Insurance Insights

Is No-Lapse Guaranteed Universal Life the Answer?

In my discussions with many different advisors one of the questions that often comes up; "What do you think of No-Lapse Guaranteed Life Insurance?" I have a few thoughts about this type of life insurance. In many cases, it can be a very sound opportunity but, once again, you have to know how to manage the policy. Manage the policy?

Let me explain……..

These policies came about because of the failure of many of the other types of "performance based" life insurance that had been sold for the last 25 years. Markets and economic conditions change constantly which have had an impact on the long term viability of most life insurance. But since the industry only pays for new sales, the service end of the business has suffered tremendously. The consumer does not understand how life insurance works and how differing economic conditions impact their insurance property. The lack of management, service, and the fact that the industry only pays for new sales has caused the distributors of product (agents) to focus their efforts only on how a new product can save their current property from destruction. I have spoken in the past how the decrease in interest rates and market volatility has caused many life insurance policies to be on the brink of failure!

The "invention" of No-Lapse Guaranteed Universal Life Insurance has been a very good one but it still needs to be managed like any other life policy. There is virtually no flexibility in the product. But by taking away the flexibility the insurance company is making a more exact financial proposition that if the consumer is educated properly upfront there will be a greater likelihood that the policy will not "die" before the insured. The financial terms the insurance company is offering is; if you pay a certain amount of premium **ON TIME** we can make certain guarantees. This is a money-in/money-out transaction. The insured makes certain financial commitments to deposit a certain amount of money with the insurance company and the insurance company calculates a death benefit they are willing to guarantee for a certain length of time. There is no cash value, there is not a "back-stop", if you miss a premium and there is no cash value the policy will lapse! The insurance company will let you make-up any deposits not made or late payments with interest assuming the policy has not lapsed. **BUT** you have to read the fine print and know what questions to ask to be able to understand how the contract will react to certain events (skipped deposits, late deposits, etc…). If you do not fulfill your financial commitments then the guarantees the insurance company offered up front will change.

No-Lapse Guaranteed Universal Life Insurance came to be in order to protect the consumer from the lack of guarantees built into “performance-based” contracts. The simple fact is that a typical Universal Life policy even if all the scheduled premiums are paid could actually lapse. The insurance companies in designing this “no-lapse” product wanted to combine the advantages of term insurance (low cost life insurance) with a long term guarantee of death benefit. But the life insurance company was faced with a problem. Since the actual insurance component never decreases because there is no cash value then they have to reserve for the entire death benefit for the life of the contract. This put a tremendous strain on capital requirements. The insurance company in these policies promulgates a premium payment that HAS to be paid in order for them to guarantee the price will never change and the guarantee period for the death benefit will stay inforce. The market has been somewhat fluid in terms of companies coming into and leaving this market due to the tremendous amount of capital they need to put up to support this product line. There are different “niches” in the market. Some companies are better when the guarantee of death benefit only lasts to 100 vs. 121 or 110. Others are better at lump sum payments vs. annual premium payment type designs.

There are many ways for the policy to be affected by any actions of the owner of the policy. Since there is no cash value to fall back on there is no flexibility. If you happen to miss a premium while away on vacation and there is no cash value will the policy lapse? If the policy goes into a “lapse pending status” does that impact any of the mortality assumptions? Does the insurance company have a right to change these cost factors and therefore my ability to make-up any premium payments? What scenarios do I need to review to better understand what can happen?

There are many issues to consider, but the fact remains, these contracts can offer more leverage or death benefit for the older clients per premium dollar willing to be deposited. For younger clients I believe there are different types of life insurance that may prove to be more flexible.

If you have any questions please give us a call. Managing life insurance is our game!

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