Universal Life Loans & Surrenders

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UL Loans & Surrenders

Universal life policies can produce “living benefits” in the form of cash values. Cash values make loans, partial and full surrenders possible.

Withdrawable cash values are not typically available until a policy has been in force for several years—after any surrender charges have declined or expired. They also depend on levels of premium funding and (favorable) interest earnings.

Minimally-funded policies or those with skipped premiums or interest earnings lower than originally-projected may never have withdrawable values.
UL Full Surrenders

A full surrender is when the policy is cancelled, terminating all insurance coverage.

Any accumulated policy value, less a surrender charge, loan or accrued loan interest, is typically payable to the policyowner.

A surrendered policy can generally not be restored or put back in force. A decision to fully surrender a policy requires careful decision-making.

Executing a surrender may involve completion of a few simple forms.
UL Loans

A policy loan enables the policyowner to “borrow” money, using their policy’s net cash value (after surrender charges, prior loans & accrued loan interest) as a form of collateral.

Since the policy value is securing the loan, the loan does not have to be repaid. Un-repaid loans/loan interest, will ultimately be deducted from surrender values or death claim benefits.
UL Loans

Outstanding loans do accrue interest every month, billed on an annual basis around the policy anniversary date. Interest rates vary from policy to policy.

Some policies offer “preferred” loans. This means that under prescribed conditions--one portion of the loan has a lower rate of interest charged than the remaining loan balance.

Some policies offer a “wash” or “zero-interest net” loan. For these loans, all loan interest charges are off-set by an equal rate of interest credited to the loaned portion of the cash value.
In typical loan situations, unpaid loan interest is compounded and added to the loan after the policy anniversary. It is best to pay a loan back or, at minimum, pay any annual loan interest not fully off-set by a wash loan feature.

When unpaid annual loan interest compounds, it increases the loan balance—leading to higher interest bills each year and depletion of policy values.
UL Loans

For UL policies without lapse protection features, a loan can jeopardize the policy staying in force. “Loan values” are not available to pay a UL policy’s monthly expenses.

They usually are not eligible for current-rate interest credits, but instead earn monthly interest credits based on guaranteed rates—which are typically lower.

When UL policies without lapse protection features have insufficient values, they go into grace and may lapse (terminate).
For UL policies **with** lapse protection features, a loan can still pose a risk. Based on how loans affect the monthly lapse protection “test”, there is an increased possibility of going into grace and lapsing (terminating) unexpectedly.

Unlike a traditional bank or institutional loan, policy loans are generally easy to obtain. They are appealing and can make sense as a short-term financial resource.

When not quickly repaid, it is critical that policy loans and their resulting loan interest charges be carefully monitored.
UL Partial Surrenders

Besides a full surrender or policy loan, most UL policies offer partial surrenders. This involves permanently withdrawing a portion of the policy’s available cash value, but keeping some or all coverage in force.

Unlike a loan, the withdrawn values usually cannot be put back into the policy.

Partials can often work in two ways—with a comparable decrease in coverage or with no decrease in coverage.
UL Partial Surrenders

When a partial is elected without a decrease in coverage, it can be more detrimental to the policy’s ability to support the on-going monthly expenses. That is because there is less value supporting the original coverage expenses.

There is no (on-going) interest charged for a partial surrender. There is, however, a flat fee assessed for each partial surrender.

Partial surrenders make the most sense when there is no intent to repay the amount withdrawn--and even more so when it is tolerable to let the coverage amount reduce by the partial surrender amount.
UL Loans & Surrenders

Sometimes policyowners use a partial surrender to repay a policy loan. That can be a good strategy when best intentions to repay loans out-of-pocket fall short.

It eliminates loan interest and the recurring possibility interest is compounded and added to the loan principle, (if not paid) each year.

Loans and partial surrenders can often be requested and processed based on a phone call to the life insurance company. Full surrenders generally cannot be fully transacted by phone.
UL Loans & Surrenders

UL Annual Reports are vital to monitor and manage the short- or long-term effects of loans and partial surrenders.

Partially-surrendered values cannot earn monthly interest credits. Loaned values may earn a lesser rate of monthly interest credits.

Sometimes premiums for a UL policy have to be increased after a loan or partial surrender to keep the policy in force. That is because of the lost values (partial surrender), lost interest earnings (partial or loan) or both.