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## Selecting the Best Companies

This chapter is divided into three parts. The first is for those readers who have met at least once with one or more life insurance agents and who expect the agent(s) to bring them at least one policy proposal to look over and decide on. The second part is written specifically for new buyers of life insurance who must start entirely from scratch. If you have not been able to get any recommendations on life insurance agents from others, or if you have not found a good agent among those who were recommended to you, skip ahead to this second section, which begins on page 98.

### PREPARING FOR THE SECOND MEETING

A life insurance company must meet two essential criteria before you buy one of its policies: (1) it must be in excellent financial shape and (2) it should be able to come close to, meet or beat its illustrations year after year. In the case of a term policy, a life insurance company should keep all of your premiums at or under the amounts illustrated. In a whole life or universal life policy, it should yield a return equal to, nearly equal to or greater than the amount illustrated, year after year. Ideally, over the long term this return will equal or exceed the return on any good, strong investment vehicle.

More than 2,300 life insurance companies now exist in North America. Some have enjoyed total financial stability for over a century. Others are on the verge of insolvency. A great many are somewhere in between. (It is worth noting that the life insurance industry as a whole is in far better financial shape than the American banking system. In 1991, one highly reliable rating agency gave a top rating to only one American bank,

but dozens of life insurance companies received its highest rating.)

The stronger a life insurance company is financially, the more likely it is to live up to every one of the illustrations in its policies (rather than down to its guarantees). A first-rate company may even do better than its illustrations by charging lower premiums and/or providing higher cash values than it originally illustrated. The rest of this section shows you, step by step, how to find the ideal life insurance companies—those that are extremely likely to survive and thrive for many decades to come.

At your second (or, as the case may be, third) meeting with an agent, plan to do several things:

- Listen to the agent describe the financial plan he or she has designed for you. Ask questions or make corrections if necessary.
- Check each carrier's responses to the O'Neill Questions.
- Briefly look over the policy proposals and illustrations the agent has brought you. Again, ask questions or make changes, corrections or suggestions as necessary.

Do not *plan* to make a final decision on any proposal, or fill out a policy application, at this second meeting. However, if a proposal the agent shows you meets your needs, has a reasonable price and sounds and feels right overall—and if you feel good about the agent—then it's fine to say yes at this meeting and fill out a policy application. (Keep in mind that once your policy arrives, you will have at least ten days to look it over and return it if you wish, no questions asked, for a full refund.)

If no one insurance plan seems right, however, or if you have any concerns or doubts, don't make a final

decision at this meeting. Wait until after you have had a chance to thoroughly and privately consider each proposal and the agent. After you have made your choice, schedule one more meeting with the agent you've selected; at this meeting, the agent will fill out a policy application for you.

The more policy proposals an agent brings you or the more detailed a financial plan he or she has designed for you, the longer your second meeting will run. Allow at least 90 minutes to two hours; if possible, keep a third hour open just in case you need it. If you must cut the meeting short before all of your business is done, schedule a follow-up session.

Once again, let me stress the importance of not hurrying through the process of buying life insurance. Remember, you're buying something as important as your home—and, next to your home, probably the one item you will spend the most money on over your lifetime. It's crucial that you take the time to examine each proposal thoroughly. If necessary, ask questions. The few extra hours of time that you invest can easily translate into thousands and thousands of saved dollars over your lifetime.

The ideal seating arrangement for your second meeting is side-by-side at a dining room table or large desk, so that the two of you can go over printed material together. Your first item of business should be the overall financial plan the agent has devised for you. Ask him or her to go through it in detail; as necessary, ask for explanation or clarification.

It is essential that you understand and agree to this financial plan before you look at any specific proposals in detail. If the overall plan does not make sense to you or seems too expensive, say so, and ask the agent to explain why he or she feels it is appropriate for you. *Until you and the agent have agreed on an overall financial strategy, there is little point in looking at specific proposals.* If you simply do not like or don't agree with the overall plan the agent presents to you, explain precisely what's wrong with it and send him or her back to the drawing board. Either make a new appointment with the agent, or ask him or her to prepare a revised financial plan for you.

However, there's a good chance that the agent will have prepared and brought at least one alternative plan. He or she may even present two or three different overall financial strategies to you as options; the agent will make recommendations and suggestions but will ask and expect you to make the final decision. This is often what I do, and it almost always works quite well.

Once you and your agent have agreed on an overall plan, it's time to evaluate the companies whose policy proposals he or she has brought for you to consider. The way to do this is to look at the answers to the O'Neill Questions. Before you look at any of the proposals the agent has brought, ask to see each company's responses to these questions. If for any reason

the agent does not have answers to all of the O'Neill Questions from a certain life insurance company—in writing and signed by an actuary—do not consider that company's proposal. Tell the agent, firmly, something like this: "I really need the answers to all these questions in order to make an informed decision, and they need to be in writing and signed by an actuary. If an insurance company actuary won't answer all of the questions or won't put them in writing and sign their name to them, then find me a policy from a different company." If need be, reschedule your appointment to give the agent time to get complete answers and/or to design a policy from a different carrier.

It may well be that the agent tried to get complete answers but could not. He or she may have passed on the O'Neill Questions to an insurance company actuary—only to have been put off, given incomplete answers, given answers orally instead of in writing, or outright ignored. However, this is precisely why insisting on complete answers is so important: The O'Neill Questions are the test that separates the first-rate life insurance companies from the less-than-first-rate ones. *Any financially strong, stable life insurance company with integrity will be happy to provide complete written answers to all the O'Neill Questions, signed by a company actuary. A company that is unwilling to provide all of these answers in writing has something to hide—and is hiding it.* It probably is hiding the fact that its illustrations are unrealistic and that you will wind up either paying more or getting less than those illustrations indicate. It may also be trying to hide the fact that the company is financially unstable, and perhaps even in serious trouble.

Some top-rate agents automatically get the O'Neill Questions answered by actuaries at a variety of life insurance companies each year and then keep these responses on file to show potential clients on request. This is fine, of course, but make sure that the answers and ratings the agent shows you are current and that the responses are signed by a company actuary. Keep in mind that providing complete answers to these questions means providing you and your agent with ratings from reliable, well-respected rating agencies and with both sets of requested supplements.

If an agent arrives for the second appointment without any responses to the O'Neill Questions at all, end the meeting immediately and explain in no uncertain terms that you will not discuss life insurance any further until he or she brings you complete answers. It may well be that this agent has promised you anything you asked for just to get a foot in the door and is interested only in earning a commission, not in serving you. But these scenarios are all highly unlikely. Chances are that the agent has come supplied with complete answers to all the questions from each carrier whose proposal(s) he or she has brought to show you.

Ask to see all the companies' answers together. First, check to see that each set of responses is signed

Figure 5.1 Carriers' Response Chart

Company	Questions 1-7	Questions 8-10	Question 11	Ratings
_____	_____	_____	_____	_____
_____	_____	_____	_____	_____
_____	_____	_____	_____	_____
_____	_____	_____	_____	_____
_____	_____	_____	_____	_____
_____	_____	_____	_____	_____
_____	_____	_____	_____	_____
_____	_____	_____	_____	_____
_____	_____	_____	_____	_____
_____	_____	_____	_____	_____

by an insurance company actuary. Then look at the answers themselves; they may have been attractively typed up, or the actuary may have simply written "Y" or "N" next to each question on the photocopied page you gave your agent. Either of these methods—or anything in between—is fine. Responsiveness is your concern, not attractiveness.

To keep track of each company's responses—and to quickly and easily eliminate any carrier that is less than strong, stable and reliable—make up a simple chart, such as the one in Figure 5.1. Filling in this chart is really quite simple. Put the name of the insurance carrier in the left-hand column. Under "Questions 1-7," put the total number of yes and no responses to these questions (e.g., "6Y, 1N"). Under "Questions 8-10," write the total number of yes and no answers for these three questions. Under "Question 11," write down the actuary's answer—either yes or no. Finally, under "Ratings," note the rating agencies *other than A. M. Best* that have given ratings to the company and the letter grades each agency has awarded it. You can now use this chart to quickly eliminate any less than first-rate insurance company. *If an insurance company does not pass this chart's test, do not consider a policy from it. Here is what you do:*

First, look at the column headed "Question 11." If any insurance company has answered no to this question, immediately cross it off your list. An A+ or A++ rating from A. M. Best is an absolute minimum credential for *any* life insurance company. Plenty of companies earn A+ or A++ ratings (usually over 200 do each year); there is absolutely no good reason to buy a policy from any carrier that has a lower rating. *Do not let an agent try to talk you into reconsidering; for your own financial safety, insist on seeing a policy from a different company—one with an A+ or A++ rating.* (Years ago, an A+ rating from Best automatically meant a life

insurance company was strong, stable and reliable. Sadly, this is no longer the case. In the 1990s, an A+ or even A++ rating alone does not always indicate a top-of-the-line carrier. In fact, some carriers formerly holding A+ ratings from A. M. Best have become insolvent in recent years. However, less than an A+ rating from A. M. Best continues to be a reliable indicator that an insurance company is less than first-rate—and is best avoided.) It is also important to consider the ratings of other agencies, as we'll see shortly.

Next, look at the columns headed "Questions 1-7" and "Questions 8-10." Ideally, an insurance company should answer no to all of the first seven questions and yes to all of the next three. However, a carrier can get less than a perfect score and still be worth working with. If a company has given undesirable answers to *one or two* of these ten questions, consider that company's policy; but if more than two questions have undesirable answers, cross the company off your list—neither the company nor its proposal illustrations are sufficiently reliable.

Finally, look at the ratings column. The company should be rated by at least two of four reliable rating agencies such as Standard & Poor's, Moody's, A.M. Best or Duff & Phelps. Furthermore, depending on the rating system employed by the agency, the ratings the company receives *must* be as follows:

Standard & Poor's (S&P)	AAA or AA
Moody's	Aaa, Aa or A
Duff & Phelps	AAA, AA+, AA or AA-

If an insurance company has a lower rating from any reliable agency—or if it is not rated at all by two or more of the three—cross it off your list; it's not worth dealing with. And ignore *any* rating from an agency not listed above; Standard & Poor's, Moody's, Duff &



Phelps and A. M. Best are the only four agencies whose ratings are widely respected in the industry.

I don't want to create the impression that you should become addicted to what rating agencies say. Ratings are only one part of the total picture. But ratings *can* be used as a quick and reliable way of eliminating those insurance carriers that are not strong and stable enough to be trusted with your money.

Let me emphasize yet again that you don't need to understand any of the O'Neill Questions. It is enough to simply note which ones receive "yes" answers and which ones receive "no" answers. Nor do you need to understand either of the sets of supplements that each insurance company must provide. *It is enough that an insurance company has provided these supplements, because it means that the company has nothing to hide or be ashamed of.* On the other hand, a company that is unwilling to provide you and your agent with the supplements is afraid that you'll find out just how unrealistic its policy illustrations are—or just how financially unstable the company is.

Once you have crossed off the unsuitable companies, those that remain on your list are the companies whose policy proposals you are now, at last, ready to look at. If all of the companies whose proposals an agent brings you have been crossed off your list (highly unlikely), then the agent has not done his or her job; this agent has not carefully selected both the right policies *and* the right company or companies for you. Politely thank the agent for his or her time and end the meeting. You not only need a better insurance company, you need a different agent.

At this point, you're ready for the final stage of your decision-making process: selecting a specific policy. In Chapter 6, "Making Your Decision," I'll show you exactly what to look for and think about each step of the way.

## GETTING STARTED WITHOUT RECOMMENDATIONS

If you have already narrowed the field to one or more life insurance agents and one or more policy proposals, the rest of this chapter does not apply to you. Please skip this section and go straight to Chapter 6.

This section is for life insurance buyers who are unable to locate one or more good agents based on the recommendations of others. This may be because no one you trust can recommend a good life insurance agent. Or perhaps you are new to the area and have no one to ask. Or maybe you did get a few recommenda-

tions, but they didn't lead you to a service-oriented agent whom you feel you can trust.

Your best bet in any of these cases is to look for first-rate life insurance agents by locating some potentially first-rate life insurance companies. The reason for this is simple: As a *general* rule, the best agents tend to sell insurance products from the best companies. And remember, most of the best agents know about and can sell policies from many different life insurance companies, even though they may have an association with one, two or several companies in particular. With a small amount of legwork—perhaps an hour's worth—you can come up with a list of insurance companies that are *likely* to be worth buying a policy from. You can do this by checking the companies' current ratings.

Four major agencies—A. M. Best, Standard & Poor's, Moody's and Duff & Phelps—assign ratings to life insurance companies. These ratings reflect the financial stability of the companies and, to a somewhat lesser degree, the reliability of their policy illustrations. Speaking very generally, the better the rating, the better the company. Unfortunately, ratings do not tell the whole story; if they did, there would be no need for the O'Neill Questions or for any research except a quick ratings check. Still, if you don't have good recommendations from others to work with, checking the ratings can be an excellent place to start. (For a complete discussion of ratings and rating agencies, see the previous section of this chapter.)

Most large libraries, and many small ones as well, carry reference books that list the current ratings of life insurance companies. Your best bet is the downtown library in a major city or the library at a large university. However, you may also find the right resources at a suburban or city branch library. Call the library and ask for the reference librarian who deals with business. Ask the reference librarian if the library has materials that rate life insurance companies. Mention that you are looking for the following four ratings: A. M. Best, Standard & Poor's, Moody's and Duff & Phelps. (Ignore ratings from any other agency; these four are the only widely accepted agencies in the industry.) Also mention that you need the most recent edition of each agency's ratings. This is important because insurance companies are rerated every year, and some companies' ratings can and do change from year to year. If the library does not have the most recent edition of an agency's ratings, don't use an outdated edition; instead, check elsewhere for an up-to-date one. Once you've located these resources, make a trip to the library.

At minimum, you will need to consult the A. M. Best ratings *and* the ratings of at least two other agencies. If the library carries all four agencies' ratings,



nies that have passed your initial test. Before you leave the library, write down the telephone number for the headquarters of each of these companies. These numbers will be available in any rating agency's list of life insurance companies and their ratings.

The next step is to call the marketing department at the headquarters of half a dozen of these companies. Tell the marketing person who answers, "I'm interested in buying life insurance, and I'm seriously considering buying a policy from your company. Could you give the names and phone numbers of your best and most service-oriented agents in my area?" At best, the marketing person will be familiar with some or all of the company's agents in your region and will be able to make some excellent recommendations; at worst, he or she will simply give you some names and phone numbers from a list of agents in your area who sell the company's policies. Either way, though, you'll have some potentially useful leads.

Once you have some phone numbers to call, follow the guidelines in Chapter 2 on locating a good insurance agent, just as if you'd gotten recommendations from friends and other people you trust. Then proceed with the steps in the chapters that follow, including the first part of this chapter.

It's important to remember that your purpose in coming up with this list of companies is simply to have a place to start. Your primary purpose at first is *not* to find the best insurance company but to locate a first-class agent. Once you hook up with a good agent, forget about what company first referred you to him or her. The agent's job will be to bring you proposals for the best, most appropriate and most reasonably priced policies that he or she can find from strong and reliable insurance companies. In fact, none of the proposals the agent ultimately brings you may be from the company that originally referred you to him or her. This is just fine.

Let me repeat a warning from Chapter 2: You want an agent who has the ability to sell insurance products from a variety of companies. Even if an insurance

company has passed your ratings test with flying colors, avoid buying a policy from that company's agent if he or she represents only that company and no others. To truly choose the best life insurance plan, you need to be given a choice of companies as well as a choice of policies. Also be careful to weed out agents who sell insurance other than life, medical and disability. You want a life insurance (or life/medical/disability) specialist, not a generalist who sells many different types of insurance (auto, liability, etc.) but whose knowledge of any one type is limited.

## TELEPHONE HOT LINES

At least one telephone hot-line service now provides ratings of some insurance companies from certain rating agencies. More such services will probably spring up in the next few years. These services can be somewhat useful, provided they are free. (If they aren't, don't use them; you can get all the information you need quickly and at no charge from a decent library.)

However, these information lines typically have serious limitations. For example, they may provide the current ratings of only a very small number of life insurance companies. (The service I'm familiar with provides ratings for only the ten largest carriers.) They may provide ratings from only one or two rating agencies. Most troublesome of all, however, is that many of these services may compare prices as well as ratings. *These price comparisons are vast oversimplifications that may be seriously misleading.* They may not take into account differing policy features, the age and state of health of the policy applicant, the financial strength of the companies or the reliability of any company's illustrations. So while you should feel free to consult toll-free services for rating information, ignore whatever other comparisons they may provide.