Ready for a Refresher?

with Jim Olson

I recently met with someone who brought a life insurance policy issued in 1981 to a meeting. He had dutifully paid his premium each year, but he didn't know exactly what kind of policy he had or what the current death benefit was. I was able help him work with his insurance company to figure things out, but the experience underlined the importance of periodic policy reviews.

Our approach to policy reviews varies based on the type of insurance the client has. Many of our clients have term coverage. A term policy is the simplest form of life insurance and it is a cost effective way to provide coverage through one's working years. Term coverage lasts for a stated duration (ten, fifteen, twenty, or thirty year policies are the most common) and the premium and death benefit are usually guaranteed for the length of that period.

The goal of term policy reviews should be to ensure that the amount of coverage is still adequate, that the beneficiary designations are up to date, and to go over policy options such as the right to convert the policy to a permanent plan without going through underwriting.

Other clients have permanent coverage. Permanent life insurance policies are designed to provide coverage for the duration of the insured's life. They feature a cash value account and are more complicated than term policies.

A thorough discussion of the mechanics of permanent policies and the several types of permanent plans that are available is outside the scope of this column. What is important to note is that permanent policies usually have non-guaranteed elements that will be affected by factors such as changes to interest rates and policy expenses. Some permanent policies are directly affected by stock market performance. In addition to covering the same topics mentioned above for term policies, a review of a permanent policy must examine how changes to these non-guaranteed elements are affecting the policy.

For example, many policies are sensitive to changes in interest rates and it is very important to examine how the current interest rate environment is affecting those policies. The long-term outlook for such a policy that was issued in 2003 with the assumption that the insurer would credit an effective annual interest rate of 6.25% to the policy's cash value may look very different in 2018 if the company is now crediting 4.25% to the same policy. In that situation, the policy owner will likely have to pay a higher premium if the original goals for the policy are to be met.

A review of a permanent policy is usually done by obtaining an "inforce illustration." This is a current snapshot of an existing policy and how it is projected to perform under both guaranteed and non-guaranteed assumptions regarding the policy. These illustrations are imperfect and should not be regarded as anything other than an educated guess about future policy performance. That being said, they can be a useful tool in helping to determine if a policy is on track or not.

If you have a policy that you haven't looked at in a while, I would encourage you to contact your agent or broker and set up a time to review your policy, refresh yourself on how your individual plan works, and check to see if it is meeting the expectations established when the policy was issued.

For more information, please contact your trusted advisor at Swartzbaugh-Farber – 'Client Centered – Client Advocates™'.