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Why You Should Take a Look at Your Life Insurance Policy

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Guest Article, By Henry Montag CFP, CLTC

IF YOU'RE LIKE MOST INDIVIDUALS, YOU PROBABLY HAVEN'T TAKEN A REAL LOOK AT YOUR EXISTING LIFE INSURANCE PORTFOLIO FOR SEVERAL REASONS. YOU'RE TOO BUSY, YOU REALLY DON'T LIKE THINKING ABOUT LIFE INSURANCE, YOU REALLY DON'T UNDERSTAND IT AND DON'T WANT TO SIT DOWN WITH A LIFE INSURANCE SALESPERSON THAT'S GOING TO TRY AND SELL YOU MORE LIFE INSURANCE. ASIDE FROM THAT, YOU MAY WONDER WHY YOU SHOULD HAVE TO TAKE A LOOK AT YOUR LIFE POLICIES, AFTER ALL THEY'RE NOT GOING ANYWHERE?

MOST INDIVIDUALS THINK OF LIFE INSURANCE AS A "BUY & HOLD" ASSET WHEN IN REALITY, A LIFE POLICY IS A "BUY & MANAGE" ASSET JUST LIKE YOUR STOCK & BOND PORTFOLIO. YOU WOULDN'T PUT YOUR INVESTMENT PORTFOLIO IN THE BOTTOM LEFT HAND CORNER OF YOUR DESK AND FORGET ABOUT IT. BUT THAT'S EXACTLY WHAT MANY PURCHASERS OF LIFE INSURANCE HAVE DONE WITH THEIR EXISTING LIFE INSURANCE PORTFOLIO.

IF YOU PURCHASED A LIFE INSURANCE POLICY OVER THE LAST 25-30 YEARS, 45% PURCHASED A WHOLE LIFE, OR TERM POLICY THAT WAS GUARANTEED TO LAST FOR A PERIOD OF TIME. WHILE THE OTHER 55% PURCHASED A POLICY THAT WASN'T GUARANTEED TO LAST FOR THE REST OF YOUR LIFE. UNFORTUNATELY THE MAJORITY OF THOSE INDIVIDUALS WERE NOT AWARE THAT A POLICY MAY ACTUALLY EXPIRE PREMATURELY. WHY IS THIS THE CASE? BECAUSE INTEREST

RATES WENT FROM A HIGH OF 18%, TO THE CURRENT RATE OF 1-2%. THIS REDUCED SUSTAINED INTEREST RATE COUPLED WITH NEGLECT OVER THE LAST 25+ YEARS HAS CAUSED 23% OF THOSE EXISTING LIFE POLICIES TO EXPIRE YEARS EARLIER THAN WAS EXPECTED.

YOU MAY ASK, HOW COULD THAT HAVE HAPPENED? I PAID ALL OF THE BILLS I RECEIVED FROM THE INSURANCE COMPANY IN FULL AND ON TIME. YES YOU DID BUT THOSE PREMIUM NOTICES HAVEN'T CHANGED OVER THE LAST 20-30 YEARS WHEN INTEREST RATES WERE MUCH HIGHER. AS THE INTEREST RATES DECREASED THE PREMIUMS SHOULD HAVE INCREASED TO MAKE UP FOR THE REDUCED EARNINGS ATTRIBUTED TO THE INSURER. YOU MAY ASK "WHY DIDN'T THE INSURANCE COMPANY ADVISE ME TO INCREASE MY PREMIUMS"? IT'S NOT THEIR RESPONSIBILITY TO MANAGE YOUR LIFE POLICY. IT'S ONLY THEIR JOB TO SEND YOU AN ANNUAL STATEMENT TELLING YOU WHAT YOUR BALANCES ARE. YES, THE INSURANCE COMPANY AND OR THE AGENT COULD HAVE DONE A BETTER JOB OF ADVISING THEIR CUSTOMERS OF THE DANGERS OF THEIR POLICY EXPIRING PREMATURELY, BUT IT'S THE OWNERS JOB TO DO THAT, NOT THE INSURANCE COMPANY'S.

SO, AS A RESULT OF THE POLICY NOT BEING GUARANTEED, NOR MANAGED PROPERLY AN INSUFFICIENT AMOUNT OF PREMIUM WAS PAID AND THE INSUFFICIENT PREMIUMS COMPOUNDED AND GOT WORSE OVER THE YEARS. THE RESULT OF ALL OF THAT IS CAUSING THE DURATION OF THE POLICY TO SHORTEN. WHICH MEANS THAT YOUR LIFE INSURANCE POLICY MAY EXPIRE BEFORE YOU DO.

IN ORDER TO PREVENT BECOMING A STATISTIC YOURSELF, IT'S SUGGESTED THAT YOU PULL YOUR POLICIES TOGETHER AND SIT DOWN WITH AN INDEPENDENT EXPERIENCED LIFE INSURANCE CONSULTANT AND GO OVER EACH POLIY TO MAKE CERTAIN THAT YOURS IS SUFFICIENTLY FUNDED AND THAT THE GUARANTEE PERIOD IS IN LINE WITH YOUR CURRENT EXPECTATIONS. AS MENTIONED, TERM POLICIES CAN BE GUARANTEED IN 10 15 20 AND 30 YEAR INCREMENTS BUT CAN NOT REMAIN IN FORCE BEYOND ONES EARLY 80'S. A WHOLE LIFE POLICY WILL REMAIN IN FORCE UNTIL ONE PASSES AWAY AS LONG AS THEY'VE MADE ALL OF THEIR PREMIUM PAYMENT IN FULL AND ON TIME. HOWEVER ANY TYPE OF UNIVERSAL OR VARIABLE OR INDEXED UNIVERSAL POLICY DOES NOT COME WITH ANY SUCH GUARANTEES AND MUST BE ACTIVELY MANAGED IN ORDER TO MAKE CERTAIN THAT THE POLICY WILL REMAIN IN FORCE FOR THE REST OF THE INSUREDS' LIFE IT'S PROTECTING. TO MAKE MATTERS WORSE, MANY INSURERS ARE NOW INCREASING THEIR INTERNAL COST OF INSURANCE FURTHER EXACERBATING AN ALREADY DETERIORATING SITUATION AND CAUSING MANY LIFE POLICIES TO EXPIRE EVEN EARLIER THAN HAD BEEN THE CASE.

ONCE AN ASSESSMENT IS MADE, IT'S THEN POSSIBLE TO TAKE STEPS TO FIX THE PROBLEM AND PREVENT ANY FUTURE UNPLEASANT SURPRISES FROM GETTING IN THE WAY OF ACCOMPLISHING YOUR INTENDED GOAL OF PROVIDING A TAX FREE DEATH BENEFIT TO YOUR BENEFICIARIES. FOR EXAMPLE, AN INSURED CAN EITHER INCREASE THE PREMIUM, OR

DECREASE THE DEATH BENEFIT OR IF THEY'RE IN GOOD HEALTH THEY CAN PURCHASE A NEW POLICY OR IF IN BAD HEALTH THEY CAN SELL THEIR POLICY ON THE SECONDARY MARKETPLACE JUST AS THEY WOULD THEIR HOUSE OR CAR. THE POINT IS THAT THE EARLIER ONE TAKES THE FIRST STEP, THE MORE OPTIONS AVAILABLE, AND THE LESS COSTLY IT WILL BE TO SOLVE THE PROBLEM.

Henry Montag, an Independent Certified Financial Planner, has been in practice since 1976 with offices located on Long Island, NY. He is a principal of The TOLI Center East, providing independent consultative fee-based, individual & Trust Owned life Insurance performance evaluations for high net worth clientele, their trustees, advisors and Family Offices. Authoring many articles including the New York State
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