

Advisors Face Expiring Universal Life Plans

by: Andrew Coen - Friday, May 9, 2014

Universal life insurance policies written decades ago, when the average life expectancy was lower and interest rates were higher, are now causing headaches for financial advisors when planning for their clients' trusts and estates.

The affected policies written in the 1980s and 1990s were priced based on an assumed interest rate, with rates at the time topping 15%. Clients could pick an interest rate assumption -- often 10% to 12%, which seemed like a conservative range at the time -- and pay a lower premium.

But there was a catch: If real interest rates were lowered than the assumptions, the insurance company would shorten the coverage span -- unless the client started paying higher premiums to compensate.

EXPIRATIONS NEAR

Henry Montag, a certified financial planner in Uniondale, N.Y., says that because most clients failed to pay those higher premiums as rates fell, they are now in danger of seeing their policies expire. Montag has been running workshops for advisors and accountants to discuss the problems with these older policies.

"The only solution going forward is to make those in a responsible position aware of the potential problem and spur them to actively manage their existing life insurance portfolio," says Montag. "Every existing contract must have its performance initially evaluated and monitored on an ongoing basis, just like any other asset class, in order to prevent the unpleasant surprise that has already adversely affected so many families."

Mark Bonhard, a financial advisor at Rehmann Financial in Westlake, Ohio, has also been focusing on the problem of expiring life insurance policies with clients. He said two separate clients -- both near 80 years old -- approached him last year about their life insurance contract being close to expiring.

"We urge clients to review these contracts with us every two years at a minimum," says Bonhard, who is in a chartered life underwriter in addition to having a CFP designation. "The longer you wait, the harder it is to correct."

BROKER-DEALERS RESPONDING

Some broker-dealers have been working to revisit clients' old life insurance policies. Both SunTrust and Wells Fargo Advisors have signed with Insurance Trust Monitor, which provides the companies' advisors with in-depth life insurance policy reviews for policies held in trust.

"We are a tool for the advisors," says Leon Wessels, executive director at Insurance Trust Monitor. "Not a lot of advisors understand the life insurance environment, so that is where we come in."

Saybrus Partners, an insurance partnership firm, has also worked with wirehouse advisors on reworking older life insurance policies. The Hartford, Conn., company, which has formed partnerships with Wells Fargo and Edward Jones, provides policy review kits to advisors it works with.

"We encourage advisors to talk to clients about insurance that they already have in place and begin the review process," says Kevin Kimbrough, principal for national sales at Saybrus. "It is an issue that needs to be addressed and talked about."