5 questions for your life insurance agent


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There may be a cancer eating away at your life insurance policy, causing it to die before you do! If you have a "universal life" policy -- one with flexible premiums and/or investment choices within the policy -- the insurance industry is taking a bigger bite out of the cash build-up that was forecast to keep your policy intact until your death.

In the 1980s, the life industry created flexible premium adjustable life (commonly referred to as "universal life"). An army of insurance salesmen offered "illustrations" (importantly, not promises) of how the money inside the policy would grow such that it could be used to support your policy without further premiums in your old age, after you retired.

Years ago, I started warning people that their policies could "lapse" or require much higher premiums because they were not performing as illustrated. Interest rates dropped so much that the carriers were paying only the guaranteed minimum of 3 or 4 percent, not the 8 to 10 percent that had been illustrated.

Now there's another challenge to life insurance policies. Interest rates have stayed low far longer than predicted, hitting insurance company investment returns. So now the insurers are raising something called the "cost of insurance" -- or mortality charge -- even at a time when true mortality costs are actually dropping as people live longer. Some insurance companies are increasing these annual charges against your policy by 50 percent or more in order to maintain their profits.

Here are five things to ask your agent about your policy right now -- while you still can adjust your premiums to make up for the rising costs:

1. Ask your agent (or any agent) for an "in force ledger" based on current mortality charges and guaranteed minimum interest rates. That's the form that shows you the true internal condition of your policy.

2. Ask if your policy has a "no lapse" guarantee -- meaning that it is guaranteed to last as long as you do, if you keep paying the premiums. If it does, ask if you are on track or behind the cumulative no-lapse premiums required. If you're behind, ask if the policy has a "catch-up" provision, and what it would cost to catch up.

3. Ask whether, if you keep paying the same premiums, the policy will remain in effect to age 100 (or even beyond), based on the current costs and the possibility of rising mortality expenses being deducted each year.

4. Ask how long -- if you keep paying the same premiums -- the policy will last based upon the combination of current assumptions, as well as the guaranteed minimum interest rate, and the policy's maximum allowed deductions for mortality and expenses. You may be in for a shock, unless you have a no-lapse guarantee.

5. Ask how much more you likely have to pay in premiums, and for how many years, to keep the policy active until age 100 or longer. Get answers based on both the current assumptions and the guarantees.

These questions are basically the way to figure out if your life insurance policy will last your lifetime. Know the difference between "illustrations" based on "current assumptions" and absolute guarantees. You want to be sure you don't suddenly have to start paying higher premiums down the road to keep this policy intact. Sometimes (not always) it might be better to switch to a different policy with better guarantees now -- if you're still insurable.

If you can't find your agent, contact the insurance company. It is required to give you this information. Or go to www.AccuQuote.com (or call 1-877-908-5090), where CEO Byron Udell offers a service to review policies, advise on the possible outcomes and suggest alternatives. Don't delay this task; you're betting on your life -- and the life of your policy. And that's The Savage Truth.

(Terry Savage is a registered investment adviser and the author of four best-selling books, including "The Savage Truth on Money." Terry responds to questions on her blog at TerrySavage.com.)