# Variable Life Insurance

Higher income clients are typically aware of variable life because it has been pitched to nearly every high income client in the country by a salesperson trying to talk a client into purchasing the policy as a post-tax investment. While investing in a life policy can make sense as a post-tax investment (if the policy has good and steady long-term returns), we would prefer clients to fund a life insurance policy as an investment when doing so in a tax-favorable manner.

## Where does your premium go?

Variable life is simple to understand. When you pay your premium, X amount of the money goes to pay term insurance for someone your age; and the rest of the money goes into the stock market via mutual funds. Many clients seem to love this policy because they seem to like the fact that they are buying life insurance but their money is really going into the stock market.

If you had a variable policy from 1999-2002, then you know why we do not like variable. Most people do not seem to grasp (and the agents do not bring to light) the fact that, when you get over 70 years old, the costs of insurance in a variable policy are tremendously high. Further, the illustration given to the client only assumes a level rate of return (usually 10-12%) every year of the policy. That is not realistic; and if you throw in negative returns early on in the policy (or if the average return in the policy is a more reasonable 6-8% return), the entire illustration that you received when you were sold the policy is not worth the paper it is written on.

## No Guarantees

There are no guarantees on investment returns in the majority of variable policies. That means that, if you have a negative year (or several like 1999-2002), the cash value in your policy (the money invested in mutual funds) takes a nosedive with the stock market. You might think that is not a big deal due to the fact that over the long haul the policy will still average your assumed rate of return of 10-12%. What you have not probably thought of is that the expenses in your policy increase every year, and the insurance company does not care if you do not have cash in your policy to pay premiums because the market is in a funk. The insurance company on schedule still takes out its chunk of your money for life insurance premiums. We call that a double whammy, to use a not-so-sophisticated term, to describe premiums coming out and cash value decreasing.

## Big problem

Many clients were sold variable policies with 12% illustrations where they were told that they would only have to pay premiums for 10 or so years. Many of those clients were told that the cash build up would be tremendous and that not only would the client not have to pay premiums but they would also be able to take tremendous income tax free loans from their life policies when in retirement.

You know what those agents are telling their clients after three terrible years in the stock market? They are telling their clients that they will have to pay premiums for an additional five years or more and that their life company will not even let them run life insurance illustrations that exceed 10%. Strange how the worm has turned.

We always thought 12% illustrations were a bit rosy, and now the insurance companies are starting to agree with that assertion.

## Our recommendation

With the new universal life and indexed universal life policy, we see no need for anyone to go out and purchase a new variable policy.

What if you currently have a variable policy? What can you do and what should you do?

One suggestion is simple. Unless you have massive surrender charges (a penalty for canceling your policy and moving the cash value to another company), we suggest ***1035 exchanging your variable policy*** for an indexed universal life or traditional universal life policy. With the new non-variable policies, you can give yourself minimum guarantees on investment returns, have lower long-term costs and, if the market does well, you will be able to get the investment return up to 11-15% annually.