

## Under Performing Policies

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During the 1980's and 1990's many "vanishing premium" policies were sold and purchased. Today, many of those policies are vanishing themselves. If you consider the number of policy owners who are not current with their policies status, you have a situation where a contract from a life insurance professional is not in order, yet a key component to the client's financial picture. The drop in interest rates has significantly influenced policy performance in many situations, and the sooner an analysis is done, the better will be the insured's position.

An insured holding a non-term life policy that is under-performing relative to the expectations at the time of purchase has four options:

1. Increase the premiums going into the existing policy.
2. Wait to see if an interest rates increase occurs that will make everything OK.
3. Replace the existing contract with one better suited for today's financial environment and the client's needs.
4. Die before the policy implodes.

It is important to emphasize to clients that no action on an existing policy should be taken until all facets of the existing contract are explored in view of the insured's current needs, health and financial position.

In the case of a fixed contract, a proper analysis would include current contract projected illustrations (assuming the same stream of premiums). Secondly, the analysis should include what premium stream would be needed under today's interest rate scenario to keep the policy in force for as long as the coverage is needed. Most people illustrate to age 100. However keep in mind there are situations where the coverage is desired only until a fixed date – which might be different than age 100. Obviously, illustrations should be run to match the date. Also, if it is determined that the policy owner has more coverage than he or she currently needs, reducing the face amount to maximize the number of years the coverage might last is a viable option. In such cases, you should always have the current insurers provide any possible tax events or reductions in cash values on face decreases projections so the policy owner is not surprised later.

The wait and see option make little sense unless an analysis of the client's needs, the current in-force plan and options available are explored. Wait-and-see is an appropriate strategy for only short periods.

Replacing the underperforming policy might make sense, assuming the client is still insurable. Newer contracts offering secondary guarantees of coverage might take the guesswork out of life insurance coverage in the future. Of course, a re-examination of needs and financial status is important. Replacement of in-force coverage should never be done flippantly or without reviewing the entire scenario. However, if such a change is in the best interest of the insured and the policy owner, than a move to different contract might be in order. Even through the issue age might be older, the new policy might outperform the one in force.

The final option, "die before the policy implodes" may seem inappropriate and facetious, but it really might not be. Such a decision must be made based on the health of the insured. Common sense will obviously prevail.

I see many in-force policies and provide answers to many questions about them. From what I have seen, the numbers of underperforming policies is large and there are many policy-owners who have not been contacted by their agents for review. I believe this lack of service to policyholders is because interest rates are down and many agents are reluctant to discuss bad news. However, recent studies have shown that clients are aware of today's current investment and interest rate environment and are willing to do business with advisors would provide service in both good times and bad.