Abel Financial Strategies

Augustus W. Abel, CFP®
3775 Attucks Dr.
Powell, OH 43065

Phone (614) 389-2075
Fax (614) 389-2908
aw@awabelfinancial.com

Under-funded Life Insurance Policies
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In the last 10 to 15 years many people who have Universal Life and Whole Life Insurance have unknowingly found themselves the victim of a decreasing interest rate environment and a stagnant stock market. Both of these issues have policyholders sitting unknowingly with policies that are running out of cash value needed to keep the policy in-force down the road. The last thing you want is to find out one day that your policy is lapsing even though you have paid the premium you planned in the beginning.

Why is cash value important in Universal Life? Because it is the life-blood of the policy? Without adequate cash value the policy will terminate at some point – probably sooner than you want and potentially before you pass away! When the policy is set up the combination of premium payments and cash value growth are projected and the result identifies the quantity of premium needed for the amount of death benefit desired.

If the cash value growth is not up to the projected trend, as time goes on, then more premium is needed to accomplish the desired result. This is what happens for many people. Sometimes you can't put in enough premium to save the policy due to tax rules! If however, you are one of the policy-holders who put just as much premium into your policy as allowed by law then you are less likely to be in danger of a lapsing policy and more in danger of a lower death benefit as you go along. This is also an issue to have clarified. Most people put in as little premium as needed so lapse is a higher possibility.

What is the issue with Whole Life? Whole Life is based on two factors. (1) The base death benefit is calculated initially and guaranteed, (2) The death benefit from dividends is projected initially and not guaranteed. Many policies are dependent on the dividend growth to create the expected death benefit. When interest rates are low dividends are potentially low as well and then the death benefit is lower than expected.

So – What do you do? In most cases the policyholder hasn't had the policy reviewed for a long time and the agent that did the policy originally is not still in touch. You need to have the policy reviewed by someone you trust. Of course, one of the reasons I am sending this notice out is that is a service I provide. We can do a review of the policy and see what your options are. It doesn't have to be a policy that I did for you for me to review it with you and the insurance company it is with. The last thing you want is to find out one day that your policy is lapsing even though you have paid the premium you planned in the beginning.

Options? – There are a few options available for policy-holders in this situation. As with most issues, the sooner the problem is identified – the easier the solution is.

Contact me if you want to discuss this further.

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