

Specialty Benefits and Opportunities in the Foreign Nationals Market

The specialty benefits market continues to provide opportunities for carriers looking to write life insurance policies for company executives and high-net-worth individuals. Foreign Nationals is a growing specialty benefits market due to the rapid increase in U.S. assets held by global investors and the growth of the foreign executive base. As carriers look to capture opportunities in the Foreign Nationals market, they seek the support of reinsurers for risk transfer and advisory expertise in navigating the unique risks associated with the market.

Overview of Specialty Benefits

The **specialty benefits life insurance market** continues to serve as a source of growth for life insurers engaging prospective executives and all types of employers from small business owners to large corporations.

According to recent studies, employers are increasingly seeking new avenues to retain top performers; in fact, over half of employers that provide non-qualified retirement programs said they were “**critical**” or “**very important**” in retaining executive level talent. In addition, employers are shifting compensation investments to higher performers widening the gaps between highest and lowest performers.¹ Life insurance is now commonly used as a vehicle for companies:

1. to attract and retain leadership; and
2. to protect companies from the loss of key leaders and business owners by providing cash to fund succession planning and business obligations.

Specialty benefits are commonly provided to company leadership in the form of life insurance products. Universal Life, Variable Universal Life, and Indexed Universal Life are most prevalent in the market due to their flexible premiums that align with performance-based variable compensation structures, followed by Whole Life policies that offer guaranteed death benefits, level premiums and the accumulation of a cash value, which is used to fund benefits.

Specialty benefits may be administered in a number of ways. The most common arrangements are as follows:

- **Section 162 Bonus:** Under this arrangement the employee both owns the life insurance policy provided by the employer and names the death benefit beneficiary. Bonuses are used to pay insurance premiums and are tax-deductible for the employer. Variations of these plans exist with a wide range of vesting and company-matching structures.
 - *Example:* Company A deposits \$50k in premiums for exceptional work into a UL policy owned by an executive. The premiums are deducted from Company A's tax return and reported as income on the executive's tax return. The executive is fully vested in the plan and can utilize it similarly to an individually-purchased policy, including executing withdrawals, policy loans, etc. At death, the executive's chosen beneficiary receives the death benefit.
- **Split Dollar:** Under these plans life insurance premiums, cash values, and death benefits are split between the employee and the employer; often the employer receives death benefits equal to premiums paid and the employee's beneficiary receives the remaining benefit.
 - *Example:* Company B and an executive agree to a split dollar UL plan. The executive owns the policy and agrees that Company B pays the premium and is entitled to the premiums plus interest at death. At death, Company B receives a value equal to the accumulated premiums of the policy plus interest and the employee's beneficiary receives the remaining death benefit tax free.
- **Supplemental Executive Retirement Plan (SERP):** Supplemental retirement plans provide additional benefits to executives above 401Ks; these benefits are funded from the life insurance policy cash value or death benefits; the employer owns the life insurance policy.
 - *Example:* Company C takes out a UL life insurance policy on an executive for a SERP plan. Company C inputs \$20k a year in premium credited at 5% interest. The executive is fully vested in the plan, and at retirement, Company C pays an annual agreed upon income that is funded by the cash value of the policy. This supplements the executive's 401k plan which alone is not enough to replace the highly paid executive's income upon retirement.

Market Landscape

With this context on specialty benefits offerings, we now look at the market landscape. A number of external factors are currently impacting the specialty benefits market eliciting near-term action from life insurance direct carriers:

External Factors	Carrier Implications
Limited use of long-term incentive plans <ul style="list-style-type: none"> 40.5% of private companies with over \$100M in revenue and 65.6% of private companies with under \$50M in revenue do not have formal long-term incentive plans² 	<ul style="list-style-type: none"> There is a large, untapped market for specialty benefits among private companies looking to provide long-term incentives to key employees
Favorable tax regulation <ul style="list-style-type: none"> 2018 Tax Act reduced the corporate tax rate Elimination of the Corporate Alternative Minimum tax (AMT) which included tax on death benefit proceeds above cost³ 	<ul style="list-style-type: none"> Incentive to pre-fund benefits while the tax rate is low Attractiveness of life insurance as a highly liquid accumulation vehicle Higher anticipated net proceeds from death benefits due to elimination of the AMT
Expanding asset footprint among global investors <ul style="list-style-type: none"> Global millionaires (non-U.S.) and ultra-high-net-worth individuals have tripled over the past 20 years, far outpacing the growth of U.S.-based millionaires⁴ Foreign nationals living outside of the U.S. purchase greater than \$100 billion of U.S. residential real estate annually⁴ 	<ul style="list-style-type: none"> In a global market, this implies significant foreign investment in U.S. assets Emerging avenues exist to capture specialty benefits opportunities from foreign investors with U.S. assets
Rapid increase in the foreign executive base <ul style="list-style-type: none"> The global executive and leadership consulting profession has grown at an annualized 7.5% from 2012 to 2017⁵ 	<ul style="list-style-type: none"> Significant opportunities have emerged for specialty benefits carriers to engage foreign executives

Many factors now support a favorable market for specialty benefits and opportunities for carriers to create competitive advantage by engaging foreign nationals with significant assets in the U.S. The potential size of this market is large with 7% annualized growth in global wealth held by high-net-worth individuals (HNWI) wealth and a 2018 base of \$68.1T.⁶

Foreign Nationals Coverage

Foreign nationals can be either resident aliens (a foreign person who is a permanent resident of the U.S. but does not have citizenship—i.e., green card holder) or non-residents (a foreign person who has not passed the green card test or the Internal Revenue Service's substantial presence test). A segment of this market is non-resident company executives and high-net-worth individuals with assets in the U.S. These high-net-worth non-residents face challenges since any U.S. income is subject to taxation and any U.S.-held assets are subject to estate taxes – this can create situations in which beneficiaries must pay estate taxes of up to 40% on short notice, as estate tax exemption is only \$60,000. Foreign Nationals life insurance can provide these beneficiaries with relief; non-residents avoid taxation on U.S.-held life insurance and can use the proceeds from insurance benefits to pay estate taxes or help with business succession planning.

Other reasons for foreign nationals to purchase life insurance in the U.S. are the lower costs, preferred currency and a safe jurisdiction.⁷ It should be noted that insurance carriers offer Foreign Nationals life insurance not only to foreign nationals with assets in the U.S. but also to U.S. citizens abroad. This paper focuses on non-U.S. foreign nationals with assets in the U.S.

The table below provides illustrative product features of non-resident high-net-worth Foreign Nationals offerings in the market:

Illustrative Product Features	
Issue Age	18 - 75
Minimum Net Worth	\$1M-\$5M
Minimum Face Amount	\$5M
Best Class Available	Best classes for countries A&B and lower or facultative consideration for countries C&D
Maximum Mortality Rating	200%
Excluded Occupations	<ul style="list-style-type: none"> • Politicians • Military personnel • Missionaries • Journalists • Public figures
Ownership Structure	<ul style="list-style-type: none"> • Clear identity requirements: U.S. SSN, Tax ID number or IRS W-8 form, copy of passport • No third-party foreign entities • Non-U.S. citizens must have a U.S. financial interest and documented connection to U.S.
Solicitation	All solicitation must take place in the U.S. regardless of country of residence
Products	Perm and Term

Carriers must understand that while there is opportunity for increased market share, there is also increased risk associated with exposure to the rapidly growing market for Foreign Nationals. Furthermore, **special underwriting and risk management considerations** are required in addition to verification of a **prospect's "connection" to the U.S. and "valid need" for U.S.-based life insurance**.⁸ Many direct carriers are seeking reinsurer support in a variety of areas regarding managing risks associated with Foreign Nationals business.

How Reinsurers Can Help Direct Carriers Succeed

Reinsurers provide support for direct carriers in a number of ways. This includes risk transfer and financial reinsurance solutions as well as value-added services that leverage reinsurers' deep risk management expertise and differentiating capabilities in the Foreign Nationals market:

- **Capacity:** Additional capacity through reinsurance provides direct carriers with the financial support to more confidently accept the risks associated with high-net-worth policies that they might not be able to write without reinsurance.
- **Underwriting Expertise:** Foreign Nationals underwriting requires special risk considerations. Reinsurer familiarity with the specific risks associated with products in foreign markets allow reinsurers to help direct writers identify and mitigate core risks, create underwriting benchmarks, establish acceptance criteria, and evaluate exposure for preferred and standard risk classes. Reinsurers can also assess and provide feedback on alternative premium funding methods such as premium financing and validate a prospect's connection to the U.S. and need for U.S.-based life insurance. Occupation exclusions and medical exam restrictions can also be evaluated.

- **Claims Investigation:** Assessing the validity of claims involving deaths outside of the United States is a unique challenge for insurers. Reinsurers often have strong global access to investigative resources to conduct local review of death documents, medical records and identity documents, while also conducting interviews of parties involved. Additionally, reinsurers coordinate the sharing of information if multiple carriers are involved (as is often the case with large cases) and the receipt of foreign death claims.
- **Program Design:** Reinsurers work with many direct carriers and can help evaluate a direct carrier's Foreign Nationals program in the context of industry best practices and emerging trends in product design.
- **Financial Reinsurance:** Reinsurers can leverage deep Foreign Nationals expertise and provide capital and surplus relief benefits for direct writers via financial reinsurance solutions. Financial reinsurance solutions often lower the cost of capital and improve returns for direct writers.
- **Assumption Setting:** Reinsurers work directly with carrier companies to support assumption setting, leveraging reinsurers' experience-based mortality and lapse experience. These sources of credible experience data are critical for direct carriers that are new to this market.

Conclusion

Foreign Nationals is a growing insurance market that also presents unique challenges for direct writers. Foreign Nationals offerings create additional risk exposure, and carriers often seek the support of reinsurers for risk transfer and advisory expertise in navigating risks. Reinsurers can assist direct writers in a variety of areas, from capacity to underwriting expertise to claims management.

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