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## Surprise: Your Life-Insurance Rates Are Going Up

Insurers are raising costs of 'universal life' coverage sold years ago, as they confront low interest rates

By

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Major insurers are breaking a long-standing industry taboo of raising rates on life-insurance policies they sold to consumers years ago, in the latest fallout from a prolonged stretch of low interest rates.

In recent months, several insurers have notified tens of thousands of people who own a type of coverage known as "universal life" that they are exercising little-used contractual rights to raise costs.

Universal-life policies combine a death benefit with a tax-advantaged savings account. Since the 1980s they have accounted for at least a quarter of all new individual life-insurance sales, and more than a third over the past decade.

The latest moves mean that more people in their 70s and 80s are facing higher annual charges for life insurance they bought as far back as the 1980s. And this could be just the beginning: Industry consultants expect other insurers to follow suit, which could mean higher annual costs for potentially millions of Americans holding various types of insurance.

"If interest rates stay low for another three or four years, all bets are off as to how many follow," said Lawrence Rybka, president of ValMark Securities, an insurance and brokerage firm in Akron, Ohio.

Depending on the insurer, the extra annual cost ranges from about \$150 for people with \$250,000 policies to six-figure sums for those whose coverage tops \$10 million, financial advisers say. The increases, which relate to the annual charge for the death benefit, stretch from the mid-single digits to above 200% in some instances, according to ITM/TwentyFirst, which provides policy-management services to trustees and institutional clients.

Insurers are under pressure to improve results as years of low interest rates have squeezed investment income, and industry executives say the right to increase rates is clearly disclosed to customers. Consultants and analysts say many insurers have cut expenses and taken numerous other steps to maintain their profitability over the years and are running out of options.

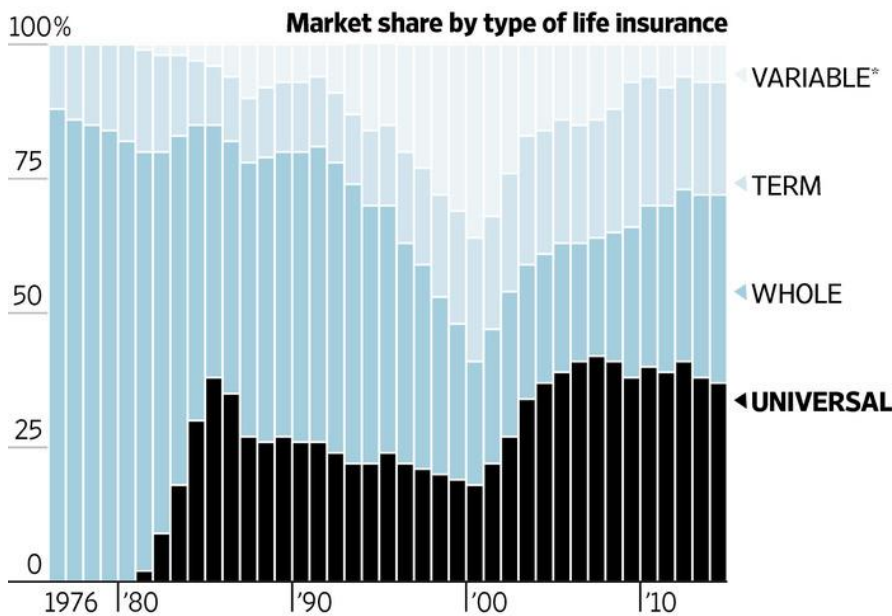
Still, the moves are riling policyholders.

“I find it really challenging that the insurance industry has the ability to institute sharp increases such as this, and the consumer is left with very little option as to what to do,” said Michelle Clements, president of Synergy Trust Co., a private family trust company in Sioux Falls, S.D.

Her family faces a 15% increase next year, amounting to tens of thousands of dollars, for an 80-year-old family member’s multimillion-dollar coverage, with additional increases over the next few years. Among her options: selling the policy to investors in the industry’s secondary market.

## You Bet Your Life

Universal life insurance has become nearly 40% of the market.



Source: Limra \*Includes variable universal life insurance THE WALL STREET JOURNAL.

Cost increases are permissible under many policies, though the circumstances under which this is allowed varies by contract. “Contractual maximum charges are clearly disclosed at the inception of the policy,” said Paul Graham, an official with trade group American Council of Life Insurers.

However, exercising any right to boost costs on older policies “used to be taboo,” said Henry Montag, a principal with TOLI Center East in Long Island, N.Y., an adviser to trusts on insurance issues.

“Insurers feared doing so would create mistrust” among agents and consumers and adversely affect future sales, he said. “But now the insurers feel the [cost] increase is worth the risk.”

Life insurers rely heavily on interest from bonds bought with premium payments, and dollars they invest today yield less than anticipated when insurers sold the policies.

The 10-year Treasury peaked at 15% in the 1980s, and declined gradually until 2008, when it fell sharply as the Federal Reserve sought to rev up the economy. It currently yields 2.328%.

The Fed is expected soon to boost a key rate, but likely only by a quarter of a percentage point. It is uncertain when rates would move high enough to make a measurable difference to life insurers.

The policy owned by the Clements family was bought in 2006 from a U.S. unit of [AXA](#) SA. The insurer doesn't comment on individual instances. As for the increased charges, a spokeswoman said the company had concluded one of its older life-insurance products wasn't performing as expected because policyholders were dying sooner and investments were earning less than forecast when the policies were sold.

AXA's changes affect about 1,700 policies sold between 2004 and 2007.

With universal-life policies, owners deposit money into the policy's "cash-value account," where tax-deferred interest accrues. From this account, the insurer deducts for expenses, including the annual cost of the death benefit.

"Many people who own this type of contract wrongly believe they locked in the rates" for the death benefit at the time of purchase, said Ted Bernstein, chief executive of agency Life Insurance Concepts Inc.

Higher costs aren't the only problem. Consumers typically buy universal life with the goal of using the tax-deferred savings to pay some, or all, of the policies' future costs as they age. But many cash-value accounts contain far less interest income than was projected at the point of purchase because insurers reduced interest payments as Treasury yields declined.

Financial advisers estimate hundreds of thousands of policyholders will have to use other resources to pay those future costs.

Jeff Glick, an attorney in Oakland, Calif., learned this fall that his 84-year-old mother's \$250,000 policy is subject to a 5.7% boost in its death-benefit charge. At about \$170 a year, he considers it manageable. The policy was bought in 1998 from a unit of [Voya Financial](#) Inc.

He believes a bigger problem is that many families bought universal-life policies "without understanding what the scope of the risk could be" from falling interest rates.

A spokeswoman for Voya said its cost increases affect a "small percentage of our customers," declining to be exact.

The Transamerica unit of [Aegon](#) NV, another large insurer that has increased charges, said its move affects about 26,000 people with policies dating to 1987-98. U.K.-based [Legal & General Group](#) PLC, the fourth major insurer to make such a move, declined to comment.