

## Universal Life: The Old reliable

*Universal life may not be the sexiest product out there, but advisors say for executing certain parts of a retirement or estate plan, it's still among the best options.*

**By David Port**

Consumers, as a whole, can be a pretty predictable, transparent lot. The equity market pendulum swings one way and they flock to variable products, lured by several years of consistently robust returns and visions of that trend continuing as far as the optimistic eye can see. Then, when the stock market comes crashing back to earth, the pendulum swings the other way, sending the easily scared herd scurrying back to its security blankets — products such as universal life insurance.

Because of its flexible design, built-in estate planning features and guarantees, UL is one permanent insurance product that since its inception in the 1970s has shown a unique resiliency. Amid stock market swings, challenges from newer, sexier permanent insurance products and the public's penchant to sometimes choose style over substance and functionality for their retirement portfolios, UL remains a rock-solid recommendation for many senior clients, according to advisors who serve the 60-plus segment.

"It's a very inexpensive way to generate a lot of money, a lot of value, for an estate," says Rod Hormell, CEP, CSA, principal at ESP Estate Planners in Thousand Oaks, Calif.

Whether used as an estate planning/wealth transfer tool or to accomplish other retirement-oriented goals, flexibility is what has allowed universal life to remain a viable product for seniors.

"With traditional term and whole life products, what you buy is essentially what you keep," says Kevin Lynch, CFP, CLU, ChFC, an advisor with Specialized Insurance Services in Arlington, Texas. "What makes universal life the right product for a lot of seniors is it gives them the opportunity to make changes. For seniors, income — or lack thereof — can become an issue. With a universal life policy, you lower the face amount to lower the premium, which certainly is preferable to letting the policy lapse and losing it altogether. The policy also lets you use dividends to stretch or make payments. These kinds of features aren't found in other [insurance] products."

### **Goals and guarantees**

The adjustability of UL policies means they can be tailored to individual goals, Lynch explains, whether that's passing on a financial legacy, filling an income void or providing cash when a client needs it via a loan from the policy. "It allows you to make a decision whether you want the focus to be on the death benefit or on the cash value of the policy."

If the goal is to use the policy as a form of savings to provide income for emergencies or to replace lost income, then emphasize building cash value, perhaps by overfunding it.

One of UL's primary uses is to replace income lost with the death of a breadwinning spouse.

On the other hand, if the chief reason the policy was purchased was to leave a financial legacy to heirs, emphasize the death benefit. Sometimes, says Ellen Fairbanks, CFP, of MD&A Financial Management Co. in Pittsburgh, seniors purchase a policy to equalize an inheritance. "If a person plans to leave their business to one offspring and they want to provide something of equal value to another offspring, they can purchase a universal life policy."

Carriers have been building flexibility into UL policies virtually since the product's inception by offering on-demand access to accumulated cash value, adjustable premiums and face amounts. The ability to build cash value on a tax-deferred basis and to pass on proceeds tax-free to heirs has also been part of the UL package since the beginning.

Still, what's available today isn't your father's UL. There's been a resurgence in demand for universal life (see the sidebar), which market observers trace not only to the public's current skittishness about variable universal products following recent equity market tumult but also to the advent of optional guarantees designed to provide UL policyholders with protection and peace of mind. Today it's popular to take the trusty UL chassis and spruce it up with riders such as the no-lapse premium guarantee, or NLPG, which guarantees the death benefit will be paid up to a certain age as long as the premium amount is always paid

in full, on time. Until recently, the standard age to which the guarantee applied was 100. But these days, notes Hormell, it's worth the effort to find one that goes up to age 120.

For seniors on a fixed income, the flip side to the UL flexibility proposition is the uncertainty surrounding future premiums. UL premiums have been known to fluctuate and to increase significantly sometimes, a trend that's particularly unsettling to seniors whose income is such they can't run the risk of a premium increase. For them, an NLPG is a worthwhile investment since it preserves their right to adjust the contract while guaranteeing premiums won't exceed a specified amount — as long as they pay them on time.

The NLPG is one of several new UL riders carriers have introduced in recent years to appeal to protection-minded investors, and seniors in particular. For example, MetLife late last year introduced the Guaranteed Survivor Income Benefit, which ensures the death benefit will be paid to beneficiaries in monthly installments for a lifetime.

"With people now embracing that they likely will be living longer, an income guarantee becomes more important to them," Lynch says.

Waiver-of-premium guarantees, which allow a policyholder to forego payments without voiding the policy in the event of a disability, also are gaining popularity among seniors. So, too, are new long term care insurance riders, Fairbanks says. Some carriers offer riders that guarantee the policyholder's ability to purchase an LTCI policy at some later date. Others provide access to cash value to cover the cost of long term care.

"That's one of the nice things about newer policies — they allow you to dip in for nursing home expenses and other kinds of care," Fairbanks says.

Because the peace of mind provided by those kinds of guarantees comes at a price, seniors whose top priority is purchasing a UL policy at the lowest possible cost often will forego purchasing any such riders, Fairbanks notes. So, since returns and premiums on UL policies can fluctuate without guarantees in place, Hormell recommends periodically reviewing policies with clients to see they are performing as intended, whether they are being used as a wealth transfer tool or to provide income.

### **Part of a plan**

With its wealth transfer advantages, UL remains a vital part of many estate plans.

Investing in a UL policy not only protects assets from taxation when they pass from one generation to the next, it uses discounted dollars to ensure beneficiaries have enough liquidity to cover estate taxes without depleting the estate itself. The discounted dollar proposition, according to Hormell, appeals particularly to seniors who aren't especially wealthy but who can afford to fund a UL policy, thus leveraging what they do have to pass something of greater value on to their heirs.

For estate planning purposes, advisors agree that establishing a trust (usually an irrevocable life insurance trust) and having the trust acquire a survivorship (second-to-die) UL policy is typically the most effective route.

"You put the policy in a trust so it doesn't add to the estate," Fairbanks explains. Then, when the second person named on the policy passes away, if the trust was structured properly, proceeds from the policy are used to cover estate taxes without depleting the estate.

UL also functions as an estate planning tool when it is acquired via an exchange for a nonqualified annuity contract. When nonqualified earnings from an annuity portend significant tax exposure for the contract holder, the annuity can be exchanged for a permanent insurance policy such as a UL product. While the contract holder will be foregoing the income provided by the annuity, he'll be adding a tax-free component to his estate.

Regardless of the application, advisors concur that in shopping for a UL policy for a senior client (or any client for that matter), the financial stability of the insurance carrier is paramount. Hormell, Fairbanks and Lynch say they tend to recommend only products from carriers whose ratings are A or better.

"That's very important," Fairbanks says, "because the death benefit is only as good as the carrier it's going to come from. You want a good, strong company with a good rating."

What you want, Lynch adds, is an insurance company whose ratings won't swing along with the equity market pendulum. "Quality carriers tend to remain quality carriers."