Finding the right solution for clients

An overview for comparing policies

There are many factors clients should take into account when purchasing a life insurance policy. One of the key considerations is how the features and benefits of a policy will be used.

For example, if the policy is for estate planning, business succession planning or planned giving purposes, clients will focus on the total death benefit value. Alternatively, clients who also want the flexibility to access the cash value while still living, may focus more on enhancing the cash value and overall cash surrender value.

Once you know the client's need for life insurance, you're one step closer to making a recommendation that best suits their needs.

Measuring the value of a policy with Internal Rate of Return

When comparing two life insurance policies, you need a measurement that considers premiums paid, benefits received (cash value or death benefit) and the timing.

Internal rate of return (IRR) is one measure that can be used to compare policies with different premiums and illustrated values in an objective way. It's a standardized way to show the relationship between cumulative out-of-pocket premiums and the benefits illustrated in a given year.

When making comparisons between policies, you should always consider all relevant information, such as different plan types, benefits and features, including guarantees and riders. This is important because IRR does not compare these features; it only compares premiums and benefits.

IRR measurements can be used when comparing universal life to participating life insurance (early or delayed values), or policies with different companies. It is important to note that not all illustrated values are guaranteed. The assumptions used to create illustrated values should be carefully considered.

Here's an example of how it works

When death benefit at issue is the same

Policy A annual premium $5,325
Policy B annual premium $4,293
Assumes out of pocket premiums for 20 years

	Policy A	Policy B
Cash value at year 15	$82,746	$40,923
Cash value at year 30	$177,500	$156,431
Death benefit at life expectancy	$399,650	$375,000

Which one is better?

Let's look at the internal rate of return to compare the performance of these two policies:

	Policy A	Policy B
Annual premium for each of 20 years	$5,325	$4,293
Cash value after 15 years	$82,746	$40,923
IRR cash value at year 15	0.4%	(5.9)%
Cash value after 30 years	$177,500	$156,430
IRR cash value at year 30	3.2%	2.9%

	Policy A	Policy B
Death benefit value at age 85	$399,650	$375,000
IRR death benefit	3.7%	4.2%

Policy A has higher premiums and provides a higher IRR for the cash value. Policy B has lower premiums and provides a higher IRR for the death benefit. Which is most important for your client?

How to include IRR in your life insurance illustrations

With an understanding of how to use IRR, you can now include this in your life insurance illustrations. Using your KeySource software, simply go to the *Report Options* screen and select the *internal rate of return* checkbox in the *Report design* tab. This report includes IRRs for both death benefit and cash value.

If you sell a product using this comparative method, keep a copy of both illustrations in your client file and a description of how this strategy was used.

Limitations and considerations on using IRR comparisons

When using your KeySource software, the IRR compares the required rate of return to an alternate fixed income non-registered investment which has been taxed at the marginal rate specified. The IRR on the cash value of the policy assumes the cash value stays within the policy and doesn't reflect income tax that may be applicable if the cash value were withdrawn from the policy.

It's not appropriate to base a buying decision solely on a comparison of IRR. The complete illustration including different plan types, benefits and features, guarantees and riders for each policy should be reviewed with the client before making a buying decision.

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