

ROP Term Marketing Advantages

In November 2005 Fidelity & Guaranty Life introduced the first Return of Premium (ROP) Term Product to the brokerage Market. The product has been extremely successful for those companies that have added it to their portfolio. Early success has centered on companies whose agents have used it in the mortgage protection market.

There are a number of other markets that make this product an attractive alternative to permanent plans. We will explore different markets for ROP Term that may lead to additional sales.

Business Owner Market:

Business owners have several needs for ROP Term: Buy/Sells and Keyman Coverage.

Most Buy/Sell agreements usually provide for a definite time period, 15-30 years, and are triggered by a specific event, e.g., death of an owner, sale of the company, or sale of interest by one or more owners. ROP Term provides an inexpensive way to cover the business owners and returns all premiums in the future. Premiums returned will either go to the corporation or the other owner(s) depending on whether the agreement was a stock redemption or a cross purchase.

Another great use for ROP Term is Keyman coverage. The company owns the policy. Most small businesses usually are dependant upon one or two key individuals for the success of the company. The success may be attributed to the owner or a top sales person with key accounts. Whatever the situation, the company depends on this keyman. If the keyman died suddenly, the business would suffer. Keyman insurance provides dollars to replace the key employee, example: John Smith, age 40, is a key employee for the ABC Company. Should John die unexpectedly, the company would suffer a financial impact until he was replaced. ABC buys a 20 year ROP Term plan on John Smith. Total premiums are \$890 per year on \$500,000 death benefit. The ROP portion adds \$385 to the premium and allows for a full refund of \$17,800 at the end of 20 years. Had the company invested the \$385 per year to equal the premium refund, they would need to earn an after tax annual rate of return of 7.44%. All premiums are returned tax free. At the end of the policy, John Smith is still alive and working for ABC Company. The company could collect the premiums on the policy, buy a paid up policy on John's life, convert the policy to a permanent plan or bonus the premiums to John Smith. Whatever choice they make the company has protected itself from a potential financial disaster.

Professional Market:

Most doctors, attorneys and young professionals, ages 30 to 45, know they need insurance coverage to protect them while they are working, providing for a family, saving for a retirement or paying for a college education. Typically, the coverage that has been selected is the cheapest term policy they can find. However, with an ROP term they can still find affordable coverage and at the end of the term, have all premiums returned to them, usually at or near their retirement. Some companies even allow for conversion until the end of the term coverage or age 70, whichever ever comes first. This allows for even more flexibility of coverage. Example, a 35 year old male best class could get a \$1,000,000 30 year ROP policy for \$1,430 per year. The portion of premium allocated for Return of Premium is \$300 and allows for a full refund of \$42,900. Had the client invested the \$300 per year to equal the premium refund he would need to earn an after-tax annual rate of return of 8.80%.

Another ideal opportunity for you to market ROP term is to recently divorced fathers. Most divorce decrees stipulate that life insurance must be provided until the children have completed either high school or college. It would be nice for the parent providing coverage to get all premiums returned once his children are no longer being supported by him. While you are working in the professional market with attorneys specializing in family law, show them and their clients an alternative to paying term premiums and being left with nothing but cancelled checks in the end. Whatever the sales situation, ROP Term is finding more and more uses to solutions that have been typically provided by cheap term or permanent plans.

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