



The Many Reasons Not to Look at your Life Insurance Policies

It's unpleasant, I don't understand it, I don't want to deal with a life Insurance salesman. But if you don't your life Insurance policy may expire before you do. If you're like most people you think of Life Insurance as a 'Buy & Hold' asset that requires no active management, when in reality a life policy is a 'Buy & Manage' asset, just like your stock and bond portfolio. You wouldn't buy stocks and bonds and then place your investment portfolio in the bottom left-hand drawer and not look at it for the next 10-15+ years. But that's what many purchasers of policies do. Problem is if you purchased a life policy over the last 25+ years, there's a 55% chance that the policy wasn't guaranteed to last for the rest of your life.

This is meaningful because interest rates went from a high of 18% in the mid-1980s to the current rate of 2-3%. This reduced sustained interest rate coupled with neglect over the last 25+ years has caused 23-25% of those existing non-guaranteed policies to expire years earlier than anticipated. (American Bar Association, Flagship book "The Life Insurance Policy Crisis" (Jan 2017))



You may ask, how could that have happened? I paid all of my bills I received from the Life Insurance Company on time and in full. Yes, you did but those premium bills haven't changed over the last 20+ years when interest rates were much higher. As interest rates decreased, the premiums you paid should have been increased to make up for the reduced earnings in your cash value account. Why didn't the Insurance Company send notices to ask me to pay a higher premium? It's not their responsibility as managing your policy's premium is the responsibility of the owner of your policy. The Insurer's responsibility is to merely provide you with a death benefit and an annual statement/ bill. Yes, the Insurer could have done a better job of advising their customers of the danger of their policy expiring earlier than anticipated, but perhaps that's intentional as the Insurance Company profits when a policy expires prematurely because the insurer keeps all the years of premiums and never has to pay out a death claim.

So as a result of the reduced interest rates, the policy not being guaranteed, nor properly managed, an insufficient amount of premium was paid. This has resulted in an increasing number of individual's life coverage beginning to expire years earlier than anticipated and requiring a significantly higher premium to keep the coverage in force to one's normal life expectancy. (WSJ cover story Sept 2018).

In order to prevent becoming one of the statistics yourself, it's suggested that you gather your life policies and meet with an independent experienced fee-based life Insurance consultant and go over each policy to make certain you're getting the most value for your premium dollars. Secondly to determine how long each policy will last and compare that to how long you want the policy to last.

The maximum guarantee period for a Term policy is age 80, 5-7 years earlier than normal life expectancy for a male. Since the great majority of those reading this blog are Insured with a soon to expire term policy, you should make certain that you don't allow the conversion privilege that permits you to convert the term policy to a policy lasting to life expectancy, without any evidence of insurability, slip by. Depending on the Insurer the conversion feature expires between 65 -75.

Once an overall assessment where you compare what you think you have to what you actually have, is made you can resolve the problem and provide the tax-free death benefit you intended for your beneficiaries. Keep in mind, the earlier you take the first step the more options you'll have available and the less costly it will be. I'm happy to have a conversation with you as I'm a very good resource, and happy to share my 35+ years as an independent CFP.

Henry has authored many articles for Attorney's and CPA's including the NYS Bar Association, the NYS Society of CPA's, and authored a book for the American Bar Association. He is also a source for the WSJ, Long Island Business News, etc, and is able to simplify the many questions a client has regarding their financial concerns. <https://thetolicentereast.com>