# Your insurance plays a key role in your financial plan

Your financial plan and investment portfolio is likely made up of a variety of different types of assets, which you probably review with your wealth advisor at least annually, if not more often. Insurance policies can play a critical role in your financial plan, but they are often overlooked.

Whether it is life, health, disability, long term care, excess liability, or property and casualty, insurance plays a major role in a comprehensive financial plan. Specifically, when it comes to life insurance, our clients often ask:

- “How much insurance coverage should I have?”
- “Should I keep my old policy?”
- “When can I stop paying premiums?”

We recommend that you review your life insurance policies — especially older policies — with your insurance agent and your wealth advisor on a periodic basis. Tax laws may have changed since the old policies were purchased, and your family’s circumstances and needs may have changed over the years as well.

## Types of life insurance

There are several different kinds of life insurance.

- **Term insurance:** This is the lowest cost life insurance; you pay a level annual premium for a fixed death benefit. The term expires after the chosen - number of years (i.e. 10,20, and 30-year term).
- **Whole Life insurance:** Compared to term insurance, these policies are more expensive but build up cash reserves resulting in a permanent asset. As long as premiums are paid, the policy should not expire. The cash value is invested in the general portfolio of the insurance carrier. Eventually, the cash value can be used to pay premiums and receive an income stream.
- **Universal/Indexed Universal Life/Variable Life insurance**: With these types of policies, your premium is higher than term, and the cash value builds up just like a whole life policy except that you can direct how the cash value is invested. The choices vary by product but allow investment in the equity, bond and cash markets.

All these policy types can play a role in a financial plan. The key is making sure the policy is performing as expected and the insurance purpose is still intact.

## Five reasons to review your life policy

### 1 | Whole life premiums are continuing well past the estimated payment duration

Since whole life policies are invested in the insurance company’s general account, the crediting rate that they earn is based on the insurance company’s ability to earn interest on that account. These general accounts are conservative fixed income portfolios.

Although interest rates have been higher lately, they have been historically low over the past decade, and these policies may have not been able to earn the same dividend rate that was expected when the policy was issued. In these cases, premiums must be paid for longer than was initially anticipated.

When this happens, policyholders can consider various options:

- Continue paying the premiums
- Reduce the amount of insurance
- Switch to a policy that allows for investments in financial markets (i.e. Universal or Variable Life) or has a better ROI.

### 2 | You have an outstanding loan on your policy

The biggest challenge with having a policy loan is the possibility of unintended taxable income. When policies lapse, the amount of money borrowed (minus premiums paid) is taxable as ordinary income. For example, you could have a $500,000 policy earning 4% in cash value, with a $400,000 loan that costs 8%. Not only is the disparity in interest earned and interest paid eroding your cash value, but if you cancel the policy (or let it lapse) the “phantom income” from the loan can become a significant tax event. There are a variety of unique ways to manage your specific situation.

**3 | Life policies with low rates of return**

Sometimes the policy may still be appropriate, but a better option might be available. For example, it may not make sense for a young family with a long investing time horizon to continue a policy with a potentially low rate of return when the family may have a risk tolerance for a policy that can invest in equities and other financial markets. With the ability to invest more aggressively, your wealth advisor can help integrate the insurance policy to work alongside other investments to help meet long term goals.

**4 | Life policies with eroding cash values**

Low interest rates on whole life and universal life policies can also influence the ability for the policy's cash value to grow as policyholders become older and the internal cost of their insurance increases. It is possible for a client to have had a policy for many years where the cash value grew to $500,000 but is now beginning to decline in value. This is because the cost to provide the death benefit may be increasing at a higher rate than the credited interest on the policy. When this happens, it may be time to consider other options, such as asking the life insurance company about the amount of death benefit you can receive as paid-up insurance.

**5 | Your life policy has a minimum guarantee**

Many older policies were written with interest crediting guarantees. With all life insurance, if the insured passes away early in the life of the policy, the insurance benefit provides an exceptional return. However, with policies carried for a long time, the question becomes whether a more competitive rate of return could be earned.

## When was the last time you reviewed your policies?

We recommend that our clients review their life insurance policies and their beneficiaries every three to five years. Questions to ask during that review include:

- Is this still the right amount of insurance coverage?
- Is this still the right policy?
- What am I trying to accomplish?
- What do I need versus what I already have?
- What are my options?

As your needs change over time, it is important that you work with your wealth advisor and insurance agent to be sure that your life insurance is best suited to your current situation.

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