Universal Life Insurance

What is Universal life insurance?

Universal Life insurance is a type of permanent life insurance can provide flexibility in the death benefit and premium. Some universal life policies provide cash value.

Is universal life insurance affordable?

Universal life insurance is more affordable than whole life insurance and can offer cash value growth, along with features that can give you flexibility as your needs change over the years.

Is the death benefit tax free to my beneficiary?

Yes. If you die while the policy is in force, the insurance company pays a tax-free lump sum of money to your beneficiary. Any loans taken from the policy, that have not been repaid, will be subtracted from the death benefit before it is paid to the beneficiary. There are certain circumstances that may require them to pay taxes. For example, receiving the benefits as an annuity, instead of a lump-sum.

Cash Value

When a premium payment is made on the policy, the insurance company takes out the cost of insurance as well as any administrative fees, then adds the rest to the policy's cash value. The cash value can grow over time based on an interest rate set by the insurance company. Each company has their own guaranteed minimum interest rate.

Premiums

You have the ability to adjust your premiums as your needs change over the years. You can pay more than the minimum premium, up to a certain amount, and the addition funds - minus administrative charges - are funneled into your cash value. You can also pay less than the minimum premium but must make sure you have enough funds to cover the cost of insurance to prevent the policy from lapsing.

Can loans be taken from the policy?

Some universal life options grow cash value which can be used to take loans from the policy.

Death Benefit

You have the flexibility to increase or decrease your death benefit. There are two types of death benefits to choose from:

- **Level Death Benefit (Face Amount Upon Death)** - In most cases, the death benefit amount remains the same through the life of the policy. For example, if you buy $100,000 of coverage and build up $60,000 of cash value, your beneficiary receives $100,000 when you dies because the cash value is a reserve on your policy.
- **Increasing Death Benefit (Face Amount + Cash Value Upon Death)** - Your cash value balance is added to the death benefit. For example, if you buy $100,000 of coverage and build up $60,000 of cash value, your beneficiary receives $160,000. This option comes with a higher premium.

What factors affect the rates of universal life insurance?

- Age
- Gender
- Health
- Coverage Amount
- Tobacco rates may apply

Universal Life Insurance Pros

- **Flexible Premiums -** Universal policies allow you to change the size and frequency of your payments. However, paying less can put your policy at risk of lapsing.
- **Flexible Death Benefit -** You policy may include the option to increase the death benefit if you need more, although you will likely need to take a life insurance medical exam to qualify for extra coverage. If you want to decrease your death benefit, you can typically do so after the policy has been in force for a few years.
- **Potential cash value growth -** If you have a type of universal policy that can grow cash value, the money in your cash value account will earn interest at the rate set by your insurer.

Universal Life Insurance Cons

- **Requires you to monitor your policy** - I you don't pay attention to the cash value, the policy may become underfunded, which could leave you with a series of large payments to maintain the coverage you signed up for.
- **More exposure to risk** - Some universal policies have market exposure risks. When interest rates rise, universal life insurance looks like a great product. But if they drop, your cash value account may not grow as you'd hoped. Most universal policies come with a guaranteed minimum interest rate, though.

Types of Universal Life Insurance

- **Guaranteed Universal Life** - Often described as a compromise between a term and a whole life. It offers lower rates because it has little to no cash value growth.
- **Indexed Universal Life** - This type of policy works similar to a standard universal life policy, but cash value is based on the performance of stock indexes.
- **Variable Universal Life** - The cash value portion is invested in various subaccounts of your choice. This policy has a higher risk of returns and losses.

Policy Riders

Some policies have built in riders that can be added-on to personalize your policy and enhance the policy's benefits.

- **No lapse guarantee -** As long as you pay the annual amount required to maintain the guarantee - which may be higher than the billed minimum premium to keep the policy in force - your death benefit will remain in place, even if your cash value drops.
- **Waiver of cost of insurance -** This pauses the premium payments if you become disabled. The rider keeps your policy in force, but no funds are added to the cash value.
- **Accelerated death benefit -** This allows you to access some of your death benefit while you are still alive if you are diagnosed with a terminal, critical or chronic illness. The terms of the rider vary by insurer.
- **Family riders -** Child and spouse riders allow you to add coverage for additional members of your family under your universal life policy.
- **Accidental death -** These riders increase the payout from your policy if you die in, or as a result of, an accident.
- **Guaranteed insurability -** This allows you to increase the death benefit of your policy at specific life stages or policy anniversaries, without an exam or health questionnaire. For example, you could increase your death benefit when your child is born, even if you have developed a medical condition.