



BRYANMARKGROUP

# VARIABILITY

## *{ In Medical Underwriting }*

- Specialized Expertise in Large Life Insurance Placements -



*When properly positioned in an intelligently designed estate plan, permanent life insurance can be one of the most versatile assets in managing the eventual payment of estate taxes. It can, however, be one of the more difficult assets to acquire due to the complexities of the medical underwriting process.*

Most financial assets have a relatively simple acquisition process, but life insurance is different in that the client must go through a very thorough medical underwriting process to be “approved” to enter into the life insurance contract with the insurance company.

### *~ Elements of the Underwriting Decision Process ~*



In order to make the underwriting decision, each insurance company reviews both the client’s medical records provided by their physicians and the medical exam that the client undergoes at the beginning of the process. Since each insurance company is reviewing the same client specific data, and given that mortality tables and actuarial data are consistent, one might reasonably expect that the highly trained underwriters would come to similar conclusions resulting in similar offers for the same client. Although sometimes true, the fact is that the **underwriting offers we receive on most cases varies, sometimes significantly so, from carrier to carrier.** This is due to many factors, but a main one is different underwriters view the mortality risk of certain health conditions very differently.

The purpose of this piece is twofold. First, we will look at real world case examples that illustrate the potentially wide variability in underwriting offers that a single insured may receive depending on overall health (Case 1) or certain specific lifestyle factors (Case 3). Second, we illustrate that just a small variation in the anticipated underwriting class (Case 2) can have a significant impact on policy pricing. These case examples illustrate the importance of obtaining optimal pricing for each client by submitting each case to multiple carriers and diligently working and negotiating on the client’s behalf to obtain the best possible offer.



## CASE 1 - SIMPLE EXAMPLE - SINGLE LIFE MALE, AGE 65

Case 1 shows a simple example of how the underwriting offer can vary for one insured. The prospective insured in the example is a 65 year old male.

INSURANCE COMPANY	UNDERWRITING OFFER
Company 1	Standard
Company 2	Table B
Company 3	Declined
Company 4	Declined
Company 5	Declined
Company 6	Table D
Company 7	Declined
Company 8	Declined
Company 9	Table C
Company 10	Declined
Company 11	Declined
Company 12	Declined
Company 13	Table F
Company 14	Declined

As the table shows, the offers range from one Standard to many declines. The reason is the client has a certain health condition that has relatively new treatment options, and is viewed very differently by underwriters. Life insurance underwriting practices can be slow to change, but we definitely see varying degrees of “nimbleness” in underwriting execution during the course of submitting cases.

As one might expect, the wide range of offers on this case had a drastic impact on pricing. The client could not get coverage from most carriers, and the one company that offered Standard had the most competitive policy post-underwriting.

**The range does not, however, have to be this drastic to have a significant impact on pricing.** Case 2 shows an example of how a tighter underwriting range for a healthy insured can still result in significant premium differences.



## CASE 2 - IMPACT OF A SMALL VARIANCE IN OFFERS

Case 1 showed a wide range of offers that, although common, is not typical of every case. Case 2 examines a situation in which the underwriting offers received had significantly less variance, but the resulting changes in the competitiveness of the pricing was still substantial.

### LIFE INSURANCE “RFPS” AND THE BIDDING PROCESS

Before we get to the case specifics, this case illustrates an important point about the process that some advisors use to procure pricing for life insurance policies. We are asked a few times per year to prepare quotes in response to a Request for Proposal (“RFP”) for a client. These RFPs are well-intentioned in that the advisor is usually making his/her best attempt to assure objectivity for the client by seemingly eliminating all but the essential variables in the quoting process. In this case, we were asked to respond to an RFP that asked for pricing quotes (only) for \$12,000,000 of coverage to age 105 assuming (only) a Best Class rate and assuming (only) a lifetime annual premium payment schedule.

The RFP made it known that the quotes were being solicited from 3 different brokers/agents with the implication that the best quotes would “win.”

We believe that clients are much better served by having their advisors establish a relationship with a firm that has demonstrated experience in underwriting and managing the placement of large, complex cases. A specialized firm’s dedicated underwriter is best suited to negotiate the best offer on the client’s behalf. It is far more important to have one broker submit to and negotiate with multiple carriers than it is to have multiple brokers/agents involved in the process as there is no advantage to having two brokers/agents submit the case to the same carrier.

CASE FACTS - NEW COVERAGE

- Prospective Insured: 57 Year old male
- Universal Life coverage
- Death Benefit - \$12,000,000
- Annual premium to fund the policy to age 105
- Initial Underwriting Assumption – Best Class

*Below is the initial pricing data presented to the client given the parameters of the RFP.*

Insurance Company	Assumed Underwriting Rate	Death Benefit to Age 105	Annual Premium
Company 1	Best Class	\$12,000,000	\$126,319
Company 2	Best Class	\$12,000,000	\$133,568
Company 3	Best Class	\$12,000,000	\$134,287
Company 4	Best Class	\$12,000,000	\$138,006
Company 5	Best Class	\$12,000,000	\$140,475
Company 6	Best Class	\$12,000,000	\$140,634
Company 7	Best Class	\$12,000,000	\$140,835
Company 8	Best Class	\$12,000,000	\$141,032
Company 9	Best Class	\$12,000,000	\$151,482
Company 10	Best Class	\$12,000,000	\$152,706
Company 11	Best Class	\$12,000,000	\$153,483
Company 12	Best Class	\$12,000,000	\$157,716
Company 13	Best Class	\$12,000,000	\$158,015
Company 14	Best Class	\$12,000,000	\$179,474
Company 15	Best Class	\$12,000,000	\$179,646

At the beginning of the RFP process, we asked general health questions in an attempt to determine if quoting Best Class was appropriate or not, but these questions were turned away as being inconsistent with the RFP procedures. **When we eventually received the client’s health history, we immediately saw a medical item that would preclude Best Class from nearly all carriers. Unfortunately, the client already had expectations for the premium set by the above set of quotes.**



The client submitted to the medical underwriting process, and, although the offers were generally favorable, only one company offered the ‘Best Class’ rate that was initially quoted.

*The following table shows how the pricing matrix was ‘jumbled’ due to the results of underwriting.*

Insurance Company	Actual Underwriting Offer	Death Benefit to Age 105	Annual Premium
Company 7	Preferred NS	\$12,000,000	\$159,486
Company 11	Preferred NS	\$12,000,000	\$159,585
Company 9	Preferred NS	\$12,000,000	\$164,286
Company 1	Standard Plus	\$12,000,000	\$166,869
Company 10	Preferred NS	\$12,000,000	\$166,872
Company 8	Preferred NS	\$12,000,000	\$167,115
Company 13	Preferred NS	\$12,000,000	\$171,720
Company 15	Best Class	\$12,000,000	\$179,820
Company 6	Standard NS	\$12,000,000	\$183,591
Company 4	Standard NS	\$12,000,000	\$190,035
Company 3	Standard NS	\$12,000,000	\$193,710
Company 2	Standard NS	\$12,000,000	\$204,030
Company 5	Standard NS	\$12,000,000	\$214,413
Company 12	Preferred NS	\$12,000,000	\$219,768
Company 14	Table D	\$12,000,000	\$257,238



## OBSERVATIONS

- The premium for the Company 7 policy increased by about \$19,000 over the Super-Preferred rate originally quoted, but became the most competitive policy post-underwriting.
- The most competitive pre-underwriting carrier, Company 1, fell from first to fourth as the company offered Standard Plus rather than Best Class.
- Company 15 made the best offer in terms of class (i.e. Best Class), but policies from other carriers that did not offer Best Class were still more competitive. It is not uncommon for one carrier’s standard rate to outperform another carrier’s Preferred or Super-Preferred rate.
- After this case was “won” to conclude the RFP, the client was given the expectation that his coverage would cost about \$126,000 per year, and when the true underwriting results pushed that number over \$32,000 higher, the client’s expectations were not met.

# PRICING PRESENTATION BEFORE & AFTER UNDERWRITING

*When we speak with advisors who have helped their clients purchase life insurance policies with other agents or brokers, we ask how often the insurance company they were presented in the initial proposal is the same as the carrier that is implemented post underwriting. Most of the time, we are told the carrier does not change. While this may be understandable for some cases or if clients qualify for 'Super-Preferred' with the known best policy option, for large cases it is imperative in most cases to have the underwriting file submitted to numerous carriers given the wide range of possible underwriting offers as illustrated in these real world case examples.*



## CASE 3 – SURVIVORSHIP (I.E. SECOND TO DIE) CASE WITH FOREIGN TRAVEL TO AN E/F RATED COUNTRY & CIGAR USAGE

### FOREIGN TRAVEL ACTIVITIES

A complicated area of underwriting arises when a potential insured indicates that he/she plans to travel to what the carriers consider dangerous countries. Carriers use a letter rating system to assess the level of increased mortality risk associated with planned future travel to foreign countries. Country ratings typically range from A-E or A-F, and there is no rating impact for travel to most developed countries. For E/F rated countries, however, many carriers will issue an automatic decline if the proper supporting information is not provided. Like many other areas of underwriting, utilizing an experienced firm to present the foreign travel case to the underwriters at the insurance company can mean the difference between an automatic decline and a Preferred rating, meaning the insurance company became comfortable with the travel activities, even though the travel is to an E/F rated country.

### WHAT INFORMATION IS PRESENTED TO THE CARRIER TO NEGOTIATE ON BEHALF OF THE CLIENT?

*For foreign travel cases in which poorly rated countries are involved, the gathering and presentation of details surrounding the travel are crucial to getting the underwriter comfortable with the travel. Below is a list of items the underwriter will consider in evaluating an applicant's travel activities.*

- How often has the individual traveled to the country in the past?
- What is the nature of the travel (i.e. business, charitable, political, to pursue certain activities)?
- Who accompanies the individual while they are in the E/F rated country?
- How does the individual 'get around' in the E/F rated country?
- Where does the individual stay in the E/F rated country, and what is the security situation at that location?
- Does the individual own property or other assets in the E/F rated country?

Some of these factors are easier to substantiate than others. In this case, we were able to demonstrate safe travel patterns and a history of travel without incident to the E/F rated country. The client had repeated travel patterns along routes with which most of, but not all, the insurance companies became comfortable. Furthermore, the client was a property owner in the country, and owning property in this country both elevated the client's status within local customs and enhanced protection afforded under local laws. Although the



stated underwriting practice of the 13 carriers we considered is to automatically decline a client with planned travel to an E/F rated country, ultimately only 3 maintained this position after full presentation of the facts on the client’s behalf.

**CIGAR AND SMOKELESS TOBACCO USE**

A second issue on this case, and one that is also treated very differently by carriers, is the male client was a cigar smoker. He would enjoy an occasional cigar, but did not smoke cigarettes. Some companies view cigars and other forms of smokeless tobacco as having a lesser impact on mortality than regular cigarette use, and, as one may expect, underwriting practices in this area vary widely among carriers.

In this case example, the male insured reported smoking ‘roughly’ 5 cigars per month. Most cigar smokers do not spend much time counting how many cigars they actually smoke, but the usage frequency can become an important factor in the rating class the insured receives. The male insured reported the same amount of cigar usage to every carrier and the same lab results were sent to each carrier.

*As the following table shows, the underwriting treatment of the cigar usage ranged from a best case of “Preferred, Non-Smoker” to “Standard, Smoker.” Note that the ratings also account for the foreign travel activities discussed above.*

Insurance Company	Underwriting Offer Male Insured Cigar Smoker	Underwriting Offer Female Insured Non-Smoker
Company 1	Standard Non-Smoker	Preferred
Company 2	Standard Non-Smoker	Preferred
Company 3	Standard Non-Smoker, with a Flat Extra	Preferred
Company 4	Preferred Smoker, with a Flat Extra	Preferred
Company 5	Standard Non-Smoker	Standard
Company 6	Preferred Non-Smoker	Preferred
Company 7	Standard Smoker	Preferred
Company 8	Standard Smoker	Standard
Company 9	Standard Smoker	Standard
Company 10	Standard Smoker	Preferred
Company 11	Uninsurable due to foreign travel	Standard Plus
Company 12	Uninsurable due to foreign travel	Standard
Company 13	Uninsurable due to foreign travel	Standard





## SUMMARY – VARIATION IN UNDERWRITING OFFERS

*The medical underwriting process is a key component of every large life insurance placement, and the purpose of this piece was to highlight the potential variation in how insurance carriers view just a few different situations.*

We have seen many cases in which a client or advisor evaluates a proposal with premium quotes, chooses the lowest premium outlay and only applies to that company and accepts the result that is returned. The two main lessons conveyed herein are (1) life insurance carriers vary widely on how they underwrite and offer for many conditions or lifestyle factors and (2) even small differences in the underwriting class can result in significantly different cost outcomes for the client.

**In dealing with large life insurance placements, it is critically important to recognize that there may be plenty of pitfalls in the medical underwriting process, but there are numerous opportunities as well.** A great place to start navigating them is to build a trusted relationship with a source that dedicates resources specifically to the underwriting process and has a demonstrated history of successfully advocating for clients to receive optimal results.

## ABOUT OUR FIRM

*At BryanMark Group, we leverage M Financial's arrangement with partner carriers that gives us a special look into the "black box" of carrier practices to unlock customized value for our clients.*

We combine this knowledge with our depth of experience working solely in this niche area to deliver an exceptional level of sophistication in policy design. The BryanMark team of talented legal, tax and financial professionals ensures that every client receives the highest level of advice and service in selecting the best policy for their estate planning needs.

