



## “Effects of COVID on Underwriting & Premium Financing of Life Insurance”.

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Skipping school in 2019:



Skipping school in 2020:



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Report

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## My 2020 plans vs my 2020 life



Report

Travel plans in 2020 be like:

Expectations:



Reality:



*EFFECTS OF  
COVID-19 ON  
THE LIFE  
INSURANCE  
INDUSTRY AND  
OUR CLIENTS  
IN GENERAL*

- Progression thru the year
- Unintended Effects on the general public
- Effects on pricing and underwriting of life, disability and long-term care insurance
- The long-term impact and potential challenges
- Premium Financed life insurance in current times

*PROGRESSION  
THRU OUT THE  
YEAR*

- Completely unknown
- Reinsurance carriers – reaction to Covid-19
- Tightened up underwriting
- Increase in sales – 14% in May for under 40 yr. old
- Loosening up and back to some normalcy

*UNINTENDED  
EFFECTS ON  
THE GENERAL  
PUBLIC*

- Suicide cases up
- Alcoholism
- Intimate Partner Violence
- Depression and Anxiety

*EFFECTS ON  
PRICING AND  
UNDERWRITING  
ON LIFE,  
DISABILITY AND  
LONG-TERM  
CARE  
INSURANCE*

## Life insurance

- Claims normal or up slightly
- Carrier- 20% of claims were covid related claims but not more cases
- How to price for the co-morbidity issues
- No major impact on pricing
- Covid had a greater impact on the lower socioeconomic class than the wealthier class as a percentage
- Adjusted underwriting process
  - Exams not needed at certain faces and ages
  - On-line application systems

*EFFECTS ON  
PRICING AND  
UNDERWRITING  
ON LIFE ,  
DISABILITY AND  
LONG-TERM  
CARE  
INSURANCE*

## Disability insurance

- Still wrote front line workers
- No Covid claims
- Mental and nervous exclusions was a concern
- Claims up because of the financial recourse of the lockdown
- How to tackle the financial justification for future underwriting is an issue for carriers to tackle



*EFFECTS ON  
PRICING AND  
UNDERWRITING  
ON LIFE,  
DISABILITY AND  
LONG-TERM  
CARE  
INSURANCE*

## Long term care insurance

- Claims were lower because of the high mortality rates for older ages with co-morbidity issues
- Nursing home deaths because of Covid reduced claims as well
- Covid itself hasn't had a direct impact on need for LTC

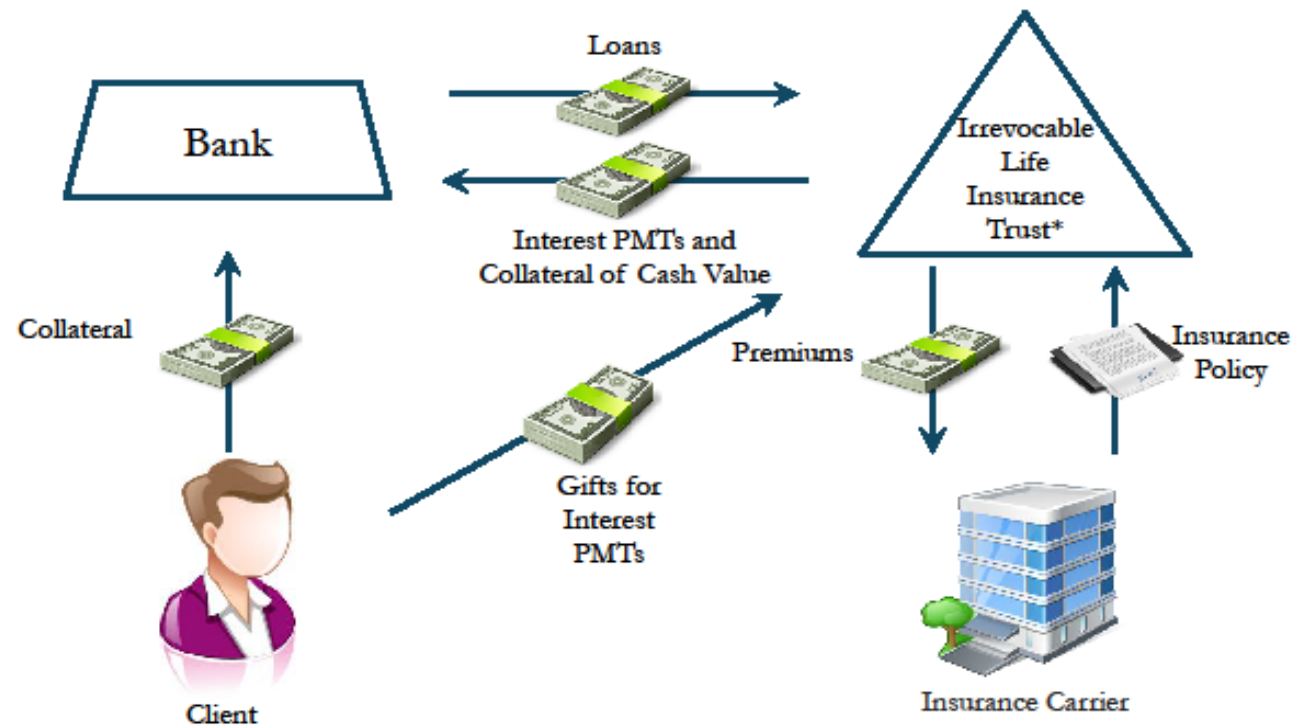
*THE LONG -  
TERM IMPACT  
AND POTENTIAL  
CHALLENGES*

- Suicide cases up
- Alcoholism
  - Binge drinking in females up 41%
  - Monthly alcohol consumption up 14%
- Intimate Partner Violence
  - Physical and sexual victimization 4.4 and 2.3times greater then 2019
- Depression and Anxiety

*PREMIUM  
FINANCED LIFE  
INSURANCE IN  
CURRENT TIMES*

## Current environmental impacts on Premium Finance

- Interest rates being historically low
- Banks getting very competitive and creative
  - 10 year fixed or 10 year renewable notes with caps
- Cash Flows having a big impact on the options and designs
  - Initial cost of loan interest lower than premiums so more efficient for annual exclusion gifting
- Estate tax change concerns – with a potentially lower unified credit, gifting other assets gets the priority
  - More emphasis on gifting company ownership or real estate
  - Corporate values might be down- take advantage of lower valuations for gifting



\* Example above illustrates if the insurance was owned in an ILIT. Premium financing can be utilized in other scenarios (business, personal, etc.)

**What are the Risks?**

- Interest Rate
- Carrier Strength
- Lender Longevity
- Policy Structure
- Policy Performance
- Collateral Need—initial and ongoing

**How to Mitigate Risks**

- Work with an experienced advisor team
- Model using current, increasing, and catastrophic interest rates
- Model with interest rate protection
- Model with an exit strategy
- Understand lender's calculations
- Understand guarantor issues
- Understand implications of ratings triggers
- Set up review and administration expectations

*See Important Disclosures Page*

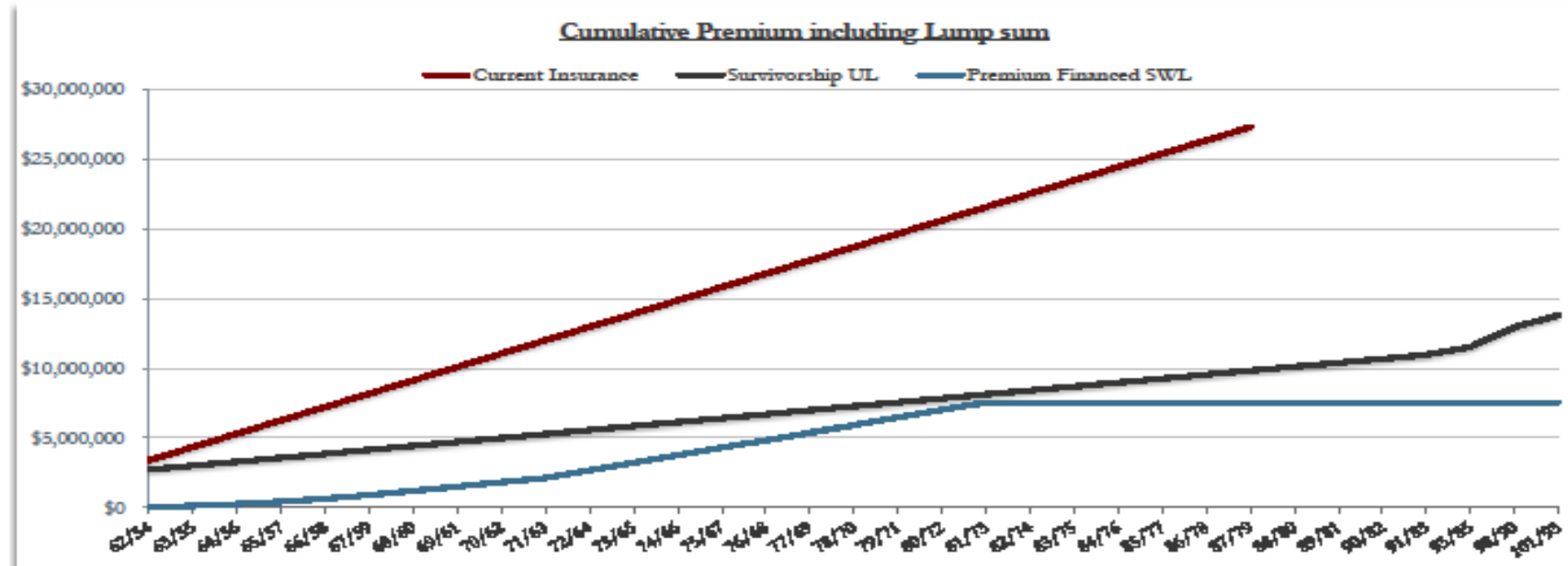
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**Summary of Market Study (Matching Death Benefit)**

Carrier	Comdex	Product	Starting Lump Sum from Current Insurance	Initial Outlay	Cumulative Outlay <sup>1</sup>	Present Value of Outlay <sup>1,2</sup>	Death Benefit <sup>1</sup>	DB IRR <sup>1</sup>
Voya	81	Current Insurance	\$2,440,836	\$956,009	\$27,297,059	\$18,326,643	\$52,830,000	4.24%
John Hancock Life Ins. Co.	93	Survivorship UL	\$2,440,836	\$284,088	\$13,804,356	\$8,345,243	\$52,830,000	5.03%
Penn Mutual Life Ins. Co.	92	Premium Financed SWL	\$0	\$42,909	\$7,545,091	\$4,792,426	\$52,405,960	6.97%

1 - At Life Expectancy, Age 87 for Single Life &amp; Age 101/93 for Joint Life

2 - NPV is calculated using a 4.00% discount rate



Finance Premium with Third Party Lender													
Carrier Product Underwriting Crediting		Penn Mutual		10yr Fixed Rate-				2.00%		Interest Rate Cap-			-
		Survivorship Choice Whole Life		Yr 11 Renewal Rate-				3.50%		Cash Value Collateral-			100.00%
		Standard NT, Preferred Plus								Commitment Fee-			0.00%
		2020 Dividend Scale											
EOY Age	Year	Insurance Outlay	Cash Surrender Value	Gross Death Benefit	Premiums Borrowed	Loan Interest Rate	Lender Loan Interest	Cumulative Loans from Lender	Net Surrender Value	Additional Collateral Amount	Cash Outlay	Net Death Benefit	Death Benefit IRR
62/54	1	\$ 2,145,426	\$ 1,502,829	\$ 52,864,303	\$ 2,145,426	2.00%	\$ 42,909	\$ 2,145,426	\$ (642,598)	\$ 642,598	\$ 42,909	\$ 50,718,876	118102.33%
63/55	2	\$ 2,145,426	\$ 3,317,164	\$ 52,902,625	\$ 2,145,426	2.00%	\$ 85,817	\$ 4,290,853	\$ (973,689)	\$ 973,689	\$ 85,817	\$ 48,611,773	3167.37%
64/56	3	\$ 2,145,426	\$ 5,552,665	\$ 52,943,067	\$ 2,145,426	2.00%	\$ 128,726	\$ 6,436,279	\$ (883,613)	\$ 883,613	\$ 128,726	\$ 46,506,788	855.58%
65/57	4	\$ 2,145,426	\$ 7,922,466	\$ 52,986,076	\$ 2,145,426	2.00%	\$ 171,634	\$ 8,581,705	\$ (659,239)	\$ 659,239	\$ 171,634	\$ 44,404,370	409.25%
66/58	5	\$ 2,145,426	\$ 10,440,745	\$ 54,290,728	\$ 2,145,426	2.00%	\$ 214,543	\$ 10,727,132	\$ (286,386)	\$ 286,386	\$ 214,543	\$ 43,563,597	249.58%
67/59	6	\$ 2,145,426	\$ 13,115,766	\$ 59,775,534	\$ 2,145,426	2.00%	\$ 257,451	\$ 12,872,558	\$ 243,208	\$ -	\$ 257,451	\$ 46,902,976	176.93%
68/60	7	\$ 2,145,426	\$ 15,954,824	\$ 65,237,316	\$ 2,145,426	2.00%	\$ 300,360	\$ 15,017,984	\$ 936,840	\$ -	\$ 300,360	\$ 50,219,332	134.51%
69/61	8	\$ 454,338	\$ 17,366,579	\$ 66,234,572	\$ 454,338	2.00%	\$ 309,446	\$ 15,472,322	\$ 1,894,257	\$ -	\$ 309,446	\$ 50,762,250	105.42%
70/62	9	\$ -	\$ 18,376,609	\$ 65,990,122	\$ -	2.00%	\$ 309,446	\$ 15,472,322	\$ 2,904,287	\$ -	\$ 309,446	\$ 50,517,800	85.12%
71/63	10	\$ -	\$ 19,444,499	\$ 65,813,083	\$ -	2.00%	\$ 309,446	\$ 15,472,322	\$ 3,972,177	\$ -	\$ 309,446	\$ 50,340,761	70.56%
72/64	11	\$ -	\$ 20,549,813	\$ 65,725,211	\$ -	3.50%	\$ 541,531	\$ 15,472,322	\$ 5,077,491	\$ -	\$ 541,531	\$ 50,252,889	59.56%
73/65	12	\$ -	\$ 21,716,495	\$ 65,734,520	\$ -	3.50%	\$ 541,531	\$ 15,472,322	\$ 6,244,173	\$ -	\$ 541,531	\$ 50,262,198	51.07%
74/66	13	\$ -	\$ 22,947,239	\$ 65,811,509	\$ -	3.50%	\$ 541,531	\$ 15,472,322	\$ 7,474,917	\$ -	\$ 541,531	\$ 50,339,187	44.34%
75/67	14	\$ -	\$ 24,243,507	\$ 65,954,906	\$ -	3.50%	\$ 541,531	\$ 15,472,322	\$ 8,771,185	\$ -	\$ 541,531	\$ 50,482,583	38.91%
76/68	15	\$ -	\$ 25,614,456	\$ 66,170,135	\$ -	3.50%	\$ 541,531	\$ 15,472,322	\$ 10,142,134	\$ -	\$ 541,531	\$ 50,697,813	34.45%
77/69	16	\$ -	\$ 27,059,975	\$ 66,462,507	\$ -	3.50%	\$ 541,531	\$ 15,472,322	\$ 11,587,653	\$ -	\$ 541,531	\$ 50,990,185	30.75%
78/70	17	\$ -	\$ 28,583,085	\$ 66,828,650	\$ -	3.50%	\$ 541,531	\$ 15,472,322	\$ 13,110,763	\$ -	\$ 541,531	\$ 51,356,328	27.64%
79/71	18	\$ -	\$ 30,186,951	\$ 67,270,019	\$ -	3.50%	\$ 541,531	\$ 15,472,322	\$ 14,714,629	\$ -	\$ 541,531	\$ 51,797,697	25.00%
80/72	19	\$ -	\$ 31,874,944	\$ 67,789,850	\$ -	3.50%	\$ 541,531	\$ 15,472,322	\$ 16,402,621	\$ -	\$ 541,531	\$ 52,317,528	22.75%
81/73	20	\$ -	\$ 33,650,808	\$ 68,392,936	\$ -	3.50%	\$ 541,531	\$ 15,472,322	\$ 18,178,486	\$ -	\$ 541,531	\$ 52,920,614	20.81%
82/74	21	\$ (15,472,322)	\$ 19,118,538	\$ 45,425,279	\$ (15,472,322)	0.00%	\$ -	\$ -	\$ 19,118,538	\$ -	\$ -	\$ 45,425,279	17.75%
83/75	22	\$ -	\$ 20,100,917	\$ 45,331,748	\$ -	0.00%	\$ -	\$ 0	\$ 20,100,917	\$ -	\$ -	\$ 45,331,748	16.35%
84/76	23	\$ -	\$ 21,124,931	\$ 45,295,676	\$ -	0.00%	\$ -	\$ 0	\$ 21,124,931	\$ -	\$ -	\$ 45,295,676	15.15%
85/77	24	\$ -	\$ 22,191,041	\$ 45,319,766	\$ -	0.00%	\$ -	\$ 0	\$ 22,191,041	\$ -	\$ -	\$ 45,319,766	14.10%
86/78	25	\$ -	\$ 23,298,632	\$ 45,407,057	\$ -	0.00%	\$ -	\$ 0	\$ 23,298,632	\$ -	\$ -	\$ 45,407,057	13.19%
87/79	26	\$ -	\$ 24,448,678	\$ 45,563,360	\$ -	0.00%	\$ -	\$ 0	\$ 24,448,678	\$ -	\$ -	\$ 45,563,360	12.38%
88/80	27	\$ -	\$ 25,628,055	\$ 45,782,568	\$ -	0.00%	\$ -	\$ 0	\$ 25,628,055	\$ -	\$ -	\$ 45,782,568	11.68%
89/81	28	\$ -	\$ 26,830,968	\$ 46,060,776	\$ -	0.00%	\$ -	\$ 0	\$ 26,830,968	\$ -	\$ -	\$ 46,060,776	11.06%
90/82	29	\$ -	\$ 28,052,888	\$ 46,398,037	\$ -	0.00%	\$ -	\$ 0	\$ 28,052,888	\$ -	\$ -	\$ 46,398,037	10.50%
91/83	30	\$ -	\$ 29,292,830	\$ 46,786,237	\$ -	0.00%	\$ -	\$ 0	\$ 29,292,830	\$ -	\$ -	\$ 46,786,237	10.01%
92/84	31	\$ -	\$ 30,551,541	\$ 47,217,769	\$ -	0.00%	\$ -	\$ 0	\$ 30,551,541	\$ -	\$ -	\$ 47,217,769	9.56%
93/85	32	\$ -	\$ 31,825,574	\$ 47,687,248	\$ -	0.00%	\$ -	\$ 0	\$ 31,825,574	\$ -	\$ -	\$ 47,687,248	9.16%
98/90	37	\$ -	\$ 38,198,679	\$ 50,533,538	\$ -	0.00%	\$ -	\$ 0	\$ 38,198,679	\$ -	\$ -	\$ 50,533,538	7.63%
101/93	40	\$ -	\$ 41,902,199	\$ 52,405,960	\$ -	0.00%	\$ -	\$ 0	\$ 41,902,199	\$ -	\$ -	\$ 52,405,960	6.97%
103/95	42	\$ -	\$ 44,298,077	\$ 53,633,840	\$ -	0.00%	\$ -	\$ 0	\$ 44,298,077	\$ -	\$ -	\$ 53,633,840	6.59%
108/100	47	\$ -	\$ 50,244,215	\$ 56,476,512	\$ -	0.00%	\$ -	\$ 0	\$ 50,244,215	\$ -	\$ -	\$ 56,476,512	5.81%
118/110	57	\$ -	\$ 61,638,182	\$ 66,034,758	\$ -	0.00%	\$ -	\$ 0	\$ 61,638,182	\$ -	\$ -	\$ 66,034,758	4.88%
128/120	67	\$ -	\$ 68,882,417	\$ 71,389,776	\$ -	0.00%	\$ -	\$ 0	\$ 68,882,417	\$ -	\$ -	\$ 71,389,776	4.14%
<b>Total Outlay:</b>											\$7,545,091		
<b>Present Value:</b>											\$4,792,825		

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