## The Life Insurance Buyer

**A Life Tale**

An agent friend of mine was referred a 39-year-old man that had had open-heart surgery two years before. He had four young daughters and wanted life insurance, but he wasn't optimistic about being able to get some based on his medical history. My friend said the man seemed desperate about being able to provide some protection for his family.

That very day my friend made calls to carriers, but initially it wasn't promising. The first few carriers said they would decline the case. The agent made some more calls and found a carrier that would write the case with a Table 2 (higher than standard premium) rating, but they would issue it. The agent made some more calls and found a carrier that would issue a standard rated life insurance policy. Success!

Excited by his find, the agent called the prospect late that afternoon and said, "Good news, I can get you life insurance and you'll pay the standard premium." My friend said there was perhaps 10 seconds of silence and then the prospect responded, "That's good to know, I'll get back to you if I decide to do anything." The agent was puzzled by the response. He asked me, "How does someone go from being desperate to have life insurance to indifference when they're told they can actually get it? Did I do something wrong?" My answer was yes.

**Initial Frame**
My family is in danger, but
This won't happen
No one will sell me insurance

**Reframing**
The solution was quick (so it must have been easy)
"I can get you life insurance"
"you'll pay the standard premium."

**End Frame**
I can buy insurance at anytime
I'm not sure I need to buy it
Everyone will sell me insurance

The framing point being used was that the man felt he was uninsurable. He told the agent to go ahead and look, believing he'd never solve the problem. The consumer thought of coverage as an unattainable goal and hadn't gone far enough in his thinking to reflect on what he'd do if the goal was realized.

The first thing my friend should have done was to make the prospect confront the possibility that the goal might be reached by saying something like "I'm not very optimistic about your chances, but what would you do if I found a carrier willing to sell you life insurance?" This would move the prospect's anchoring point from "it won't happen" to "it might happen" and cause the prospect to either decide he really didn't want life insurance – and save the agent from making those calls – or decide he would buy life insurance  and essentially "pre-close" himself and mentally commit to making a purchase. Assuming the prospect told the agent he would buy life insurance if it was available, the agent should have framed his answer differently.

By opening with "I can get you life insurance" and calling back the same day, the prospect's mental anchor shifted from "Nobody will sell me life insurance" to "everyone will sell me life insurance because look how quickly he found a carrier." The sense of urgency was lost. Here's what the agent should have done.

The prospect did not conclude the reason the agent was able to get results so quickly is because he's an expert in the industry and knows who to call and how to talk to underwriters. Unfortunately, people often do not equate quick results with expertise but with how easy the task must have been. The agent should have waited two days before calling back. By waiting two days, the prospect believes the agent is spending many hours on this task, making the results appear to be worth more.

The agent also should have told about the difficulty of the search before presenting the good news by saying, "I called company V, they turned you down. I called company W, they turned you down. I called company X, they turned you down. I called company Y, they turned you down." (Pause and wait for a response from the prospect, and then continue.) "However, company Z said they might take you, but we need to get the process started in case this turns out to be a mirage."

**Initial Frame**
My family is in imminent danger
This won't happen
No one will sell me insurance

→ "I'm not very optimistic about your chances, but what would you do if I found a carrier willing to sell you life insurance?"

**Reframing**
It took 3 days and a lot of work
Company Z may take you if we apply today
"If they accept you be happy you get to pay a premium."

**End Frame**
My family is protected
I was lucky to get insurance
My agent is a miracle worker

By waiting two days and telling the prospect of the failures, you've shown the prospect you worked hard and reinforced the "it won't happen" anchor point. Now when you say you might have found a carrier that will take him, he feels as if he was thrown a lifeline before going under for the last time. By framing the lifeline as a surprise to the agent as well, you've created urgency and a new client.

## Framing

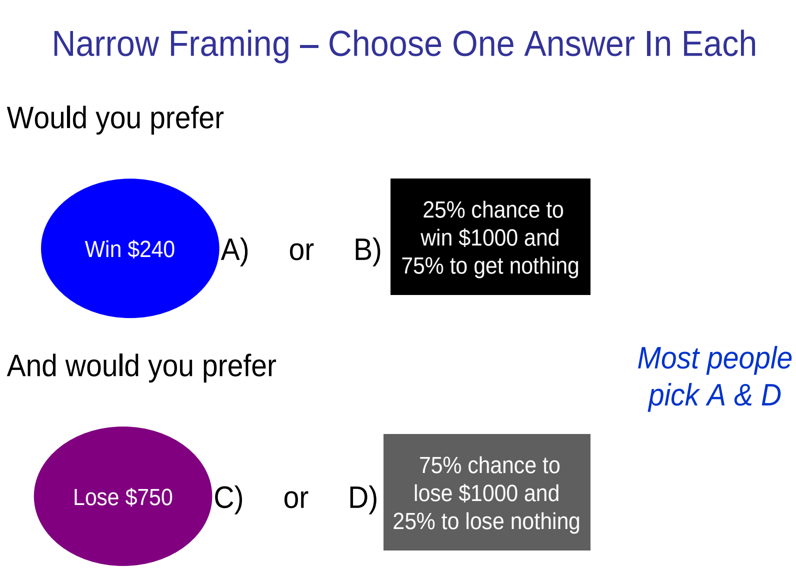
We like to think that we make completely rational decisions based on a neutral examination of the facts, but that is rarely the case. The facts must first pass through a series of illusions that often alter the way in which we perceive the data. These illusions, or cognitive biases, can so distort the data that a rational decision becomes impossible, and these distortions are often the reason why a life insurance sale does not occur. Framing is the basis for many biases.

Think of the decision-making process as filming a movie and you are the director. You have a certain idea of how you want the movie to go. However, the actors keep trying to bring in stuff from other movies they've been in and it tends to screw up the flow of your movie. To make a successful movie you need to get them focused on this movie so that they stay within the frame of the camera.

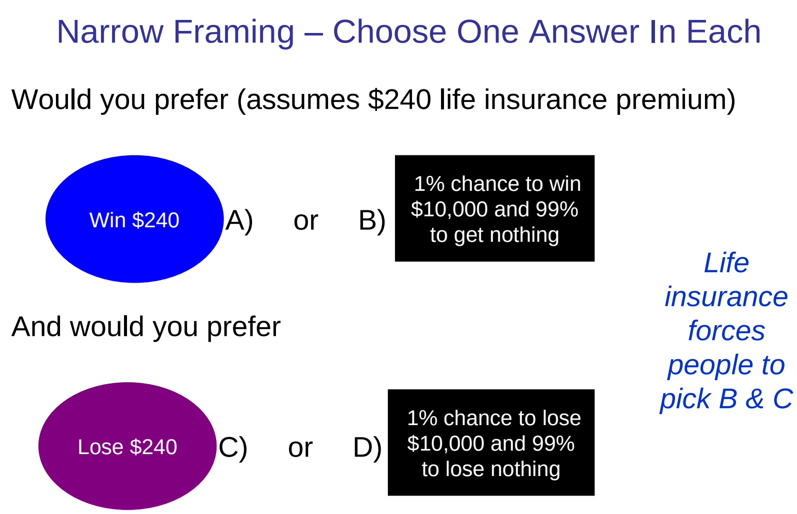
**Narrow Framing Works Against Life Insurance**

Over 30 years ago, Professors Tversky and Kahneman asked a group of people to make a pair of decisions. In column one, the people were to choose between A) a sure gain of $240 or B) a 25 percent chance to gain $1,000 and a 75 percent chance to gain nothing. In column two, they were to choose between C) a sure loss of $750 or D) a 75 percent chance to lose $1,000 and a 25 percent chance to lose nothing. Two simultaneous decisions - what did they choose?

Roughly 7 out of 8 people chose A and D – a sure gain of $240; a probable loss of $1000 but a possibility they might lose nothing. On the surface that might seem odd. After all, if you're willing to accept the possibility of a larger loss why wouldn't you also "roll the dice" for the chance at a larger gain? However, the majority of us don't look at this as a pairing of decisions, but as two separate decisions. The first decision relates to gains and most of us tend to be risk-averse when we have a profit – an example is people often selling their winning stocks because "you'll never go broke taking a profit." The second decision relates to loss and we tend to be risk seeking when we have a loss – not only do we hold onto our dodgy stocks, but we might even "dollar-cost-average" and buy more shares.



Say you could buy a life insurance policy with a $240 premium and a $10,000 death benefit. The decision pair now in column one chooses between a) a sure gain of $240 (money we save if we don't buy the life insurance) or B) a 1% chance to get $10,000 and a 99% chance to gain nothing. In column two, the choice bencomes between C) a loss of $240 spent on the premium if you don't die or D) a 1% chance to lose $10,000 and a 99% chance to lose nothing. Our head is telling us to say not spend the $240 premium (A) because there's a 99% percent the bad thing won't happen (D). However, an insurance purchase requires us to accept (B) and (C).




This is a HUGE point. The life insurance frame is contrary to the way most people think because it requires us to seek out risk and pay an expense when everything seems like it is going well and we don't feel the risk. This narrow framing goes far in explaining why life insurance is a hard sell because it is 180 degrees from the way 7 out of 8 of us would typically decide. How do you fix this problem? You need to change the framing.

Change The Odds Framing

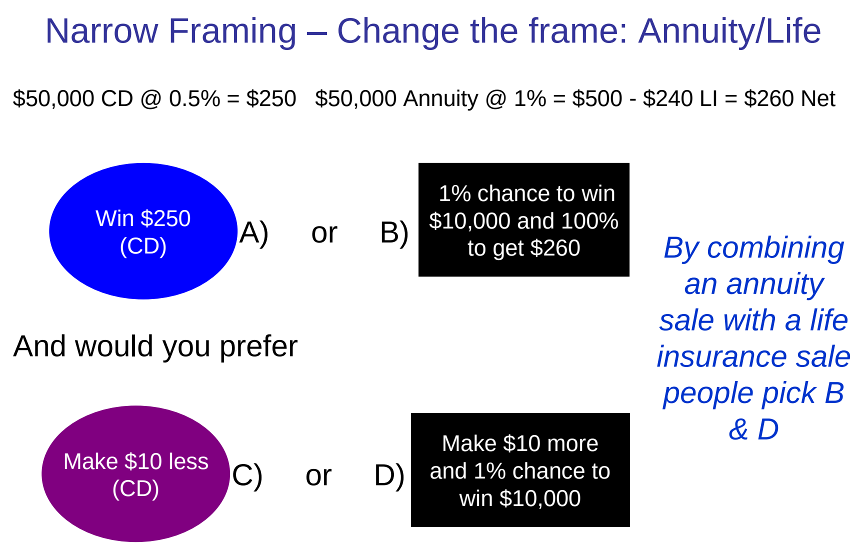
People that are told that they have a terminal illness often become motivated life insurance buyers. A $240 premium on a $10,000 death benefit seems cheap if there's a 99% chance of dying, but not so cheap when there's a 99% chance of living. However, this frame can also be changed if the perception of the likelihood of death is changed even if the real odds haven't. The perceived likelihood of your dying increases if your best friend dies from a heart attack. Although I once heard of an agent that handed out business cards at funerals, another way to alter the perception of death odds might be to share obituary notices of people the same age as the prospect. Telling prospects stories of similar people dropping dead can help to reset the frame.

Change The Cost Framing

$240 is a meaningful sum. One can think of several things one might do with it and paying for life insurance isn't high on the list. However, $240 is roughly the cost of buying a large cafe latte each week at your local coffee house. Instead of talking about spending $240, ask the consumer whether they'd rather leave their dependents 50 cups of coffee or $10,000, because the cost is the same for both.

<u>Make A Comparative Frame</u>

Another way is to make framing comparative. Most financial decisions are not made in a vacuum. Say the choice is framed as how $50,000 is best utilized; remaining in a CD paying 0.5% a year or placed in an annuity that pays 1.0% a year that is used to pay the premium on a $10,000 life insurance policy with a $240 premium. Now we have: In column one, choose between A) a sure gain of $250 if we stay with the Certificate of Deposit or B) a sure gain of $260 and a 1% chance to get $10,000. In column two, chose between C) a loss of $10 if you stay with the CD or D) a gain of $10 if you move to the annuity/life combo and a 1% chance to get $10,000.




The risky situation is now the CD where the person can lose from $10 up to $10,000 when compared to the annuity/life insurance combination. The reason this works is because, although it is still a narrow frame, the odds within the frame have changed to favor the annuity/life choice.

The way to destroy this last effect (and possibly lose the sale) is to break the combo. The way this should be presented is “you net $250 with the CD or you net $260 with the annuity/life with the possibility of getting an extra $10,000.” If you present it as “the annuity pays $500 in interest, the life insurance premium is $240, so after paying for the life insurance you have $260 left,” the individual once again sees the premium as a cost – this time against the annuity interest. This does not mean hiding the gross interest or the premium, it means emphasizing (making more vivid) the net benefit.

**Framing – Focus on Comparative Rewards**

Say a single pay life insurance premium of $100,000 produced an immediate death benefit of $212,000. If that $100,000 is sitting in a bank CD that keeps paying 1%, it would be worth $110,463 in 10 years – or $100,000 less than the life insurance benefit. In fact, the bank yield would need to average 7.8% – after tax – for the next 10 years simply to equal the instant benefit of the insurance for the heirs.

**Framing – Fear of Underwriting**
According to a LIMRA survey, a quarter of consumers that don't own individual life insurance policies say one of the reasons is the buying process is too difficult. For younger buyers accustomed to the instantaneous transactions on the internet, the life insurance process may seem tedious. One solution might be to use carriers with high non-medical exam limits. I have discovered another reason why some people won't buy life insurance is based on a fear of what the underwriting process might reveal. This fear becomes more relevant as the age of the buyer increases.

Going though underwriting may force the buyer to confront health issues that they'd rather deny. It's one thing to suspect you have a health condition that may shorten your life; it is another thing to have to deal with it. Another aspect of the underwriting process is your privacy is violated. You may let your doctor know your true weight, but not want to share it with complete strangers.

<u>The Hassle Discount</u>
A way to deal with both these concerns is to admit underwriting is a hassle, but frame it as really being a discount from full price. It would be presented as "Yes, I can offer you life insurance that doesn't require a physical or phone interview and it costs $800 a year. However, if you agree to volunteer some personal information (or get a physical) I might be able to get you a 25% discount off that regular price." Basically, you're presenting the extra hassle as the cost of the "coupon" that reduces the retail price. Not paying full price by redeeming the "underwriting coupon" makes them feel like smart shoppers.

The typical solution is to find polices where you can avoid underwriting altogether or find very lenient insurers, but this often results in overpaying for insurance. However, if you can walk the buyer through the underwriting process, explain what underwriters look for, what is a deal breaker and what isn't, and also explain how putting up with the process may allow the buyer to save money, you will get more people to submit an application.

## Anchoring
You're sitting in your aisle seat and at scheduled departure time the pilot gets on the intercom and says, "Due to a ground traffic control issue our flight is delayed. We estimate we'll depart in 40 minutes." You are less than thrilled and grouchily settle back in your seat. After 30 minutes, the pilot gets back on the air and says "Well, we got clearance a little earlier than we thought, prepare for departure." Compare your state of mind here with another situation:

At departure time, the pilot gets on the intercom and says, "We have a delay. We estimate we'll depart in 10 more minutes." You quietly wait while 10 minutes becomes 13, 15 and then you hear "We'll depart in another 10 minutes." And again 10 minutes passes, goes to 12 to 15 before you hear "Prepare for departure." In both cases the plane left 30 minutes late. The odds are you are much unhappier in the second situation than in the first and the reason is due to anchoring.

We tend to anchor around the first number we hear when used with an unfamiliar topic. If the pilot says a 40-minute delay or a 10-minute delay, we establish whatever number is said as a standard by which we'll judge future action. The reality is both flights were delayed 30 minutes. However, due to our anchoring bias, in the first instance we feel as if we're leaving 10 minutes early. In the second...let's just say we don't feel we left early.

Some agents will present the lowest possible premium quote, especially if they know they're in competition with someone, and they may win the initial sale on this basis. However, often the quote assumes a level of good health that the real-life buyer doesn't meet, or the assumptions on cash value growth are too optimistic, and the agent must return to the buyer with a higher price, having created a low-price anchor in the client's mind. The result can be the buyer backing out of the sale.

It is better for the agent to use the approach of the first pilot by explaining "Consumer, you need to know that regardless of which insurance company you use, the ultimate premium you wind up paying is largely dependent on the state of your health and the assumptions made about future policy returns. If you have some health issues and we use very conservative assumptions, the premium might be as high as $250 a month, but if your health is good and we're more optimistic, the premium could be as low as $130 a month."

***By establishing a "confidence interval" for the premium, the consumer is less likely to not buy if the ultimate premium is higher than the initial one discussed***

As long as a competitor's bid comes in over $130, the original agent will probably get the business. In addition, because the agent has explained how the premium price is determined, a low-ball bid from a competitor will now be viewed with suspicion. The agent has essentially given the client a "confidence interval" which means the anchor is $130 to $250. If the final premium turns out to be $180 a month, the buyer is more likely to stick with the purchase because it is still less than $250.

## Objection Preemption

There are many times the consumer does not buy because the product does not help them achieve their goals. Rather than trying to "overcome the objection" and sell the buyer something they do not want, the agent should move on to the next prospect. However, often the reason the consumer decides not to buy is because they have formed an opinion about life insurance that is not accurate. Until addressed, this objection works to block the consumer from hearing anything positive the agent is saying. It is important to address any objections as early, or, if possible, to preempt the objection from ever happening.

***Preempting the objection – meaning to address the objection before it arises***

Preempting the objection is showing the consumer why the life insurance policy fits their goals in spite of the negative aspects of buying the insurance. It is creating a favorable decision-making framework that raises and answers the objections during, or even before, the presentation. It is the exact opposite of the agent waiting until "the close" to find out what information is missing, which is often too late because the consumer has already decided not to buy based on the information they have. This is how objection preemption works.

### Objection Preemption – The Process

The traditional approach to selling is to give people reasons why they should buy, but it typically ignores the reasons why they won't buy. The first step is to figure out why people don't buy what you're selling, and this means remembering the objections that killed the sale – what did people tell you to justify not buying.

1. Anticipate the objections (not why they should buy but why they don't buy) - *Life Insurance Objections: Don't need it, too expensive.*

Two common reasons given for not buying insurance is the consumer saying they don't need the coverage or they can't afford it. Although those are legitimate reasons, let's look at them separately.

2. Come up with answers that make sense to the consumer - *Why do you buy life insurance? To create a lump sum of money or a stream of income.*

Why does one buy life insurance? One doesn't buy it for peace of mind. You buy life insurance to create cash, usually upon the insured's death, and that cash creates peace of mind. Okay, why would you need money when someone dies? It might be to replace a pension ended by a death, pay estate taxes, or replace assets or other income that goes away upon a death. So the question to the consumer is not – *do you want to buy life insurance*, it is – *will you lose any income or asset if your spouse dies*? The response to that question might be when the husband stops so does a $10,000 pension.

We've now identified a cash need. The question then becomes how to cope with the loss of the $10,000 income. Well, the widow could get a part-time job, or reduce her standard of living or replace the lost income. Let's say the choice is to replace that lost income. How do we do that?

Suppose the widow could buy an income annuity for $120,000 that would pay $10,000 for the rest of her life. That would solve the missing income problem. Now the question becomes how to come up with an extra $120,000. The couple could take $15,000 out of their savings, go to the casino, and be lucky. Or, the husband could buy a life insurance policy that would provide a death benefit of $120,000 that would replace the $10,000 income that stops upon the husband's death.

We've now solved the first objection by helping the prospect discover that they do have a need for which life insurance is an excellent solution. Let's move on to the second objection. The life insurance solution we've proposed requires an annual premium of $2000 and the prospect says they can't afford it. Now the problem is to find $2,000 a year.

$2000 is $167 a month. If the prospect dropped cable television and returned to using a roof antenna that alone might free up the needed funds, but let's say they don't want to cut expenses. Well, if they had $100,000 sitting in a bank certificate of deposit earning 0.5% and you found them an annuity paying 2.5%, the extra interest produced by the annuity would equal $2,000. Another idea would be to take $32,000 out of the CD and buy a life-only annuity that paid $2000 a year. This solution would cover the premium and current bank interest income only drops by $160 a year.

3. Frame the objections and answer before the consumer asks – *Create a preemptive message.*

The reason "I don't need it or can't afford it" become objections is often the sales presentation talks about everything but these points until near the end, giving the prospect time to think of why they won't buy. If the agent brings up what might become possible objections very early in the sales process, they can be handled before they become objections (because you haven't given them something to object to). An agent could start the presentation by saying something like this...

*"Do you have any income that stops if (spouse) dies? How would you offset the loss of that income? Many people use life insurance to replace an income that goes away upon a death. Life insurance isn't cheap, but most folks prefer owning it to having their (spouse) spend retirement saying "thank you for shopping at Wal-Mart."*

*"Before we figure out what this might cost why don't we see if you have any other assets that aren't pulling their financial weight, because an adjustment may be all you need to protect that income and (spouse)."*

The opening question addresses a problem that life insurance can solve. If the answer to the first question is no, the follow-up question might be "do you think your estate will be over $x million" to see whether there might be an estate tax issue that life insurance could pay for. If you keep getting a "no" answer to problems that life insurance can solve, then life insurance isn't needed.

After the need has been acknowledged, the cost issue can be examined. A powerful line used in finding the necessary premium is seeing whether "any other assets aren't pulling their financial weight." The aim here is to see if certain assets can be repositioned to pay the life insurance premium. However, "pulling their financial weight" introduces an element of fairness into the equation by implying that some assets are freeloaders and it is these assets that can be used to pay for the insurance.

An agent cannot preempt every objection by covering them during the presentation, but if the presentation opens with the main objections consumers have, and uses proper framing, the objections can usually be handled before they become firmly anchored, or the potential objection may be avoided by taking the presentation down another path.

## Opportunity: Aspirational Insurance

No one needs a Mercedes SUV or a Rolex watch – a Ford will get you around and your cell phone will give you the time. The makers of luxury products know this and thus create an image that implies ownership means one has achieved social prestige and material success. It is aspirational marketing and it is very effective. Owning life insurance can also be made into an aspirational goal.

Many people wish to support a church, charity, college, a museum, or local symphony. Some are giving several thousand dollars a year. However, if those donations are used to purchase life insurance, with the donee listed as beneficiary, the magnitude of the donations expands tremendously. Also, by using a life insurance trust there can also be additional tax advantages. Essentially, the consumer is buying a legacy for pennies on the dollar.

## Opportunity: Social Security Replacement

In general, a married couple can begin receiving two Social Security checks as each of them pass age 62; this is true even if only one spouse had earned income. However, when either spouse dies, the smaller income ends. Life insurance can be used to replace the lost income.

According to the Social Security Administration the average monthly check paid in 2021 to a retired couple is $2,596, but a single retiree averages $1,543 – or $1,053 less a month. This means, on average, when one spouse dies, the total benefit drops by 40%. Life insurance can provide the cash needed to replace the lost income.

At age 66, it would take a death benefit of roughly $200,000 to buy a life income annuity with a monthly payment of $1,053. The annuity payment (typically) does not increase with inflation, but each year that death is delayed, the starting annuity income is higher because the annuity is bought at an older age.

Single premium life insurance works well here. At age 66, a single premium of around $130,000 would provide the $200,000 for the life annuity – and the cash value would still be available if needed prior to death. Twenty year term insurance might cost around $250 a month – basically paying 10% of your current benefit to preserve 40%.* This works better if a little pre-planning is done. A single premium life policy might only require around $100,000 if bought at age 60 and that twenty-year term premium might be closer to $150 a month if purchased at age 62 (and still provide coverage close to life expectancy).

Expenses can dip when one spouse dies (e.g. subtract one Medicare Part B premium) so replacing even a part of the income is worthwhile. Social Security is a wonderful benefit. Using life insurance can ensure the surviving spouse continues their standard of living.

*The premium examples assume a male for the life insurance, because the man usually is the first to die, but there are first-to-die policies that pay off on whichever spouse dies first.

## Index Life Insurance

Life insurance provides unique benefits that are unmatched by other financial planning instruments. Only life insurance can provide an immediate estate. If others are economically dependent upon you, life insurance can provide the cash to take care of those needs. Life insurance may also be used to preserve an estate by providing liquid cash to pay estate settlement costs.

**Permanent Insurance**

There are really only two types of life insurance - insurance that does build cash value or insurance that does not build cash value, otherwise known as term insurance. Term insurance provides a specified benefit for a specified period of time; when the time is up the coverage expires. Permanent insurance is designed to provide lifetime protection. The premium paid covers the current costs of the insurance protection with the balance used to build up a cash value. This cash value helps to keep premiums level for the life of the policy or may even eliminate the need for premiums at some point down the road.

**Universal Life**

A popular type of permanent life insurance is Universal Life or UL. UL gives you more control and greater flexibility than traditional whole life insurance. UL permits you to increase or decrease the specified benefit if your situation changes (increases are usually subject to evidence of insurability) and premiums can be adjusted.

If your cash value growth is sufficient it may even be possible for you to quit paying premiums at some future date. Of course, if cash value growth is below expectations, you may need to continue paying at least the minimum required premium.

**Variable Universal Life**

Another type of permanent insurance is Variable Universal Life or VUL. Over time, stock investments have generated higher returns than fixed interest instruments. VUL uses part of the premium to cover the current costs of the insurance protection with the balance invested in subaccounts containing diverse portfolios of equities. It is hoped that these VUL accounts will increase cash value growth at a faster rate than typical fixed rate UL. One risk of VUL is that the accounts are fully exposed to the swings of the stock market. In a declining market cash values could decrease and additional premiums could be required.

**Indexed Universal Life**

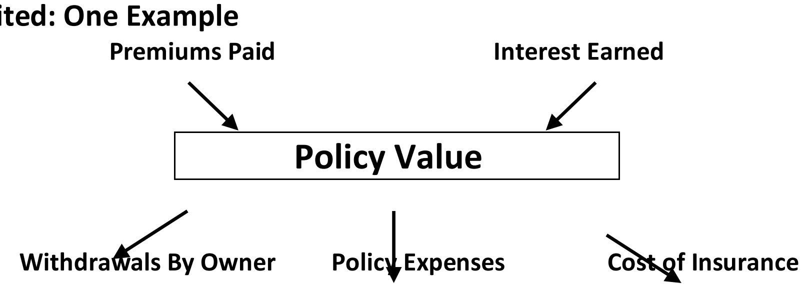
Indexed universal life or IUL shares the coverage and premium flexibility of other universal life policies, but the crediting of interest is unique. Typically, cash value increases are linked to positive changes in an equity index calculation. If the index calculation is higher at the end of the policy year, the interest credited to the cash value will reflect this and will benefit from a percentage of this increase.

What if the index goes down? If the index interest calculation stays flat or declines, the cash value does not go down due to the dip and may be credited with a minimum guaranteed interest rate. This is the attraction of IUL. When the index goes up, the policy owner earns interest from the increase, but if the index goes down, the policy will not lose interest earned from market losses.

It should be noted that the cash value will probably not reflect all of the increase in the index nor are dividends or capital gains included in the index calculation. Protecting the cash value from market loss costs money, and money used to protect the cash value means a reduction in maximum potential returns. Even so, IUL offers many features:

| **Index Universal Life Offers** | |
|---|---|
| Tax-deferral of interest earnings | Tax-deferral of interest earnings |
| *Equity indexed linked returns* | *Cash value protection against market declines* |
| Guaranteed minimum annual returns | Annual lock-in of earnings |
| *Premium flexibility* | *Cash value access* |
| Accumulation Fund to Supplement Retirement | Provide income through policy loans |

**How Interest Is Credited: One Example**



An IUL policy works like other universal life policies. Premium paid and interest earned are added to the policy value, and policy expenses and the cost of insurance are subtracted. The only difference is interest earnings are linked to the performance of an external index.

**Why Would I Consider IUL?**
Indexed Universal Life is for people that need life insurance and desire permanent protection. They want greater flexibility and greater control than is available with traditional insurance. IUL owners:

*Like the opportunity for higher potential interest with equity linked returns*

Don't like the volatility and risks of VUL

*Want the certainty of knowing they'll earn at least a minimum return in good times and bad*

IUL is available as a flexible premium personal insurance plan with premiums typically paid monthly or yearly. IUL is also available for estate planning purposes as survivorship life. And, IUL is available as a single premium insurance instrument.

**Advantage Compendium Ltd.** **(www.advantagecompendium.com)**
is led by Jack Marrion, providing research and consulting services to financial firms in a variety of areas. He has conducted a broad scope of research ranging from the behavioral economic reasons why consumers buy or don't buy financial products to future industry impact models. He also served as Director of Research for the National Association for Fixed Annuities and as a Research Fellow for Webster University.

His insights on the annuity and retirement income world have appeared in hundreds of publications including *Best's Review*, *Business Week, Kiplinger, The New York Times*, and *The Wall Street Journal*. He has thrice been asked to address the National Association of Insurance Commissioners, most recently about the evaluating volatility control indices and previously on the effects of aging on senior decision-making. *Best's Review* said he was likely to affect the course of the industry. *Best's Review* said he was likely to affect the course of the industry.

Prior to forming Advantage Compendium Dr. Marrion was president and owner of an NASD broker/dealer with offices in nine states, and formerly vice president of a life insurance company and previously vice president of an NYSE investment banking firm. He has a BBA from the University of Iowa, an MBA from the University of Missouri and his doctorate from Webster University in the area of cognitive bias in decision-making formed a new paradigm in the marketing and development of retirement income products. Neither Jack Marrion nor Advantage Compendium sell or endorse any financial product.