Sales Secrets: How to Sell Less Term and More Perm

Jeffrey Ranz, CFP, CLU

The description of this session promises you sales secrets and how to sell less term and more perm. So is there anyone today who wants to have more clients buying permanent insurance instead of term insurance?

Why do we want to sell more permanent insurance? Let's start with the old radio station WIIFM, What's In It For Me? Of course, the more premium our clients pay, the more money we make . . . that was easy. But I have come to learn through the years that MDRT qualifiers are ethical, upstanding businesspeople, people who have the clients' best interests at heart. The clients come *first*. So is it beneficial for clients to have permanent insurance?

I say a resounding yes. Why? Statistically we know that only a very small percentage of term life policies ever pay off. That is how the product is designed. That's why it is so inexpensive as compared to permanent insurance.

Statistically, 100 percent of in-force permanent policies pay off. That means that life insurance is there for a client's beneficiaries to do all the wonderful things that life insurance is designed to do—keep a roof over their heads, put food on the table, keep the lights on, send children to college, and more.

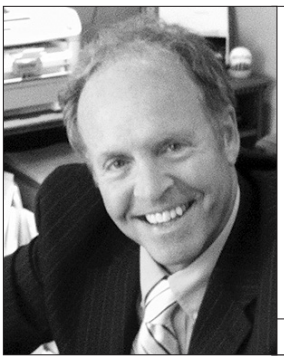
Permanent insurance is the only insurance that can keep these promises 100 percent of the time. Term cannot promise that. It gets us to the proverbial 20 yard line, to use a football analogy, but it fails most of the time to take us all the way to the end zone. So, bottom line, I say we do our clients a disservice if all they own is term insurance. In fact, more than that, we may well end up doing our clients' loved ones (beneficiaries) a disservice if all they own is term insurance because it may not be there when it is needed.

Now don't get me wrong; I sell a lot of term insurance. I believe in life insurance, and most of all, I believe that my clients and your clients should have as much life insurance as they can afford to buy when they are young and healthy. But we know that, most likely, what they can afford to buy when they are young and healthy is not as much as a simple needs analysis will determine that is actually required to meet all of the financial obligations that come due at someone's death.

So understand first and foremost that as a financial planner I truly believe *all* clients can benefit from some amount of term insurance and some amount of permanent insurance. In doing life insurance plans for the past 28 years, I have found very few clients who do not need at least some amount of permanent insurance and a larger amount of term life.

However, perhaps you, as I, have found over the years that many clients come in asking you right up front only for term life. Why? Well, the most likely explanation is that term is all they ever hear about in the media. So they come in asking for it.

For example, when people get a small cut, so many ask if anyone has a Band-Aid. They don't ask for an adhesive strip or what is called a plaster in some countries. No. Here in America, most people ask for a Band-Aid. But Band-Aid is a brand of adhesive strip or plaster. Or how about when people want a tissue. Here in America, they often may ask for a Kleenex. Again, this is a brand of so-called facial tissue. Both of these brands have done such a great job over the years getting their brand names emblazoned on our brains that we actually ask for the brand name product rather than the generic. It's kind of like that with term life.



Jeffrey Ranz, CFP, CLU

Ranz is an eight-year MDRT member who came to the insurance business like many others—after trying his hand a number of careers. He eventually followed his broadcasting dreams and did stints as an on-air personality, playing music on radio stations up and down the east coast. In later years, he hosted a financial advice talk show on a local Business Radio Network affiliate station and began his insurance career in 1984 with Prudential. He has won numerous awards during the time at his current company, and he regularly sells more than 150 lives yearly.

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I have many clients come in and ask for term . . . as if that is the generic name for life insurance in general. They don't know or haven't heard about any other. Well, actually, the truth be told, some come in and ask for some "whole term." Yeah, they really do!

When clients come in for an appointment and say right up front that they just want a quote on term, I respond by asking them just how long they want their term life insurance to last. You know what? They all say 90 percent of the time, "Until I die." I know by that response that they really do not understand what term is and how it works. This is the type of client who will truly benefit from the presentation I am about to share with you.

The key, as you will see, is to explain to our clients what term really is and what it is designed to do, and to show them the other options, specifically permanent insurance.

I first ask clients when they come in for life insurance if they are familiar with all their options and choices for life insurance, especially when they have come in just asking for term. They usually admit that they have forgotten or could use a refresher. I then say, "Well, would you mind if I spend a few minutes going over the different types of life insurance as a refresher?" They always breathe a sigh of relief and say, "Please."

Now for the rest of this presentation I am going to tell you word for word what I say. I will occasionally, for your benefit, make some side points, but will then go back to speaking just as I would speak to a client.

> Mr. and Mrs. Client, there are two basic types of life insurance. Let's call the first one "if" and the second one "when."
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> With an "if" type of policy you choose a period of time that you want to keep the insurance. Common periods of time are 10, 15, and 20 years. The insurance companies call this period of years a "term of years" or simply "term insurance."
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> So, for example, if you choose a 20-year term policy, it is designed so that if at any time during the 20 years you should pass away, the death benefit, as it is called, goes to your chosen beneficiaries. If, however, you survive the 20 years, for all intents and purposes, your money is gone and your insurance is gone.

Now, as a side note, it is important to clearly say that "for all intents and purposes the insurance is gone." Why? Well, as we know, after the initial guarantee period of a typical 20-year term, the premium jumps sky high and then goes up annually thereafter. It goes up so high that the only time people would even consider keeping the policy is if, for example, they had been diagnosed with a terminal illness and knew they were going to pass away in the next year. Otherwise, we know they are going to drop it as fast as they can. Most people don't need or want this long explanation, so simply saying that after the guarantee period (20 years, in my example) "for all intents and purposes the money is gone and the insurance is gone" is a fair and true statement that they can relate to and understand.

> Mr. and Mrs. Client, statistically only one in hundreds of these term policies pay off. The insurance company wins most of the time. That does not mean the product is bad or a rip-off. It is just how it works. You need to know a couple of things about the end of its term or guarantee period. First, you cannot extend the policy or renew it. If you want to have a new term policy, you have to start over again. But now, assuming you started with the 20-year term, you are 20 years older. Any idea what that will do to the rates you are paying? Yes, that's right, much more expensive. But there is another, even more severe pitfall: your health. As you may know, you have to qualify medically any time you want life insurance. So how will your health be 20 years from now? Do we typically get healthier as we get older? No, not usually. So for many people there can come a time, and there does come a time, when they cannot be approved to buy life insurance at all at any price. They simply don't qualify. Although we could approximate the rates you might have to pay to get another term policy 20 years from now, we have no idea if you could qualify for it at any price. Make sense? So you might be thinking at this point why you would even consider this kind of "if" insurance? Well, it does have a purpose. It is designed for someone who has the need for a lot of insurance for a specific or limited

period of time. For example, if you are in the child-raising years, you may need significantly more coverage now to protect your young family than you might 20 years from now. Or perhaps you have a mortgage that is on the higher side now but that will reduce over time and eventually be paid off. Those may be needs that could be filled with term.

Let's jump to the second type of insurance—"when" insurance. With a "when" type of policy, you will notice that unlike the term it does not have a specific end. We really don't know when you are going to die—one year from now, 10 years from now, 20 years from now. I have no idea. Not to ruin your day or give you bad news, but someday down the road you're not going to be here. This type of insurance is designed to be here when you are not. It also has an additional feature. It has a built-in savings account that begins building up cash right inside the policy or contract. What's the cash for, you may ask. For example, most financial planners such as I will tell you that it is advisable for you to have a liquid savings account containing at least three months of expenses so that in the event of an emergency or loss of a job or other unplanned event, you have a place to draw money from to keep things going. Right now, the interest rates on savings accounts are very low. So you can use the cash value of your life insurance as an emergency fund. It is ideal in that you can generally access the cash easily in a short amount of time. The interest rates are also higher than what the banks are paying. The only major drawback is that, depending on how much you put into the account, it may take a number of years before you ever have enough for it to act as an adequate emergency fund. Yet, eventually, it can accumulate enough cash for this purpose.

Another possible use for the cash is as a way of funding some college expenses for a child. Again, with the cost of college, it certainly won't pay for four years of college in most cases, but it is a help. And the younger your children and the more money you put in, the more there will be when it comes time for college.

If you don't use the cash for any of these purposes, it can also serve as a supplement to a retirement fund. Also, if we set the policy up this way to begin with, you may be able to stop making premium payments 20 or more years down the road. The interesting thing about the cash is that it is also tax deferred. Depending on the type of "when" policy and how you access the cash, you may be able to take out the money income tax free.

There are two basic types of this "when" insurance; you might have heard of one or both of these before. One is whole life and the other is universal life.

Whole life was actually the first type of insurance created. As the name implies, it was designed to last your whole life. The feature of whole life is a fixed premium or payment that never changes. A fixed death benefit that typically does not change—and the cash value itself—is predictable. In fact, there is a table of cash values in the back of each contract so that you will know how much the contract is worth in any given year. If you were to figure the return on investment, it is, give or take, about 3 percent. Sometimes there may be additional money in the form of dividends that can add to this cash, but they are not guaranteed. The only thing that is guaranteed is the cash value that is printed in the tables in the back of the contract.

Whole life is not *bad* insurance, but it is very expensive insurance. The reason is that insurance companies are taking all of the risk and giving you guarantees. For example, they don't really know how long you are going to live. Insurance companies use mortality tables that give them guidelines, but they don't really know your personal life expectancy. Further, insurance companies know their expenses will rise over time but don't really know how much. And the real unknown for insurance companies is how much money they will make or what will be their return on investment.

You see, insurance companies make most of their money by investing your money. Fortunately for us, they are prohibited from investing about more than 10 percent of their reserves in the stock market, or we might have been bailing out lots of them in 2008! The bulk of their money must be invested in government bonds, mortgages, and commercial real estate. So, in reality, although they have to give you a guaranteed return of, say, three percent, they don't know how much they can make. Because of all of these factors, the cost or premium for whole life is high. That's why when universal life was introduced in the 1980s many companies stopped selling whole life. Consumers found that they could get a universal life policy for 30 percent less than they were paying for whole life. That is what most companies sell today. So let's talk about universal life.

The real name for universal life is "flexible premium adjustable life." This is much more descriptive of the product. Let's break it down.

First, the payments or premiums are flexible. Of course, there is a minimum payment that has to be made to keep the policy going. And actually there are some maximum limits that have been set by the government. They are very high, so most people never hit those. The way it works is that you select how much you would like to start paying, and you can change or flex your payments over time to adjust to your changing financial circumstances. So, for example, you can start with a certain amount and then increase what you are paying over time, or you can reduce what you are paying as long as you did not start at the minimum. Also, you may even have the flexibility to skip some payments later.

The death benefit is adjustable. Subject to your being insurable, you can actually add layers of insurance to the same policy, or you can decrease the coverage over time as long as you meet the minimums of the policy.

The interest rate, unlike for whole life, is a market-driven interest rate that can change over time. So, for example, in a low-interest-rate environment as we have been in for some time, crediting rates are low. However, they are certainly much higher than you will find in your local bank. Currently they are ____.

I then tell clients what the rates are. I also let them know what the minimum crediting rate is, which, of course, varies by product. Then I continue.

Mr. and Mrs. Client, although there is a minimum interest rate, there is no maximum or cap. For example, when universal life was first created and introduced in the 1980s by brokerage company E.F. Hutton, it was paying 14 percent. But keep in mind that at that time mortgage rates were 16 percent and CDs were paying 11 percent or so. Since its inception, universal life has averaged 6 or 7 percent interest, but like all interest rates, they are the lowest they have ever been. So put it all in context.

So the way this all works is that you put your money into the internal savings account at the beginning of the month. It earns the current interest rate, whatever it may be at the time. Then at the end of the month the company pulls out what it needs to cover the death benefit, what is called the "mortality costs." The company also deducts from this account any expense fees, administrative costs, and so on. Whatever remains in this account at the end of the month now goes over to the beginning of the next month where you add in your next deposit, and the process repeats itself over and over. Consequently, when interest rates are high, this cash value can really grow quickly. It is still growing in a low interest rate environment, however at a much slower rate.

So at this point most of my clients ask me which one is better. Although, as an aside here, at least one in four at this point says, "I don't want the term insurance." I reply, "Keep

an open mind as the amount of insurance you need and your budget will be the determining factors as to what type you should have." Then I continue.

> Mr. and Mrs. Client, one type of insurance policy is not necessarily good, and one is not necessarily bad. There is no such thing as a bad product, but there are times when it has been used improperly. That would be like saying a hammer is good and a screwdriver is bad. The answer, of course, depends upon the job we are doing, right? For example, have you ever tried to hammer a nail in the wall with the end of a screwdriver? It works, but not very well since that is not what the tool was designed to do.
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> The term, or "if," insurance is designed to give you a large amount of insurance coverage for a very limited time at a very low cost. The permanent, or "when," insurance is designed to always be there. People who recognize that there will always be a need for some insurance and like the features of flexible payments and death benefits and the opportunity to perhaps even build up some cash choose the universal.
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> A further comparison might be to say that with the term insurance we are renting our insurance just like some people rent a home. Renting is short term, but the positive is that you typically pay much less. For example, when something breaks, you call the landlord and she or he has to have it fixed for you. The negative is that you build no equity. The day your lease is up you walk away with nothing.
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> When you own a home, just as when you own your life insurance, it is designed for the long term. True, your payments are higher, but the positive is you are also building equity. The day you sell a home, you usually, in most markets, make at least your money back or a profit. The same is true with permanent life insurance, depending on how long you keep it, how much you pay, and what kind of a permanent plan it is.

I ask clients, "Do you own or rent?" If they say they own, I ask why, and the response is usually that they will build equity. I say, "Then why would you rent your insurance?" They usually agree. I continue.

> Mr. and Mrs. Client, let's look at a financial example of the "if" versus "when" insurance, and then we will look at some actual numbers for you and your situation.
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> Let's say you purchase a certain amount of this "if," or term, insurance and you take the 20-year plan. Let's say you are paying $500 a year for whatever that will buy you at your age and health condition/rating class. Some simple math tells us that you will be paying $10,000 in total over the course of the 20 years to the insurance company. Mr. and Mrs. Client, here is your quiz. So how much do you get back at the end of the 20 years with this plan?

Ninety-nine percent of the time they get it right. The answer is "zero" or "nothing." I say, "Correct."

> Now let's look at the "when" insurance .Let's say you pay three times more for the "when" insurance. So instead of $500 a year, you are paying $1,500 a year.
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> Now it is important to understand that life insurance is a credit neutral transaction. We don't take a credit report or give a credit report. So with either contract, if you elect to quit at any point in time, you don't owe any money, and no report is made to any credit bureau. I always wonder why people say, "I want to think about it," as if choosing life insurance was a stressful decision. It's not like you bought a car, drove it off the lot, and then a week later came back to the dealer and asked if you could return it and not have to pay anything more on it. Or if you bought a house and a month later changed your mind, and you wanted to get out of the mortgage. With life insurance, if for some reason you made a mistake or changed your mind, you just simply don't pay the next premium,

> and it goes away and no one comes after you for the balance.

Believe it or not, many people just do not understand that. It is enlightening to them, and it also sets the stage for them *not* to use the objection "I want to think about it" as we have already covered and defused that possible block to a closed sale.

> So, Mr. and Mrs. Client, to make a fair comparison, since you can drop the coverage any time you want, let's say that you bought the universal life with the idea of keeping it forever, building the cash, and having the payment flexibility and all of the other benefits, but you changed your mind and decided to quit after 20 years.
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> So now for the same amount of coverage that you paid $10,000 for with the term insurance, you have paid $1,500 a year or $30,000 for 20 years of coverage with the universal. But here is the *big* difference. With the universal, you will get a check back for some, all, or in some cases *more* than what you put in. How much you get back is a function of how much you put in, interest rates, and so on. So let's just say that rates stay low and you only get back 90 percent after 20 years. You would get a check back in this example for $27,000. Now how much was your net cost for the universal life? That's right, only $3,000. So which is less expensive? The universal, of course.
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> But there is a catch. There's always a catch, right? The catch is cash flow. You had to have the $1,500 to be able to put some of the premium into savings and be able to have a return, whereas with the term you paid only $500.

In reality, most of my clients can benefit from some amount of both types of coverage, as I said at the outset. By offering both, we can tailor a plan that meets their needs but stays within their budget. At this point I will typically switch over to using the needs analysis from the LIFE Foundation to determine for the prospect how much insurance is needed.

Interestingly, the amount of coverage typically developed is 10 to 12 times income. In less complex cases or with less sophisticated clients or when time is a factor, using the 10 to 12 times income rule is not a bad substitute for the needs analysis.

Next, once the need is determined, I will run numbers for the clients. I start with the term to give them a starting point. I then run a universal ledger as well. I verbally tell them the monthly premiums because I don't believe in showing or giving illustrations at point of sale. It only prolongs the process and sometimes is confusing to people. I find that most people generally don't want to know every little detail about how something works or is built. They want to push the button and have it work. The same is true with life insurance. Too much detail is confusing and not really necessary in most cases.

Once the numbers are out on the table it becomes clear what is within the budget. If I feel that the budget is small and the need is great, I will recommend the term. It is not unusual for clients not to want the term. Usually, I have to reason with them to take the term for now. My feeling is that the best insurance is the insurance you can afford, that fills the need, and that is in force when you pass away. If clients start it and later drop it, no one wins. So matching the budget to the need is important. In fact, the only way, at this point, that I can convince them to take the term is to tell them about their upgrade privilege.

Most of us sell convertible term. That's all I sell in my company. The key is not to call it "conversion." Most people are happy with their religion. They are not interested in "converting." But most everyone likes the idea of an upgrade. So I tell them that if all they can afford now is the term, it is not the "dead end" that it appears to be. At first look, term seems as if you are not dead . . . it ends. But if they use the upgrade, I tell them that we can lock in their health and that sometime in the next few years, when finances allow, they can move some or all of it over to the permanent product. They usually agree at this point, and I take the term application. I promise I will contact them, which I do, and I have a pretty good rate of conversion in the future.

Many times, clients decide that they would rather have the permanent, or "when," insurance now, even if it is a lesser amount than the needs analysis dictates. The great Norman Levine at a recent MDRT shared with me one of his secrets for getting to the Top of the Table: "Give them what they want, not what they necessarily need." So to put that advice to use, even if I believe they need more

insurance, if they *want* the permanent now, that is what we should consider writing.

Almost 25 percent of the time I will wind up writing *two* applications—one for the permanent coverage they really *want* and an additional term life application to fill in the gap up to what they really *need* or should have.

Before I write the universal, however, I go into one more educational discussion about the functioning of UL.

> Mr. and Mrs. Client, it is important that you understand a little more about how universal life functions. There are two questions we should always ask about a universal life policy. One, how long will the coverage last, and two, how much cash will it build? The answer to these two questions depends upon two factors: one, which you control, and the other, which you don't.
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> The one you control is how much money you put in. Remember, the product is designed to allow for flexible contributions. So I recommend, if we can, to start with putting a little more in up front than the minimum. This will buy you greater flexibility later down the line to skip a payment and so on. The factor you don't control is interest rates. As rates start to rise again, at some point, you contract lasts longer and builds more cash, even if you don't change what you are depositing into the contract. If rates fall, you can prop up the contract by choosing to deposit more into the contract so that it will last the desired amount of years and/or build up the desired amount of cash.

I tell my clients that because things will change over time, the company sends them an annual statement. I then pull out one of my personal universal life statements and spend a few minutes going over how to read it.

I also mention that a low interest rate environment, contrary to what they might think, is a great time to buy universal life. I say that if the numbers work now in a low interest rate environment, they will look fantastic as interest rates come back to more historic norms. I tell them that my computer can tell exactly how long the contract will last and how much cash it will build based on a certain amount of money deposited at the current interest rates and making the assumption that those rates *never* change, which, of course, is not true. What my computer cannot predict is what it will look like in the future as interest rates change. So we need to keep an eye on the performance of the contract over time. I also say that I recommend that we sit down periodically and review the performance of the contract to make sure it is still meeting their requirements. This sets the expectation for periodic updates and client reviews. I also let them know at this time that we will mail out reminders to them to meet with me periodically. The application is then written.

I promised an easy way to explain mortgage insurance as well since many clients are often confused about how that works.

> Mr. and Mrs. Client, there are two types of mortgage insurance. One is PMI, or private mortgage insurance; the other is MPI, or mortgage protection insurance.
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> PMI is what is required by many lenders if you put down less than 20 percent of the purchase price of the house. This type of insurance does nothing for you or your family. It simply indemnifies or protects the bank if you should default on the loan. That's it. Unfortunately, you have to have it by the terms of many loans.
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> Mortgage protection insurance, on the other hand, is the type of insurance that can protect your family against the death or disability of the breadwinner. It can make the payments or pay off the mortgage. It is what enables families to keep their homes. It's too bad it is *not* required because it can actually do something for your family if something happens to you.
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> Years ago the most popular type of insurance used to pay off the mortgage in the event of the death of the breadwinner was called "decreasing term insurance." It was term insurance because, as we discussed before, it is temporary. It endures for a specific time. So if you had a 30-year mortgage loan, it would be set up to go for 30 years. It is decreasing term because the amount of the coverage, the death benefit, decreased over time. In fact, it was set up to pretty much decrease in step with the amortization

> schedule of the mortgage. The idea is that the right amount of money would be in the insurance to pay off the remaining balance of the mortgage in the event of the death of the insured breadwinner.

I then draw a diagram to illustrate this concept graphically. Then I continue.

> Mr. and Mrs. Client, the problem with this approach was twofold. First of all, although the amount of the insurance decreased with the mortgage, the cost of the contract stayed the same. Insurance companies typically need you to keep a contract seven years or so for it to be profitable to them. The problem is that a large number of these contracts were cancelled after only four or five years as clients realized they were paying the same but getting less for their money all the time. A further problem was that oftentimes the lending institution (mortgage company or bank) was named as beneficiary. With all of the bank consolidations and mergers and with the record number of refinanced mortgages, it was actually possible that the wrong beneficiary could be named, causing potential for a lot of issues as you can imagine.
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> So to rectify both problems, today in most instances we use what we call "level term insurance" to serve as mortgage life insurance. We talked about that previously in our discussion of "if" insurance.

At this point, many clients often say, "Oh well, then is this life insurance? Because I didn't want more life insurance necessarily. I wanted mortgage insurance." I explain that it is life insurance that is pegged to the amount of the mortgage.

Once I say that, they are okay with the whole concept, and now we are back to the *if* versus *when*; and *if* they can afford it, I typically will make a "when," or permanent, life sale rather than a term sale.

So as you can see from our session today, I believe that a *very* large part of our job in the life insurance business is not just traditional sales but *education*. And I believe strongly that once our prospects really understand and have been educated a bit on life insurance, they will typically choose the permanent coverage.