

**The Rise, Fall and Rise of Universal Life**  
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Universal life insurance has made its mark as a flexible-premium, adjustable benefit policy with tax-deferred, account-accumulation features. While its flexibility allows policyholders to change the amount of insurance as their coverage needs change, today's newer UL policies provide many other potentially valuable features such as new riders and no-lapse guarantees.

As with all life insurance, the main purpose for buying a universal life policy is the death protection. However, universal life goes beyond that by providing flexibility and the potential for greater cash value growth — should the offered interest rate outpace the general account. Universal life also is more flexible than whole life by offering adjustable death benefits, premium payments and the ability to “borrow” against any accumulation. Death benefits can often be raised or lowered without surrendering the policy and a range of premium payments can be made to it, from a minimum amount to cover various guarantees the policy may offer to the maximum amount allowed by Internal Revenue Service rules. It's traditionally been marketed as a tax-advantaged way to buy life coverage.

**The right client**

Some of the danger for maintaining the death benefit is that the insured shoulders the risk, as a policy will lapse should its cash value or premium payments fail to cover the cost of insurance. Insurers, however, frequently have provided guarantees to keep a policy in force even if the cash value drops to zero after certain benchmarks have been met. And there are more flexible exit strategies within a UL contract offering zero-interest or wash loans enabling the policyholder to access any growth inside the contract on a tax-free basis. So which type of senior client is this right for?

“Seniors tend to have long memories,” says Phillip Smith of Market Street Advisors in Smithfield, N.C. — a major UL proponent. “They prefer guarantees and predictability to surprises and don't want to expose their nest egg to the winds of the market.”

In addition to flexibility and security in the form of an adjustable death benefit, UL policies offer tax-deferred account value growth at the company's current interest rate — federal income tax deferred. Current annual interest rates are guaranteed to be at least 4 percent (refer to each carrier for its guaranteed rate). Yet in the face of a constantly evolving marketplace, UL can be a tough sell.

“When you're conservative and sensible with your interest rate expectations, UL can play a role in a long-term financial plan,” says Mark J. Snyder of Medford, N.Y., who's used it in cases where clients needed to save. “It can force clients to put money aside for their futures,” says Snyder, who manages some \$160 million, mostly for seniors and pre-retirees. “UL has a place but it should not be one's sole retirement-planning vehicle.”

Although entirely depending on a UL policy to fund one's retirement would very likely be a shortsighted decision, most Americans continue to plan inadequately for retirement while remaining underinsured — creating an opportunity for senior advisors to help them prepare for their financial futures with several products, including UL.

“More than one-third of U.S. workers are not saving for retirement. This translates into over 44 million who will be at risk of not being able to pay for the basics in retirement, such as monthly bills, housing and health care,” says Eric Sondergeld, director of retirement research for LIMRA, which recently released the report “Public Misperceptions About Retirement Security: Closing the Gaps.”

“Unless we each work to improve consumers' retirement planning, government and social programs will collapse under the strain of taking care of those who are unprepared and cannot take care of themselves,” Sondergeld says.

Some planners are using UL to help fill the retirement-savings gap, pointing out the flexibility and tax-free withdrawal features that the more common retirement plans, such as 401(k)s and traditional IRAs, cannot offer.

“People are considering universal life as a viable retirement investment on par with their employer's 401(k) program,” says Marvin Smith, CEO of Insuramax, a full-service agency in Louisville, Ky. “They're used to maxing out their 401(k) contributions and now realize that universal life makes their money more accessible, and because they contribute after-tax dollars the money can be removed tax-free.”

For senior clients, increasing policy expenses — due to the greater likelihood of death — can become larger than the premium. The insurer will then begin deducting from the policy's cash account to cover these expenses. Should the cash account reach zero, the insurance company will increase the premium to keep the policy alive, which is why a senior advisor needs to communicate the various elements of a UL policy. Providing in-force illustrations can help clients better understand a policy's cash value and when expenses will lower it. It also may assist when determining how long to keep it in-force.

As a client ages, the value of the policy may come into question.

“At that point it's advisable to consider whether the client needs the policy,” Snyder says. “Depending on their overall status [and considerations] such as health, other assets and estate, it may be in their interest to cash out of the policy and take any accumulated cash value.”

“If they still need the policy,” Insuramax's Smith counters, “they may lower the death benefit or exchange it for a newer policy with a premium guaranty.” Such a strategy would give the client a guaranteed level premium for the policy's life. “Any accumulated cash value could cover the cost of a new policy.”

“Because most products have premiums that vary based on the credited interest rates, a policy owner must be careful to monitor its annual performance to ensure that it is properly funded,” says Ronald Klein, FSA, assistant vice president, product management at Sun Life Financial’s Individual Insurance Division. “While many view flexible premium payments as a favorable factor, many clients do not want a product that can have changing premiums simply because the interest rates in general have declined.”

### **Changing world, changing policies**

Lester Lovier, vice president for life product marketing at AXA Equitable, notes that “over the past five to 10 years,” insurance companies and financial advisors have focused more on older seniors (above age 65) than they had previously. Today many life insurance carriers offer permanent life insurance products like UL to age 85 or 90. One of the results of this is the introduction of no-lapse guarantee UL products. Today no-lapse guarantee UL comprises over 50 percent of the total universal life market. The changes may be working, as overall universal life sales grew by 9 percent from 2005 to 2006, according to LIMRA.

“Some policy owners who bought UL in the 1980s or 1990s had a bad experience,” Lovier recalls. “When the crediting rates dropped to reflect the lower interest rate environment, they suddenly had to pay higher premiums or pay premiums for a longer period than they expected based on the projections used when they bought it. No-lapse guarantee UL products were developed in response to this.”

Sales of equity-index UL products (frequently tied to the Standard & Poor’s 500 Index) are also on the rise and often feature a cap on upside performance and a minimum interest rate should the index perform poorly. New features such as long term care riders, terminal illness riders and return-of-premium riders have also come on board as UL evolves to meet a changing marketplace and better compete.

Insuramax’s Smith is among those who are making use of index-based UL products. “In the past, we’d declare a new interest rate and dividend each year and the universal life policy didn’t seem to keep up with inflation,” he says. “Now we’re tying the return to an index people can identify with, like the Dow Jones or the S&P 500. It’s more volatile, but it’s more attractive to the individual investor.”

### **Good prospects**

UL prospects cross most income, class and age boundaries, but care needs to be taken to decide which product is best for the client. “Any senior advisor needs to look at the long-term picture,” Snyder notes. “Will a UL product best serve your client?”

Generally, promising UL prospects are those who have contributed the maximum into their 401(k) and other retirement plans and need an accessible place to put additional funds.

Universal life can be an attractive product to numerous demographic groups, as it can be positioned as both affordable and flexible, but it's especially so in a high-interest rate environment. During other periods, senior advisors need to promote the product's strengths as a life-planning tool.

"There are really no age restrictions, and face amounts usually go down to amounts that would be viewed as affordable in every economic grouping," says Sun Life's Klein. Policies should have low loads and other features such as a monthly deductions waiver, generous riders, wash loan provisions, protection from lapsing due to being heavily loaned and accelerated benefit options.

"Typical prospects for this policy are age 45 and older, relatively affluent and find the product's guarantees to be more important than cash-value build-up and product flexibility," Lovier says.

In addition to traditional promotional methods such as seminars and direct mail, referrals from satisfied clients tend to work best when developing UL business.

"Relate to the senior prospect," says Market Street's Smith. "The best prospects are usually more conservative ones. They don't want real estate, they're not daily stock traders. They want or need the death benefit they can't get from another type of investment."