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A Problem With Life Insurance That's Universal

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By Scott Hanson, Next Avenue Contributor

While I certainly hope that no one reading this is currently involved in a fight with thei life insurer over the rising costs of their universal life premiums, I know better.

Over just the last two years, tens of thousands of universal life policyholders have been hit with double-digit premium increases from companies such as Axa Equitable, Voya Financial and Transamerica. More premium hikes, especially to long-time policyholde are expected.

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Universal life was invented in the 1970s and comprised 25% of life insurance policies purchased in the 1980s and 1990s. So the number of people who may eventually be impacted by steep premium hikes could number in the tens of millions.

What Universal Life Insurance Is

Today In: Personal Finance

To understand why this is happening, and whether you should be concerned, it's probably best to start from the beginning.

For those unfamiliar with universal life, it's a permanent (as long as you pay the premiums on time) and somewhat flexible hybrid life insurance policy that combines tl reasonably affordable aspects of term insurance with a savings element similar to whol life.

Universal life insurance typically offers policyholders a "cash value" savings account th earns tax-exempt interest along with the flexibility to adjust premiums and to increase and '90s, the most common guaranteed rate in universal life contracts was 4%; some insurers guaranteed more, according to Consumer Federation of America's James Hun

Premium Increases of Over 200%

Over the past couple of years, thousands of universal life policyholders have been informed that their insurers are using the fine print of their contracts to significantly increase their long-static monthly premiums. Some customers have been hit with increases of over 200%.

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That means some people now in their 60s, 70s and 80s, many on fixed incomes, are being told they need to pony up anywhere from a few hundred dollars to thousands of extra dollars each month for policies they purchased decades ago. Otherwise, the policy will eventually lapse or they'll need to surrender it and take out whatever cash value is left (and probably owe taxes on that money). Either way, there would be no death-benefit payout.

Nicholas Vertullo, an 82-year-old Long-Island retiree interviewed by The Wall Street Journal last August, reported that his premiums for three universal life policies had more than doubled to an almost unimaginable $30,000 a year (for a $500,000 death benefit). He'd paid into the policies, on time, he said, for almost 30 years.

Why Some Universal Life Premiums Are Soaring

Naturally, policyholders want to know how this could happen. But *why* this is happening might be just as important.

Life insurers blame the economy. Interest rates began to slowly decline in the 1980s, bu then plummeted during the 2008 recession as the Federal Reserve tried to improve economic conditions by making money cheap to borrow. But low interest rates are bad for most investors, including life insurers. Because insurers invest their money a lot lik you and I, the low interest rates have meant lower profits.