are definitely NOT equal - based on your intended use.

Term Insurance

If you are thinking about replacing an existing term life policy, you will want to know your Conversion Options. Conversion is your contractual right to exchange your term policy for a permanent policy regardless of your insurability. Companies set age limits and may also limit which products you can convert to. Many companies allow conversion to ANY current permanent product in their portfolio. Some companies give you a "term conversion credit" towards the premium on your new permanent policy.

Financial Strength

A.M. Best has been rating the financial strength of insurance companies since 1905.Currently there are 133 companies rated A+ or A++. With over a hundred companies with at least an A+ rating, why go lower? In addition to A.M. Best, I prefer that a company be rated by Standard & Poor's and Moody's as well.

The life insurance industry as a whole is very strong. But given a choice between being insured by the "strongest of the strong" versus the "weakest of the strong,"which makes more sense? As a final measure, call your state insurance department and ask specifically by company namewhat would happen to your life insurance contract if your existing or proposed insurance company should fail.

Common Defenses Against Replacement

A common defense by the existing company is that the comparisons used are "just illustrations". This is true, but the existing company uses the same "illustrations" to try to show their competitive advantage as well. States regulate how insurance companies illustrate their products. Unless you believe that one company is more or less likely than the other to perform over time according to their illustrations, giving the illustrations of both companies equal merit seems reasonable.

Next is the "Contestability Period" defense. If death occurs in the first two years of a policy, the company will scrutinize your answers given during the underwriting process.They are checking for "material misrepresentations". In other words, did you lie on the application? If a material misrepresentation is found, the claim may be either adjusted or denied.

The final defense is the "Suicide Clause". Most policies will not pay a claim if the insured commits suicide in the first two years of the policy. The agent should disclose the Contestability Period and Suicide Clause so that you can decide what weight to give them.

Final Thoughts

If you are considering replacing an existing life insurance policy, insist that the agent prove every reason they have given you in support of replacement. I NEVER ask a client to "trust me" or "take my word for it" concerning replacement. I won't ask a client to take any action that I cannot verify or prove to be right for their situation. If the agent can't prove it, DON'T DO IT.

I hope this information helps you make the best possible decision on whether to keep or replace your existing policy.