



## **Straw Into Gold?**

### *A Life Insurance Tale*

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In the fairy tale, the miller's daughter could not spin straw into gold without the help of a magic little man. In the life insurance world, it is sometimes possible to turn straw (an unhealthy life policy) into gold (a policy that will accomplish its intended objectives) without legerdemain.

How can that be? Let's start with a bit of background. Life insurance can be one of two types -- temporary or permanent. Temporary (or "term") life insurance is designed to provide a death benefit for a specified number of years -- typically 15, 20, or 30 years. Term insurance is "pure insurance." As with your homeowner's insurance, you pay the premium and hope you don't need it! If you stop paying the premium, the policy lapses.

The other type is permanent life insurance, which is designed to pay a death benefit whenever the insured person dies. Varieties of permanent insurance include whole life, universal life, and variable universal life. Permanent insurance may also have some term insurance blended in to provide a greater death benefit, at least for a period of time.

Permanent life policies have just experienced a "perfect storm," causing many to fail. The combination of low interest rates, low investment returns, and failures, mergers and acquisitions of many insurance companies has caused many policies of permanent life insurance to perform below expectations. In other words, *even if planned premiums are paid when due, a policy may still lapse before the insured person dies!*

How do you prevent such an outcome -- or, if it is happening to your policy, how do you turn this straw into gold? There really is only one way: **Review a series of in-force illustrations.** Doing so will inform the policy owner if the policy is in trouble and, if so, what steps can be taken.

In-force illustrations will show if a policy will perform as designed or establish if there is time to take corrective action before the policy lapses. An in-force illustration is a portrayal of how a policy can be expected to perform under various assumptions. For example, if a premium of \$X dollars is paid, at the *current* interest crediting rate on the policy, what happens? What happens to the projection at the *guaranteed* interest rate? What if you stop paying premiums? How much premium must be paid to keep this policy in force until the insured person dies?

After such questions have been answered, a second part of the analysis is determining what alternatives are available to the owner of the policy. Answering this question depends first on whether there is still a need for the insurance. If there is, the question then becomes, "Are there better policies available?" Improvements in the industry make that a worthwhile question. A "better" policy might be:

- Higher death benefit for the same annual premium.
- Same death benefit for a lower annual premium.

- A death benefit guarantee.
- Same premium and death benefit, but higher rated insurance company.

If there is no longer a need for the death benefit, then the question is what alternatives are available. Such alternatives might include:

- Terminating premium payments and converting the policy into “paid up” insurance -- either for a number of years or permanently.
- Converting the life insurance into an annuity that will pay an income *now* to the insured, rather than paying a death benefit later to the insured’s heirs. This income can begin immediately or be deferred for a specified number of years.
- Surrendering the policy for its cash value, mindful of the income tax implications.
- Selling the policy to a third-party -- a so-called life settlement. (This alternative is not available in all cases.)

The logical person to perform this analysis is the agent who sold the policy, if he or she is still available *and* if you have confidence in him or her. If the agent is no longer available or you would like an objective review by an independent third party, an “Insurance Policy Review” is available from a licensed consultant on a *fee* basis. The cost will depend upon a number of factors, but generally is \$500 per policy. [In every case, our colleagues quote the specific cost (or sometimes a range) *before* the process begins so that you will encounter no surprises.]

The review may reveal that you already have gold. But, if your policy looks more like straw and you decide to replace or terminate it, the second phase of the process involves going into the marketplace and actually learning what alternatives are available. This phase requires obtaining complete medical information on each person to be insured.

Who can benefit from an Insurance Policy Review? Estate owners who have . . .

- . . . permanent insurance policies purchased more than three years ago;
- . . . insurance owned by or held in an Irrevocable Life Insurance Trust (ILIT);
- . . . permanent insurance but a temporary need for heirs to receive the insurance proceeds at death -- a need which has come to an end.

If we or our colleagues could help with the review of a permanent life policy, please do not hesitate to contact us. Knowing that your policy is on track will afford great peace of mind. And learning that it is not will allow us an opportunity to help spin straw into gold.

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