THE WALL STREET JOURNAL.

Retirees Stung by 'Universal Life' Cost

Low interest rates lead to soaring premiums for those who bought in the 1980s

By LESLIE SCISM
Updated Aug. 9, 2015 10:02 p.m. ET

Retired high-school teacher Nicholas Vertullo long felt confident that his wife, Grace, wouldn't have to pinch pennies after he died. Nearly three decades ago, he bought a $238,000 life-insurance policy, and later bought three more policies, pushing the death benefit to about $500,000. But he didn't anticipate the policies' annual costs would rise as much as they did, jumping to about $30,000 combined. "Laying out this kind of money is a hell of a thing for a fellow living on a pension and Social Security," says the 82-year-old Airmont, N.Y., resident, who aims to keep the policies in force. It is one of the most damaging but least-understood ramifications of years of low interest rates: Mr. Vertullo is among millions stung by the intricacies of a type of life insurance that combines tax-deferred savings with a death benefit.

Known as "universal life," these policies accounted for more than 25% of all individual life-insurance sales for much of the 1980s, when the 10-year Treasury yield peaked at 15%. While the 10-year Treasury is off its mid-2012 low of 1.404%, any big increase will come too late for many who bought policies in the 1980s, financial advisers say. Universal life works like this: The buyer deposits money into the policy. The insurer deducts for expenses, including the cost of the death benefit, and the rest of the money stays in the policy earning interest to help pay some, or all, of the future costs. The annual cost of the death benefit typically rises as the holder ages, to reflect higher chances of death. During the sales process, agents typically work up "illustrations" to show how the savings build. But the 8%-10% rates highlighted by many agents in years past weren't guaranteed—which buyers like Mr. Vertullo say they didn't fully understand.

The prevalence of so many contracts among badly informed consumers is "the insurance industry's dirty, not-so-little secret," says Henry Montag, a principal with TOLI Center East in Long Island, N.Y., which advises trusts on insurance issues.

Insurers say they had to reduce interest payments when yields in their own investment portfolios fell. They say their sales materials clearly disclosed that only a minimum rate—4% or 4.5% in many 1980s-era policies—would be guaranteed.

Look Under the Hood

If you own an old universal-life policy, it needs a checkup.
Here are things to do:

- **CALL YOUR INSURANCE COMPANY** and ask for an updated illustration to determine how much cash-value buildup there is to help cover the policy's future costs.
- **IF CASH VALUE IS RUNNING LOW,** review with the insurer options for lowering the face-value amount. If you can lower the annual cost of the death benefit, you can stretch out the cash value that exists.
- **IF YOU ARE IN GOOD HEALTH,** you might be able to qualify for another policy at possibly lower cost.
- **CONSIDER WORKING WITH AN AGENT** to sell the policy on the life-insurance secondary market. Under a "life settlement," a professional investor will pay an upfront amount for rights to the future death benefit. The investor pays the policy's annual costs, betting that the cash outlays will be less than the future death benefit.

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Mr. Vertullo's problems have been exacerbated because at times he deposited insufficient money into the policies for savings buildup, according to his records of payments and charges. Advisers say many buyers weren't adequately alerted that they would need to make bigger payments if rates fell. "I should have been wiser, but sadly I wasn't," Mr. Vertullo says of the policies in general.

Whit Cornman, a spokesman for the American Council of Life Insurers trade group, says: "Life-insurance policies are long-term commitments, and life insurers underwrite them with this in mind. Companies make a commitment to pay that claim the day the policy is signed."

Middle-class problem

The middle class bears the brunt of the problem, some advisers say. The rich often have institutional trustees managing their affairs, and many dealt with the developing interest shortfalls early on, including by swapping into sometimes-cheaper policies. (See chart for what to do if you own an older universal-life policy.)

"I just couldn't afford it," says James Woods Sr., 71, a former New York City social worker, of the jump in 2013 to $6,000 a year for a $100,000 policy. He had been paying about $700 a year since the 1980s. He canceled the policy and took a job to supplement his Social Security and small pension, hoping he'll have something to leave to his children.

Some advisers fault insurers for not having searched their records years ago to identify underperforming policies. "The problem of lapsing contracts is huge, and carriers generally do not have a financial interest in seeing policies persist," says Lawrence Rybka, president of *Valmark Securities.*

Ms. Scism is a news editor for The Wall Street Journal in New York. Email her at leslie.scism@wsj.com.

Henry Montag CFP
www.thetolicentereast.com
516 695-4662