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Universal Life: Take Care Of 3 Problems With 1 Product

By James A. Mallon

October 31, 2014 — As 2015 approaches, I'm struck by the persistency of three glaring needs and the resounding calls to action they pose for producers. The new year will usher in new opportunities to help Americans with:

- Providing death benefit protection for their families.

- Facilitating sufficient income during retirement.

- Providing safe harbor from the financial destruction that chronic illness and other contingencies can wreak.

The challenge is clear: Recognize opportunity before it becomes common knowledge, and respond with modern, multi-purpose solutions to differentiate yourself and be worth more to clients than the commissions you are paid.

Before the market fluctuations of 2008, the chatter in the pre-retirement corridor seemed to focus primarily on the potential for massive wealth transfer. Today, the conversation seems to center on three contingencies staring Americans in the face: dying too soon, outliving retirement income or grappling with chronic illness along the way. Research continues to point to the need for protection against such contingencies.

In fact, according to the Insured Retirement Institute, nearly two thirds of recently surveyed Americans age 55 and older said they feared outliving their assets more than they feared dying. Nearly half of Americans ages 45-70 reported having no financial plans to protect them from outliving their assets and the escalating cost of health care should they live longer than anticipated.

No matter what resources people have, they care about making sure their families are financially protected if they die prematurely, about having sufficient income to preserve their quality of life if they outlive their life expectancy, and about being able to pay for expenses such as long-term care if needed.

It's also my experience that as people approach retirement, it dawns on many that their employer-sponsored group life insurance coverage, perhaps in a face amount many times their annual income, will vanish. They therefore need something to help pay the mortgage and other debts or expenses when they die. What will they do about that, and about the threat to their income or assets if they face long-term care?

There was a time when producers might use a trio of products to address the three major contingencies mentioned earlier. Due to ongoing innovation, it's now possible to offer multi-purpose, single product solutions that not only can replace group life insurance, but provide accelerated access to the death benefit to help pay for expenses (including, but not limited to long-term care expenses) wrought by chronic illness – or even transform any remaining death benefit into supplemental retirement income if clients live to age 85.

For example, one such product consists of universal life insurance (UL) packaged with longevity and chronic illness accelerated benefit riders, all at one cost. Keep in mind that accelerated benefit riders add to the price of insurance.

Regardless, multi-purpose products facilitate modern approaches to established needs. And implementing differentiated approaches isn't important just for clients approaching retirement. Consider the financial challenges that recent college graduates and young families in the middle market face, and the value you stand to bring when you can provide a single, affordable financial product that can help them address multiple needs.

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Perhaps no group of consumers is more in need of products that can save money and serve multiple purposes: hybrid UL products that can provide financial relief if a devastating chronic illness strikes (a possibility at any age), but also, that feature a death benefit designed to help pay college debt, the mortgage, etc., if the worst happens. To clients seeking value as well as affordable protection, the one-dimensional solutions of many years ago don't necessarily make the grade any more.

But as an agent or advisor, how do you apply this insight – how do you determine which specific product offerings may be most appropriate for a given client? To help match cutting-edge products to needs, I think it's key to apply a level of critical thinking that asks, "If this were me, my daughter, my son or my parents, how could I come up with a solution to help them address their critical challenges?"

You might also ask yourself, "Can I optimize my relationship with carriers? Has the level of sophistication in products and solutions advanced to the point that I should focus on partnering with one or two carriers that offer the solutions American consumers need today, and then make sure I understand those products, so as to best serve my clients?"

Take the time to delve fully into up-to-date concepts and products, such as the previously mentioned hybrid UL products, and get over the learning curve so you can positively impact clients' lives. Look beyond prices and illustration spreadsheets; consider solutions requiring a deeper product knowledge and understanding.

Review, for example, not only UL products with living benefit riders that are designed to address longevity, chronic illness or both, but also, consider newer designs in variable universal life insurance (VUL) and indexed universal life insurance (IUL). These products may help address other needs, such as for cash accumulation.

As LIMRA has reported, VUL accounts for only 7 percent of U.S. life insurance sales, but some of the modern VUL designs, which have features and benefits that can guarantee lifetime coverage while providing growth potential through diverse investment options, may be particularly appropriate for certain clients. If they are under age 65, need the security that life insurance provides, are searching for a competitively priced death benefit, long-term guarantees, and market-driven asset growth potential, VUL may be a smart choice.

When reviewing this type of insurance with clients, educate them on VUL's potential to accumulate a significant amount of cash over the longer term, on a tax-favored basis – a characteristic that may be compelling, indeed, to people still focused on building sufficient cash for retirement.

There certainly seems to be no lack of prospects for your outreach regarding VUL, given that, as The National Institute on Retirement Security revealed in a recent report, "The average working household has virtually no retirement savings." Of course, be sure to tell clients at the start of the planning process that they should seek independent tax or legal advice when considering their own circumstances.

As younger or middle-age clients re-evaluate their financial readiness, they may also want to consider cost-effective, cutting-edge IUL designs, as these products also offer the potential for growth in cash value. The question of whether IUL or VUL may be more appropriate for a given client depends, in part, on the client's mindset: whether he or she is more focused on limiting downside risk (in which case, IUL may be a good fit) or instead, prefers a product designed to offer more upside potential (VUL).

Making newer VUL and IUL options available in the new year, along with combo UL products that feature living benefit riders, is important since not only do we have the potential to protect consumers from the financial ramifications of multiple contingencies, we have the potential to help them drive long-term accumulation. The ultimate goal, in 2015 and beyond, should be to provide solutions imbued with all the flexibility, customization and protection that American consumers and families deserve. ■

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