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Why Your Life Insurance May Expire Before You!

While there may be many reasons not to take a look at your life Insurance portfolio; you don't really like thinking about life Insurance, you don't understand it, you don't want to sit down with a life Insurance salesperson that's going to try and sell you more Insurance, or you're just too busy. Aside from that why do you even have to take a look at your life Insurance policies, after all, they're not going anywhere? In reality, however, there are absolutely No Good reasons not to.

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 a bunch of 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 exactly what many purchasers of life Insurance do and have done for years with their existing life Insurance portfolio. Perhaps that habit of neglect more than anything else has contributed to the fact that 23% of life Insurance policies today are expiring years earlier than anticipated.

If you purchased a life Insurance policy over the last 25+ years, 45% of you purchased a whole life or term policy that was guaranteed, while the other 55% purchased a policy that wasn't guaranteed to last for the rest of your life.   Unfortunately, the great majority of those individuals were and are not aware today that their life Insurance policy may actually expire before they do, and their beneficiaries would then be left without their life Insurance legacy.

Why is this so? Several reasons contribute to these sad statistics. Primarily is the fact that interest rates went from a high of 18% in the mid-1980's to the current rate of 2-3%. This reduced sustained interest rate coupled with neglect over the last 25+ years has caused 23% of those existing non-guaranteed policies to expire years earlier than originally anticipated.

You may ask how could that have happened, or better yet how could that been allowed to happen. I paid all of my bills that I received from the Life Insurance Company on time and in full. Yes, you did but those premium notices haven't changed over the last 20+ years when interest rates were much higher. The fact of the matter is that as interest rates over the last decade decreased, the premiums you paid to the Insurance Company should have been increased to make up for the reduced earnings in your cash value account. The next logical question would be. "Why didn't the Insurance Company send me notices to ask me to pay a higher premium"?   Very simply, it's not their responsibility to ask you to increase or decrease your premium as that's the responsibility of the owner/trustee of your Insurance policy. Their responsibility is to merely provide you with a death benefit at death, and provide you with an annual statement & a bill. Yes, the Insurer could have done a better job of advising their customers of the danger of their policy expiring, but perhaps that's intentional as the Insurer profits when a policy expires prematurely as the insurer keeps all the years of paid premiums and never has to pay out a death benefit.

So as a result of the reduced interest rates and the policy not being guaranteed nor managed over the last 20+ years, an insufficient amount of premium was paid. That amount grew and compounded over the years making the amount of money that an Insured would have to pay to get back on track significantly higher than what they initially paid. Some Insureds would not pay the increases when they receive a letter stating that their policy has expired unless they paid the higher premium while others could not pay the increased premium. In either case, the result of all of this is causing the duration of the policy's coverage to shorten to the point where your life policy may expire before you do leave your beneficiaries without the life Insurance legacy they were expecting.

To make matters even worse many Insurers have now begun to increase their internal cost of Insurance (COI's), further exacerbating an already deteriorating situation causing many more policies to expire even quicker than before.

In order to prevent becoming one of the statistics its suggested that you gather your life policies and sit down with an independent experienced life Insurance consultant and go over each policy with an eye towards seeing exactly how much longer each policy will last based on the type of policy it is, the premiums you have paid and the earnings your policy has been credited with. Doing so will make you aware as to whether your policies are sufficiently funded to last for as long as you want them to last. If they're not you'll have the ability to adjust what needs to be done to keep the life Insurance in force.

As mentioned term policies can be guaranteed for a 10,15 20, 25 & 30 year periods, but will not remain in effect beyond an individual's early to mid-80's. A very important feature of a term policy is that it gives you the ability to convert to a permanent policy without any evidence of insurability if a person's health changes and they want to keep the policy in force beyond their mid-80's. However, this conversion feature will expire in some term policies at 65 while at others at age 70 or 75. It's imperative that you review your term policies and not let a conversion features slip away if your health has changed as it would prevent you from having any life Insurance for your heirs.

Whole life Insurance is guaranteed to last for the rest of your life as long as you continuously pay all of the premiums on time and in full. That means not relying on dividends to pay any part of your premiums as dividends are not guaranteed

Keep in mind that any type of a Universal or Variable or Indexed Universal product that is not guaranteed must be reviewed every few years to make certain that the life policy will remain in force for the rest of the Insured's life.

Once the facts are gathered and an assessment is made it is then possible to take steps to fix the problem and prevent any future unpleasant surprises from getting in the way of accomplishing your intended goals of providing a tax-free death benefit for your beneficiaries. For example an Insured could;

1. Increase premium on existing policy
2. Reduce the current death benefit
3. If in good health compare the cost of a new policy
4. If in poor health& over age 70 consider selling the policy as a 'Life Settlement'

The point is the earlier one takes the first step the more options they'll have available and the less costly it will be to solve their problems.

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