

# THE WALL STREET JOURNAL SUNDAY

Weekly Guide to Managing Your Money

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ENCORE | By Tom Lauricella

## The Market Hits 'Universal Life' Policies



Universal life insurance has grown in popularity thanks to its flexibility.

But policyholders may not realize their coverage could be dwindling.

Universal life is considered permanent life insurance, yet it actually has an expiration date that's usually set past most life expectancies. But lower interest rates, a falling stock market—or a combination of both—may limit how long these policies remain in force.

Shoring up these policies may require handing over more money to your insurer or reducing coverage. Policyholders need to keep a close eye on statements for any changes.

"It can be just as important to manage your insurance policies as it is to manage your portfolio," says Robert Burger, a vice president at financial planners Lenox Advisors.

Universal life insurance generally falls in between the permanent coverage of whole life and the temporary benefits of a term policy.

Universal life insurance comes in two flavors. In a basic policy, the death benefit and cash value can build just as with a whole-life policy by accumulating the premiums and dividends paid to the policyholder by the insurance company, which invests the premiums mainly in bonds.

Then there's the variable universal life, or VUL, policy. With a VUL policy, the holder chooses investments—commonly stock mutual funds—and those returns help create a policy's value. Higher projected returns on stocks can make it possible to get a bigger death benefit.

The catch isn't just the possibility of losing money in stocks. When the markets are volatile and don't live up to expected returns, policyholders risk seeing their policies expire years earlier than they expected.

Scott Witt, a fee-only in-



urance adviser in New Berlin, Wis., has seen how the stock market's swings can set a VUL policy far off course.

Take the case of clients who came to him after rolling \$425,000 from another life insurance policy into a VUL policy in 1999. With a 12% assumed annual return, the death benefit was \$10 million and was expected to last at least through age 100.

For that to happen, the policy needed to have an account value today of \$850,000. But thanks to the stock market's weak perform-

ance during the past decade and fees taken by the insurer, it's just \$225,000.

If the clients, now age 65, don't pay any more premiums, the policy could expire worthless when the clients reach age 78.

In order to get back to the original coverage, the clients would need to pay premiums of \$64,000 a year until age 100. If they didn't want to pay any more premiums, but wanted the coverage to last the rest of their lives, they could reduce the death benefit to \$2.7 million. "It's very punitive once you fall behind," says Mr. Witt.

Even basic universal-life policies are feeling the pinch as the lower long-term interest rates of the past two decades have reduced the dividends that insurers pay.

Of course, should interest rates rise and stocks enter into a long bull market, these forces will reverse and benefit universal-life policyholders.

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this topic for years  
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