Wisconsin Office of the
COMMISSIONER OF INSURANCE

Tony Evers, Governor of Wisconsin
Mark Afable, Commissioner of Insurance

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TO: Licensed Intermediaries, Employers, Associations and Interested Parties

FROM: Mark V. Afable, Commissioner of Insurance

SUBJECT: Consumer Alert related to Universal Life Insurance

What is Universal Life Insurance?

The insurance industry generally categorizes whole life and universal life insurance as "permanent" life insurance. A "permanent" policy is designed to provide coverage for your entire life if sufficient premiums are paid. This is unlike term life insurance, which provides coverage at a set rate for a set amount of time (for example, 20 years). Whole life insurance policies have level premiums and a set death benefit meaning you pay the same amount every year for a set amount of coverage. Universal life insurance offers "flexibility" meaning you may have the ability to adjust your premiums and coverage amounts. Both forms of "permanent" insurance have the potential to accumulate cash value over time. Universal life insurance comes in many varieties including fixed universal life insurance, variable universal life insurance, indexed universal life insurance or guaranteed universal life insurance. The experience for a fixed universal life policy may be different than that of variable universal life, for example.

The main expense of a universal life policy is the cost of insurance charge. The cost of insurance charge is the amount you must pay the insurance company to fund the policy's death benefit. As you age, the rate of the cost of insurance charge will increase. Policyholders may have the ability to fund their policy in such a way as to provide for level premiums or to pay the policy in full by a certain age. However, due to changes in the charges and crediting rates, the consumer will need to continuously monitor and manage the policy to assure that coverage will last as long as intended.

Many consumers set up their policies for level payments when they purchase the policy based on assumptions at the time of sale. These assumptions include cost of insurance rates and interest rates (or investment returns). If charges increase or interest rates decrease, the cash value may not be sufficient to cover the costs of the contract over time, and additional premiums may be required later to keep the contract in force.

Be Aware of Increasing Charges

In many cases, the life insurance company that issued the universal life policy can increase the rate for the cost of insurance charge due to certain events such as increase in expenses. Insurers can never increase rates above the guaranteed maximum rates provided in the policy. This increased rate can change the funding strategies and assumptions the policyholder made when they initially purchased the policy. For example, a policyholder purchased a policy in 1985 and decided to pay a level premium until age 100. In 2019, the life insurer raised the cost of insurance rate to an amount above what was assumed when the policy was purchased. As a result, the premium being paid is now only sufficient to fund the policy to age 80. The policyholder could reach the age of 80 before realizing their policy is underfunded and a large increase in premium would then be needed to keep the policy in effect.

The Office of the Commissioner of Insurance has seen many cases of consumers who purchased universal life insurance and who made payments for years thinking their premium payment would not change or that their coverage would remain in effect. But many found that their policies had lapsed (were no longer in effect) with little to no value or they were required to pay large additional premium payments to keep their coverage in effect.

Recommendations for Universal Life Policyholders

Insurers are required to provide an annual statement report that includes important information about your policy including the amount of the death benefit and cash value. The report will also provide notice if the cash value is insufficient to fund the policy until the next reporting period. Policyholders should review this information carefully and contact their insurer or agent if they have any questions.

In some cases, the annual report will include an illustration. If not, policyholders can request, free of charge, an updated "in-force illustration" once a year. This in-force illustration provides a snapshot of the policy's current status and a projection of future performance based on current conditions. You should review your in-force illustration and ask your insurer or agent every year what premium level, based on current conditions, would allow your coverage to continue to your desired date. This way you can discover any deficiencies in premium funding level early and can correct them and/or seek other options available in your policy.