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Universal Life

Rethinking its role in retirement planning

By John Deremo

ARTIST: RICHARD BORGE

Did you do a double take when you saw the title of this article? I ask because if, at your next networking event, you were to mention universal life insurance in the same breath as retirement planning, you may get a blank stare from some of your fellow agents or advisors. After all, the thought of retirement planning often conjures up the word "investments" — and of course, universal life insurance is *not* an investment, nor should it ever be referred to as one, despite the fact that the policies have a cash value component.

However, there are key reasons why universal life insurance merits a place in the discussion with certain clients during the retirement planning process. Universal life insurance may hold particular relevance to affluent baby boomers, ages 40-60, during retirement planning. This is because of the product's attributes as a core protection asset as well as one that may provide tax advantages for the policyholder and — when combined with appropriate riders — needed income in retirement.

It's no secret that baby boomers, even affluent ones, need help with retirement readiness. According to a report released by the Insured Retirement Institute (IRI), baby boomers' confidence in their financial preparedness for retirement has dropped 9 percent, from 44 percent

THE STATE OF UL

INDIVIDUAL WHOLE LIFE new annualized premium increased six percent in the second quarter, according to LIMRA's Second Quarter 2014 U.S. Individual Life Insurance Sales report.

The increase, the LIMRA research reveals, boosted premium revenue for all individual life insurance products by one percent in the second quarter. For the first six months of 2014, however, total individual new annualized premium dropped four percent, compared with the same period in 2013.

"Holding 34 percent of the market, whole life's rebound from a weak first quarter fueled the positive second quarter results for overall individual life premium," says Benjamin Baldwin, associate analyst, LIMRA Insurance Research. "Over the past six years, whole life has demonstrated strong, consistent growth, which has buoyed overall insurance sales."

The individual life insurance policy count improved four percent in the second quarter, which is the first positive quarterly growth in policy count for six quarters. Year-to-date, policy count is three percent lower than prior year, LIMRA finds.

Universal life (UL) new annualized premium fell eight percent in the second quarter and 13 percent after the first half of the year. A 33 percent decline in guaranteed UL in the second quarter contributed substantially to the overall performance of UL in the second quarter.

UL market share was 36 percent of total life sales at the end of the second quarter.

Indexed universal life (IUL) premium improved 14 percent in the second quarter, resulting in a 13 percent increase in the first half of 2014. Almost three-fourths of IUL carriers reported increased sales compared with the first half of 2013. IUL represented 42 percent of total UL premium, and 17 percent of overall individual life premium in the second quarter.

Variable universal life (VUL) sales rose 30 percent in the second quarter, growing 23 percent year-to-date. This is the seventh consecutive quarter of positive growth for VUL. Through half of 2014, all of the top 10 carriers have experienced positive growth. VUL represents seven percent of total life insurance sales.

Term life insurance premium was flat in the second quarter, resulting in a three percent decline year-to-date. Term market share remained steady at 23 percent in the second quarter.

Source: LIMRA

in 2011 to 35 percent in 2014. When compared to 2013, only 35 percent of boomers are extremely or very confident that they are doing or did a good job preparing for retirement in 2014.

THE ROLE OF UL

Let's look closer at the role that universal life can serve in the context of retirement planning for affluent baby boomers. First, consider the unfortunate reality: not all clients survive until they reach their anticipated retirement age. Based on the 2008 Valuation Basic Table (VBT) Relative Risk mortality tables from the Society of Actuaries, on average, of 1,000 males who are age 45 and in the standard nonsmoking rate class, 923 would be alive at the end of 20 years. Also on average, among 1,000 insured females who are age 45 and in the preferred nonsmoking class, 942 would be alive at the end of two decades.

What about clients who don't survive to retirement age? In that situation, the presence of a life insurance policy is intended to "self complete" the retirement planning process, in the sense that the policy may provide loved ones with that which the policyholder may have accumulated if he or she had lived longer.

Beyond the base-level death benefit are the tax advantages that universal life insurance may offer. Any growth in cash value (although growth is not guaranteed) is tax deferred. For clients in the traditional retirement zone of age 65 to 85, a properly structured life insurance policy to augment personal savings plans also has the potential to serve a key role, providing income tax-free benefits through loans and withdrawals.

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Keep in mind, of course, that a policy loan or withdrawal will reduce the death benefit and that cash taken from the policy that surpasses the total premiums paid may constitute taxable income upon lapse or surrender of the policy. Additionally, let clients know at the start of the planning process that, as always, they should seek independent tax or legal advice when considering their own circumstances.

UL AND LONGEVITY RISK

In addition to the tax advantages of universal life insurance and the potential for the product to self complete the planning process is the opportunity that it may provide for taking the longevity risk off the table. When combined with a longevity rider (and when the policy premiums are paid), a universal life contract can provide clients who live to age 85 with an opportunity to access a stream of retirement income that may be income tax free. That income stream can serve a welcome role in an active retirement program.

What's more, it's possible today to provide clients with a guaranteed universal life insurance product that's combined with both a longevity rider and a chronic illness accelerated benefit rider — a hybrid offering that is designed to provide solutions whether clients outlive their assets, become chronically ill or die too soon.

For policyholders who meet the rider's health impairment criteria, this type of hybrid product may provide tax-free living benefits to help fund nursing home care, assisted living or virtually any type of expense, even if not related to the illness. The ability to access the benefits may help the policy holder manage unanticipated costs without having to tap into or liquidate other assets.

That level of flexibility and protection may account for why individual life combination premium grew 12 percent in 2013 — the fifth consecutive year of double-digit growth — according to a recent press release from LIMRA.

According to the release, total new premium for life combination products reached $2.6 billion in 2013, representing 13 percent of total individual life insurance new premium. Approximately 98,000 life combination policies were sold in 2013, an increase of 18 percent compared with 2012 results.

As Catherine Ho, LIMRA product actuary, explained in the press release, "These products clearly appeal to consumers who want a policy that provides flexible benefits and can address several of the financial risks consumers face as they grow older."

UL AND SMALL BUSINESS

When thinking about retirement planning and the clients for whom universal life insurance might be a fit, consider the suitability of the product for the burgeoning small business market. An employer who wants to implement a 401(k) plan would have to offer participation to all employees — but he or she could choose instead to fund the purchase of universal life insurance for only selected, key employees.

Thankfully, the small business market seems to be teeming with opportunity. Trends in corporate America, from downsizing to rightsizing and outsourcing, have helped fuel the emergence of legions of small businesses in recent years, and I believe the owners of many would appreciate education on the role that universal life insurance can serve for employees planning retirement.

Consider that, as noted on the Small Business Administration's website, the number of small businesses in the United States has increased 49 percent since 1982 and that since 1990, as big business has eliminated 4 million jobs, small businesses have added 8 million new jobs.

Furthermore, alongside the dearth of so many big business jobs, we've also seen many pension plans go by the wayside. In fact, according to the Economic Policy Institute of Washington, D.C., only 22 percent of full-time, private-sector employees still had Defined Benefit (DB) pension coverage as of 2010, the latest date for which figures are available.

Given that Americans today increasingly lack access to pension income and that many have seen their retirement savings eroded by fluctuations in the markets, unanticipated medical expenses or other financial challenges, it seems prudent to raise awareness of how a smartly structured universal life insurance policy may be of value.

With its all-important death benefit, its potential tax advantages, and its potential when combined with appropriate riders to provide needed income in retirement, universal life insurance deserves a serious look as a component of a well-designed retirement plan. And there's no time like the present to help clients look toward the future. NU

John Deremo is Executive Vice President and Chief Distribution Officer, Life Insurance, AIG Financial Distributors.