

## Such is life insurance

By: [Bernadette Starzee](#) April 2, 2019

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To some people, life insurance is like car insurance: They set the policy, pay the premiums and rest easy knowing it's there in case of an accident or, with life insurance, their untimely death.

But life insurance is a bit more complicated. For starters, you can choose between temporary and permanent insurance. Further, some policies double as a savings vehicle, and some can be used to pay for long-term care should you become incapacitated. And people who hold non-guaranteed variable universal life policies are often shocked to discover that their policy may expire before they do.

### **Term insurance**

Term insurance is temporary.

"Terms can last 10, 15, 20, 30 years, and different companies offer term policies at different prices," said Craig Ferrantino, president of Craig James Financial Services in Melville.

Compared to permanent insurance, term insurance is less expensive, Ferrantino said.

"You just have to figure out how long you want the term to be, and how much you want the death benefit to be," he said. If you die within the term, the death benefit will be paid, as long as you have paid the premiums.

### **Permanent insurance**

Permanent life insurance can be used not only for its death benefits but also its living benefits, said Henry Montag, principal of the TOLI Center East, an insurance consulting firm in Melville.

A popular permanent insurance option is whole life insurance. With this product, you pay fixed premiums and get a guaranteed death benefit. And part of your premium is deposited into a cash value account, which earns interest, with taxes deferred on the accumulated earnings.

“You develop a cash balance, which means the policy doubles as a savings vehicle,” Ferrantino said. The policyholder can withdraw funds from the cash value account or borrow against it.

“With a whole life policy, the cash that you will accumulate can be illustrated on a table,” Ferrantino said. “The amount will be guaranteed over time.”

Another permanent option is universal life insurance, which is adjustable.

“The premium can be variable, the cash value is variable and the death benefit is variable,” Ferrantino said. Some people like the flexibility of a variable life policy; if they fall onto tough times financially, for instance, they can skip a premium or pay lower premiums. But there are potential pitfalls.

“During the 1980s and 1990s, many people purchased policies that were not guaranteed to last for the rest of their lives,” said Montag, who said he devotes considerable time educating attorneys, certified public accountants and investment advisors that 45 to 55 percent of their clients’ life insurance portfolios are made up of a non-guaranteed insurance product whose coverage is increasingly expiring years earlier than anticipated.

In 2003, Montag said insurers began offering guaranteed universal life policies, which are more expensive than non-guaranteed options, but that are guaranteed to last for the rest of the individual’s life.

The problem with the non-guaranteed policies in the two decades leading up to 2003 was that when they were taken out, they were based on high interest rates, which subsequently plummeted.

“It was the owner or trustee’s responsibility to make certain that any shortfalls between the assumed interest rate when the policy was taken out and the actual interest rate that was credited to the policy in each of the last 20 or 30 years be made up by increasing the premium paid,” Montag said, adding that the insurance companies did not do a good job communicating this to the insured individuals.

Many people did not increase the premiums they paid as needed to counteract the effect of the lower interest rates. Rather, they put the policies in a drawer, assuming that as long as they paid their premiums they would have a guaranteed death benefit.

“They’re very surprised when they get a notice that their policy is going to expire in a year,” Montag said. Universal policies need to be actively managed, and if you have one, you should



*Henry Montag: Many people hold a life insurance policy that will expire years earlier than they expect.*

check that the policy has a guarantee. The sooner people find out that they have a policy without a guarantee, the more that can be done about it, Montag said.

“They can increase the premium, decrease the death penalty or, if they’re healthy enough, they can purchase a new policy,” he said. “Or, instead of just giving up the policy – which is like putting no more gas in a car – they can sell it.” The latter option is called a life settlement.

### **Long-term care options**

While people can use a long-term care insurance policy to pay for their care should they become incapacitated, most people don’t buy these policies, Montag said, because they’re expensive and if policyholders don’t use it, they lose it.

About six years ago, life insurance policies with accelerated death benefits or long-term-care riders emerged as an alternative.

“With these hybrid policies, you can collect benefits if there is cognitive impairment or if you are unable to perform two of the six activities of daily living” (such as eating, bathing or getting dressed), Montag said.

“Some of the permanent insurance policies offer the accelerated death benefit,” Ferrantino said. “Say you have a death benefit of \$200,000, and you become incapacitated. The policy rider may allow you to take out \$100,000 now to help pay for your care.”

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