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INSURANCE

Warning: Your Life Insurance Policy May Be Worthless...

by Evan Belaga CFP, CLU, ChFC, Guest Editor, *The Oxford Club*

If you haven't reviewed your life insurance policy lately, you should.

Why? Because nearly all of the universal and variable life policies that my firm reviews each year are in jeopardy of expiring worthless.

Term insurance, of course, is temporary by nature and typically purchased for a specific period of time. However, most of today's permanent policies are also turning out to be temporary.

I don't have any hard statistics to support my assertion, just my word that I'm unfortunately seeing this happen to credulous policyholders every day – even in cases where they've built up hefty cash values and are paying large premiums.

If you own an olderversion universal life policy, your insurance carrier either has, or will, send you a statement notifying you of "insufficient funds." And that you'll need to increase your premiums in order to keep your policy afloat for another year. The following year, you'll get another notice that says the same thing. And it will happen every year until the day you die.

I'm sure that wasn't the intent when you signed up however many years ago. But this problem is real.

And it isn't limited to just universal policies, either. Even traditional whole life policies – which many people bought with the intention of it becoming selfsupporting (vanishing premiums) in seven or eight years – are fast becoming a burden, too.

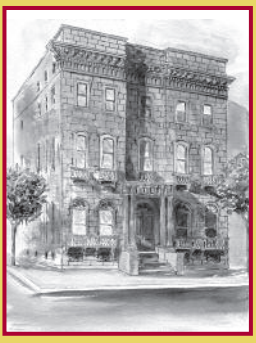
Because interest rates have fallen so far, these policies are earning much lower rates than when they were purchased. Earning a nice chunk of interest every year was necessary to fund the guarantee, so to speak. And few knew to ask their agent to run policy projections under reduced interest rate assumptions.

Unfortunately, as longterm interest rates have fallen steadily since the early 80s, so too, have the guarantees. Your policy probably says it's guaranteed until age 95 right on the front page. But it doesn't tell you what the premium is that will allow your policy to last that long. Oftentimes this results in premiums that don't vanish or, worse yet, reappear.

So What's the Solution?

You can't rely on the annual statement that the insurance company sends each year because it frequently omits a lot of important information. Worse yet, the agent who sold you the policy is often long gone or is not uptodate on how big this "expiration" problem is.

Over, please...



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As such, right out of the gate, you should have your policy reviewed. A simple review will reveal how long you have until your so-called permanent life insurance policy will expire.

If you do find that you're the unlucky owner of a policy that won't be around as long as you will, you have three ways of keeping your coverage going on your existing policy:

- Raise your premiums.
- Restructure your policy by choosing a lower death benefit.
- Switch to a better policy if you qualify.

But a review of your policy is very important because the above may not be the most suitable options for the uniqueness of your situation. For instance, term insurance may be what meets your needs the best (so long as the policy doesn't exceed 10, 20, or 30 years, depending on how old you are).

If you require longer lasting coverage, you may want to consider the newest generation of guaranteed universal life policies, which are truly guaranteed – come hell or high water – to last until a specific age of your choice.

Likewise, if 90 sounds like a good estimate of your life expectancy, then you can design a premium that is guaranteed to keep your coverage running until then.

(Just know that the days of building competitive cash values into your policies are over. Carriers have traded the big cash accumulation benefits of last-generation policies for lifetime guarantees. The accumulated cash in these older policies rarely performed as good equity investments, anyway.)

The mortality rates inside the newest generation of life insurance policies have recently come way down, too. And since insurance companies are no longer trying to pay you a competitive return on your invested premiums, they can focus instead on lifetime guarantees that will stick.

Also, medical problems that used to get declined or heavily rated (surcharged) are now better understood and well treated. Someone who may not have been able to afford or even qualify for coverage years ago may find that they're now able to insure themselves quite well.

To sum up, the insurance industry has seen significant changes over the last decade in an effort to regain its

credibility. The offshoot is more userfriendly products than in years past. So again, I can't stress enough the importance of having a policy review to assess your current situation. Remember, your life insurance company doesn't need to be headline news for your policy to be in jeopardy! **OC**

Evan Belaga is a Certified Financial Planner (CFP) and Chartered Financial Consultant (ChFC). He's specialized in life, disability and longterm care insurance for individuals, businesses and associations nationally since 1982. To request an analysis of your existing life insurance policies or to discuss your life insurance needs, feel free to contact him at Evanb@InsureEZ.net or call 443.758.4888. Visit www.InsureEZ.net to read other related articles and to find useful calculators pertaining to insurance products.

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