

# 4<sup>th</sup> Annual Trust-Owned Life Insurance (TOLI) Compliance and Best Practices Survey -August 31, 2010



**1. The Prudent Investor Act requires ILIT Trustees to set expectations as to the performance of Trust-Owned Life Insurance (TOLI) holdings that are appropriate and reasonable in relation to the assets, the purposes of the trust, and the skills of the trustee. For the purposes of setting such reasonable expectations as to the performance of TOLI holdings, do you generally consider the rate of return on TOLI holdings to be ... (check only one)**

Answer Options	Response Percent
... the rate of return calculated on the death benefit received versus premiums paid.	38.6%
... the rate of return on invested assets underlying policy cash values which are generally used to cover underlying cost of insurance charges (COIs), fixed administration expenses (FAEs), cash-value-based "wrap fees" (e.g., M&Es) and premium loads.	47.7%
... Other (please specify)	13.6%

**2. Section 7 of UPIA specifically requires ILIT Trustees to "only incur costs that are appropriate and reasonable in relation to the assets, the purposes of the trust, and the skills of the trustee". For the purposes of justifying policy expenses as reasonable and appropriate, do you generally consider the costs of a TOLI holding to be ... (check only one)**

Answer Options	Response Percent
... the premium.	20.5%
... the policy expenses as to cost of insurance charges (COIs), fixed administration expenses (FAEs), cash-value-based "wrap fees" (e.g., M&Es) and premium loads underlying and generally used to compute TOLI premiums.	70.5%
... Other (please specify)	9.1%

**3. The duty to monitor TOLI holdings is generally comprised of: accounting for and reporting on premiums, expenses, earnings, cash values and death benefits, reconciling originally projected policy pricing against actual premiums, expenses, earnings, cash values and death benefits, requesting inforce illustrations of hypothetical policy values, testing policy funding for premature lapse based on currently planned premiums, and monitoring the financial strength and claims paying ability ratings (i.e., the default risk) of the insurer. Please indicate below whether such monitoring functions are being performed internally, or outsourced to a third-party, or are not currently in compliance:**

Answer Options	Response Percent
... Monitoring performed internally.	41.9%
... Monitoring outsourced to a third-party administrator (TPA).	16.3%
... Not currently monitoring TOLI holdings.	25.6%
... Other	16.3%

**4. The duty to monitor TOLI holdings is generally comprised of accounting for and reporting on current premiums, expenses, earnings, cash values and death benefits, reconciling originally projected policy pricing against actual premiums, expenses, earnings, cash values and death benefits, requesting inforce illustrations of hypothetical policy values, testing policy funding for premature lapse based on currently planned premiums, and monitoring the financial strength and claims paying ability ratings (i.e., the default risk) of the insurer. Please indicate below the third-party-administrator(s) to which such monitoring functions are being outsourced: (select all that apply)**

Answer Options	Response Percent
... Advicon/Investment Scorecard	42.9%
... Resource Insurance Consultants (RIC)	42.9%
... TrustBuilder	0.0%
... ILIT Analyzer	0.0%
... Other	14.3%

**5. The duty to investigate seeks to ascertain the relative appropriateness of TOLI holdings as they relate to both the trust objective and peer group products (i.e., are expected earnings reasonable for the appropriate trust asset allocation and are TOLI expenses reasonable for the trust objective and relative to peer group product holdings?). Please indicate below whether such investigation functions are being performed internally, or outsourced to a third-party, or are not currently in compliance:**

Answer Options	Response Percent
... Investigation performed internally by comparing premiums, cash values and death benefits from inforce illustrations of current TOLI holdings to illustrations of hypothetical policy values for peer group products.	25.0%
... Investigation expected from the agent/broker who sold/is servicing the policy.	25.0%
... Investigation outsourced to third-party-administrator (TPA).	2.5%
... Investigation includes comparison of cost of insurance charges (COIs), fixed administration expenses (FAEs), cash value-based "wrap fees" (e.g., M&Es), premium loads and the performance of invested assets underlying policy cash values to industry benchmarks and best-available rates and terms.	15.0%
... Not currently investigating whether current TOLI expenses are justified and/or whether expected performance of invested assets underlying policy cash values is reasonable.	17.5%
... Other (please specify)	15.0%

**6. The duty to investigate seeks to ascertain the relative appropriateness of TOLI holdings as they relate to both the trust objective and peer group products (i.e., are expected earnings reasonable for the trust asset allocation and are TOLI expenses reasonable for the trust objective and relative to peer group product holdings?). Please indicate below the number of peer group products typically included in the investigation of appropriateness of current TOLI holdings: (check only one)**

Answer Options	Response Percent
... Between 1 and 5 peer group products. 50.0%	52.6%
... Between 6 and 10 peer group products. 50.0%	36.8%
... Between 11 and 25 peer group products. 0.0%	10.5%
... Between 26 and 50 peer group products.	0.0%

**7. The duty to investigate seeks to ascertain the relative appropriateness of TOLI holdings as they relate to both the trust objective and peer group products (i.e., are expected earnings reasonable for the trust asset allocation and are TOLI expenses reasonable for the trust objective and relative to peer group product holdings?). Please indicate below the third-party administrator(s) to which such investigation functions are being outsourced: (select all that apply)**

Answer Options	Response Percent
... Advicon/Investment Scorecard	100.0%
... Resource Insurance Consultants (RIC)	0.0%
... TrustBuilder	0.0%
... Ward Fortress ILIT Analyzer	0.0%
... Other (please specify)	0.0%

**8. The duty to investigate seeks to ascertain the relative appropriateness of TOLI holdings as they relate to both the trust objective and peer group products (i.e., are expected earnings reasonable for the trust asset allocation and are TOLI expenses reasonable for the trust objective and relative to peer group product holdings?). Please indicate below the life insurance product research service(s) included in such investigation of appropriateness for current TOLI holdings: (select all that apply)**

Answer Options	Response Percent
... LifeLink/EBIX	16.7%
... Morningstar	16.7%
... TheInsuranceAdvisor.com (TIA)	50.0%
... Other (please specify)	33.3%

**9. The duty to manage TOLI holdings is generally comprised of 1) adjusting premiums to support expected policy expenses, 2) adjusting death benefits such that expected policy expenses are supported by currently planned premiums, 3) changing cash value asset allocations to achieve target earnings rates while minimizing risk/volatility, 4) selling existing holdings on the life settlement secondary market for more than the cost to repurchase on the open market and/or exchanging holdings with poor performance and/or high expenses in favor of new TOLI issue(s) with superior performance and/or low expenses, and 5) wait and see. Please indicate below whether such management functions are being performed internally, or outsourcing to a “Prudent Delegatee”, or are not currently in compliance: (check only one)**

Answer Options	Response Percent
... Management performed internally.	36.8%
... Management formally delegated to approved Investment/Insurance Advisor under a UPIA Compliance Prudent Delegation Agreement	13.2%
... Agent/Broker who sold/is servicing the policy is expected to manage.	26.3%
... Not currently managing TOLI holdings	13.2%
... Other (please specify)	10.5%

**10. The Prudent Investor Act makes no distinction in the standard of care between investment trusts and ILITs. As such, while it is common for trustees of investment trusts to use written Investment Policy Statements (IPS), which of the following do you currently have for your ILIT? (check only one):**

Answer Options	Response Percent
... General Policy Statement of Suitable TOLI Holdings (e.g., holdings issued by insurers ranked in the top decile/top 10% for financial strength and claims paying ability, policy cash values allocations of no more than 10% to emerging markets, etc.)	21.6%
... TOLI Investment Policy Statement (TIPS) defining trust objectives, expected holding period, risk tolerance/asset allocation, etc.	18.9%
... Prudent Delegation Agreement clearly defining the relationship between the ILIT Trustee and the Insurance Advisor Delegatee.	8.1%
... All of the above	5.4%
... None of the above	37.8%
... Other (please specify)	8.1%