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Voluntary UL holds a big upside

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Core packages are getting more expensive to maintain, and even those employers that move to a consumer-driven, high-deductible model want to retain a robust voluntary suite of products. To do that, they are dependent on their benefits broker to bring them products that are beneficial to employees while adding little or no additional cost for the employer. All kinds of new offerings are making their presence known, but it is with an old and reliable product that brokers can make a positive impression.

Born in the 1970s and bolstered by its ability to deliver a minimum guaranteed interest rate on the cash accumulation portion of the policy, universal life insurance has ridden out the ups and downs of the market and remained a popular choice in the individual market. When offered in the workplace, UL has all of the advantages it holds for individuals and then some (see sidebar for highlights) — even with no employer contribution.

But how will it be incorporated into a portfolio that includes employer-paid term life and the like? No problem, according to one industry expert.

“Universal life is pretty easy to put into an employer’s portfolio,” says Chip Balser, Irvine, Calif.-based regional vice president of the West Coast for Unvers Workplace Benefits. “If you look at the different stages of life employees are in, they have different levels of life insurance needs.”

As a result, UL can fill a need many employees have.

Balser says younger employees, whether single or married, have a need for term life to meet income-replacement needs in the case of an unexpected death. That need continues for a large chunk of their working life. As people move through their lives and get closer to retirement age, they realize they need something different: permanent insurance. UL is a good option for coverage in and for retirement. Employers are going to have employees who are at every stage of the spectrum, which drives the need to offer a product like UL to supplement any term coverage.

Other advantages

One advantage UL holds over a product like term life insurance is that the coverage doesn’t get cut off at retirement or when an employee leaves a company. Term life, usually paid by the employer, has an expiration date; it can’t follow an employee from place to place and into retirement. Universal life can.

“With group term, if you leave [an employer], you lose it,” says Mark Sullivan, the managing partner for a John Hancock firm in Massachusetts. “Universal life moves with you. That’s an attractive feature.”

Purchasing UL in the group environment means employees can enjoy guaranteed issue. No need for physical exams. In addition, once they do purchase the policy, they don’t need to worry about writing checks and maybe missing a premium payment. Through automatic payroll deduction, the premium is always up to date and the policy won’t lapse.

Workers who have employer-sponsored coverage they feel is adequate often are given the chance to purchase UL policies for their spouse and children, if they wish, Balser says, as many companies allow employees to purchase coverage for family members even if they don’t participate. This accomplishes a couple of things, from a broker perspective. First, employers gain a reputation for looking out for employees’ families, and they have their benefits broker to thank.

Second, brokers produce commissions on sales they wouldn’t have had the chance to earn otherwise.

Another feature of UL that people speak of highly is its flexible premium options. Premiums can be increased, adding money to the cash-accumulation feature and/or increasing the death benefit. Premiums can be decreased to meet a temporary decline in income. Premiums even can be skipped altogether without leading to a lapsed policy; the insurance company will take money from the cash value of the policy to cover the premium. It is best to avoid the last option.

“I encourage people to pay a level premium,” Balser says.

The downside of depending on cash value to cover skipped premiums is that eventually the cash value is going

to be depleted, negating a big reason many people purchase UL in the first place.

For employees who make a lot of money and are looking for other forms of tax-deferred savings, a UL policy can provide that, too. It can complement a 401(k) account, and though its growth potential typically is less than an account linked to the stock market, there is a measure of safety with a minimum guaranteed growth rate.

Plus, the death benefit can take care of a variety of needs. It can cover potential estate taxes. If, for example, the policyholder has a car collection he's leaving to one child, he can leave the death benefit to his other child.

Broker benefits

The obvious benefit to brokers is the possibility for increased revenue with the sale of a different product. A boost to the bottom line is never a bad thing. Given the participation minimums to cover a group, Balser says the increased commissions from offering UL can pay for the services of an enrollment company hired to facilitate a smooth enrollment. Plus, as Sullivan and others point out, it's a value-added benefit that doesn't cost the employer anything.

"More people need to take a look at UL when they present benefits to clients," Sullivan says. "They need to start talking about this and other voluntary products. Those who don't are leaving dollars on the table."

Beyond any financial reward brokers may experience, they should take pride in knowing they may be helping a group of people who haven't given much thought to retirement beyond a 401(k). They are helping the people who may need the help most. "Universal life allows brokers to offer permanent life insurance to a group that doesn't typically sit down with a financial planner," Balser says, and that's something that cannot be measured on the bottom line.

Even people who work with a planner can benefit from a UL policy purchased in a group environment. Sullivan envisions a scenario where a 45-year-old highly compensated employee has maxed out his 401(k) contributions and is looking for other tax-deferred means to save. Sullivan says that employee and the broker can design a plan where the employee overfunds the UL policy to drive up the cash value of the policy so there is tax-deferred money there to pull out after retirement.

While the potential for UL to help employees is high, brokers need to be careful how they present UL to employers, because offering the moon and stars but delivering a floor lamp can damage a working relationship. Be honest about the product's potential.

"During the 1980s and '90s, UL was sold as an income product with a rate of return of 12 [percent] to 18 percent," Balser says. "When it came in at closer to 4 percent, it lost momentum. Be realistic with [employers and employees]."

Sullivan agrees. He says UL is still recovering from the "black eye" it received because of how it was sold from the 1970s up through the 1990s.

"What's happened in the last 25 years is rates went down consistently," Sullivan says. "As rates went down, the policies didn't adjust. A lot of them couldn't sustain themselves; things blew up and universal life lost its footing."

In Balser's experience, UL purchased in the workplace isn't typically purchased to be a major retirement funding vehicle (though it can be used for that if highly compensated employees need another tax-advantaged vehicle for their money, as Sullivan points out with his example of the 45-year-old high earner). Even though it contains the cash-accumulation feature, cash value often isn't the ultimate goal.

"These are not typically huge policies," he says. "These people have some need they're seeking to fill and getting it through their employer is easier. It's a way to buy a policy for post-retirement and for taking as-needed loans against the policy."

Those policy loans, when things are structured correctly, can be taken on a tax-free basis to supplement retirement income, especially since, as Sullivan points out, "more people are carrying mortgage debt into their retirement years."

The nice thing about UL is that even if policy loans deplete the cash value of a policy but premium payments are kept up, the death benefit will still be there. That benefit can be used to offset estate taxes. It can leave an inheritance to children or grandchildren. It also can leave a larger financial legacy to charity, if a person wishes.

Brokers who don't understand UL and the way it works would do well to educate themselves on the product. If they aren't sure of its benefits, how can they convey those to an employer and the people who work there? Brokers who specialize in other products but who would still like to offer UL can form an alliance with someone who does know UL inside and out. Many benefits professionals are doing that already with long term care insurance, and more people are taking advantage of LTCI as a result.

As the benefits marketplace becomes more crowded, with products and with the people who offer them to employer groups, brokers with the ability to provide a wide array of specialized products and services — including universal life insurance — are going to hold the edge over the competition.

Employers like voluntary UL because they don't pay anything for it, but they get credit for having a stout suite of

benefit offerings. Employees like UL because of its flexibility, its guaranteed issue and the fact it can be paid for through payroll deduction. Brokers should like it because employers and employees like it. And that should make everyone happy.

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