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**About our firm:**  
Tempewick Wealth Management is a wealth and insurance firm with professionals specializing in estate and investment planning, business succession and wealth transfer.

# TEMPEWICK

WEALTH MANAGEMENT



## Cost of Life Insurance

Recently, a small number of life insurance carriers announced that they're increasing their cost of insurance (COI) rates for in-force policies. This move has prompted concern within the industry and among clients and their advisors, about the drivers of the increases and expectations going forward.

### What is COI?

Cost of Insurance is defined as the cost of actually having insurance protection. The largest single cost factor of life insurance contracts is the COI charged over the life of the policy. In determining the COI, the insurance carriers make assumptions about many factors, including interest rates, infrastructure costs, profit margins, policy lapses, mortality of the particular product line, aggressiveness in market share acquisition and market segment focus. The combination of these factors determines both the current and maximum (guaranteed) COI rates.

### What Factors Can Change Pricing Assumptions?

In the face of historically low interest rates, adverse mortality, increased reinsurance rates, and decreased profitability; some carriers have raised cost of insurance (COI) rates for in-force policies. Additionally, some of those underperforming policies have higher minimum guaranteed interest crediting rates than today's economic environment can support. This leaves carriers with little to no spread between what their assets earn and what they have to credit to the policies under the guarantees.

### How Does A COI Rate Increase Affect a Policy?

An increase in COI charges increases the overall cost of the policy. This means that if the policyholder wants to meet initially illustrated policy goals, an increase in the policy's premium may be required. Some of the charge increases involve Guaranteed Universal Life (GUL). In these instances, increases in the COI charges will reduce cash values of GUL policies. However, it won't impact the death benefit guarantee, so additional premium may not be required for GUL contracts where cash value is not a concern.

### How Do Carriers Avoid COI Increases?

Historically, carriers have avoided increasing COI rates, as doing so could place them at a competitive disadvantage on new sales. Increasingly, carriers are tightening expenses on current operations. They may also price new products higher to help compensate for pricing pressures. Additionally, advances in technology will help reduce some of the carriers' future overhead costs.

Insurance carriers realize that it isn't in the best interest of anyone to increase COI rates or other policy charges. Carriers will continue to invest in policy management systems and tools to help give clients and advisors a clear understanding and clear expectations of in-force policies.

### How Do Carriers Response To Pricing Pressures?

In the light of all of these pricing pressures, carriers who are holding a block of unprofitable policies only have a few options. Those options can be viewed as "levers" that the carrier can pull within the policy to try to recoup costs. Additionally, all in-force policies should be reviewed for current performance with a focus on potential actions designed to maintain life insurance goals. This review should include consideration of a policy replacement into a potentially better performing product.

## What are Some Recent Increases?

The following carriers announced increase to the COI Rate and/or changes on in-force UL Policies:

Effective Date	Carrier	Issuing Carrier	Rate Increase	Policy Year Of Issue
June 1, 2015	Transamerica	Transamerica Life Insurance Co.	Not Available	Select policies issued from 1987 - 1998
August 1, 2015	Legal & General	Banner Life William Penn	Not Available	Select policies issued from 1995 - 2010
September 1, 2015	US-Financial Life	US-Financial Life	Not Available	Not Available
October 1, 2015	VOYA	Security Life of Denver Reliastar Life Insurance	9%-42%	Select policies purchased prior to 2009
January 1, 2016	AXA	AXA Equitable Life Insurance Co.	Appx. 1000 Policies Issue Ages: 70+ Face Amount: \$1M+	Select policies issued from 2004 - 2008

In general, the increases were primarily designed to restore carrier profitability due to declining portfolio yields on products with current crediting rates at the guaranteed minimum. Some of the carriers also attributed the increases to adverse mortality and increased reinsurance rates.

Please contact Tempewick Wealth Management if you wish to have a more in-depth discussion regarding COI Rate Increases.

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