

WILLMS, S.C.

▼
LAW FIRM

MEMORANDUM

TO: Clients and Friends of Willms, S.C.

FROM: Attorney Maureen L. O'Leary

DATE: April 14, 2011

RE: How to Maximize Your Life Insurance Premium Payments

Do you own any Universal Life, Variable Universal Life or Guaranteed Universal Life insurance policies? If you do, you may be able to increase the cash value in your policies simply by strategically timing your premium payments.

Every time you pay a premium, a certain percentage of the premium goes towards premium expense charges and the balance goes towards the cost of insurance and cash value. Premium expense charges include fees, commissions, and the life insurance company's overhead. To the extent you can minimize premium expense charges, a greater portion of the premium will go towards the cost of insurance and cash value. As a result, your cash value should increase.

It is common for the percentage of each premium that goes towards premium expense charges to change from year to year. It is also common for premium payments in excess of your target premium to have a lower premium expense percentage than the target premium. If you ask your life insurance agent for a chart of your insurer's premium expense charge brackets, you can use this information to your advantage. For example, you can consider doubling up premiums in years when the premium expense charge rates are low, and skipping premiums in years when premium expense charge rates are high.

This can often be accomplished by simply paying a premium a day earlier or later than you would otherwise. Following are some examples.

Example 1

Let's assume that in year 1 the premium expense charge is 20% and in year 2 it is 10%. If your policy was obtained on September 1, 2010, each policy year runs from September 1 through August 31. If your annual premiums are \$10,000, your first year premium payment will go \$2000 (20% of the \$10,000 premium) to premium expense charges and \$8000 (80% of the \$10,000 premium) to the cost of your insurance and cash value. It is a common practice to pay insurance premiums a little before their due date. However, if you pay the second year's premium before September 1, 2011 (the start date of the second year), the premium will technically have been paid in the first year of the policy (years 1 is 9/1/10 – 8/31/11) and as a result the 20% premium expense charge rate for year 1 will again apply. In contrast, if you wait until September 1, 2011 to pay the second year's premium, the premium will be received in the second year of the policy (year 2 is 9/1/11 – 8/31/12) and the lower 10% premium expense charge rate for year 2 will apply. As a result, only \$1000 (10% of the \$10,000 premium) will go towards premium expense charges and \$9000 (90% of the \$10,000 premium) will go towards the cost of insurance and cash value in year 2. Simply by paying the premium on 9/1/11 instead of 8/31/11, you saved \$1000 in premium expense charges!

Example 2

Let's assume again that your annual premium (and the target premium) is \$10,000. Let's further assume that the target premium has a premium expense charge of 20%, but all amounts paid in a year in excess of the target premium have only a 10% premium expense charge rate. Let's also assume that each year's annual premium is due on September 1, as follows:

Year:	Premium Due:
Year 1 (9/1/10 – 8/31/11)	9/1/10
Year 2 (9/1/11 – 8/31/12)	9/1/11
Year 3 (9/1/12 – 8/31/13)	9/1/12
Year 4 (9/1/13 – 8/31/14)	9/1/13

If you paid the above premiums exactly when due, all premiums would be subject to a 20% premium expense charge. However, you could minimize premium expense charges by paying two premiums every other year as follows.

Year:	Pay Premium On:
Year 1 (9/1/10 – 8/31/11)	9/1/10 (paid in Year 1,)
Year 2 (9/1/11 – 8/31/12)	8/31/11 (paid in Year 1)
Year 3 (9/1/12 – 8/31/13)	9/1/12 (paid in Year 3)
Year 4 (9/1/13 – 8/31/14)	8/31/13 (paid in Year 3)

If the premiums were doubled up as described above (merely by paying every other premium a day early), only the first and third premiums would have a premium expense charge of 20% and the second and fourth premiums would benefit from a reduced premium expense charge of 10%. As a result, you would save 10% of premium expense charges every other year.

Many policies have a 30-day grace period for late premium payments, which would allow flexibility when making premiums on or after a premium due date. However, please be sure to verify if your policy has a grace period before you ever make a late payment. If you ever want to make sure a premium payment is credited exactly on the policy due date, you can also consider giving the check for the premium payment to your life insurance agent in

advance with express instructions that they should submit and credit the policy with the premium payment exactly on the date you indicate.

As you might imagine, there are numerous benefits to minimizing premium expense charges and thereby maximizing the cash value in your policy. One such benefit is that if you surrender the policy during your lifetime, you will receive the increased cash value. Or, if you plan on maintaining the policy for your lifetime, you could potentially stop paying premiums if there is ever sufficient cash value in the policy to cover the premiums for the rest of your lifetime. If you can increase the cash value by minimizing premium expense charges, you can potentially stop paying premiums sooner than you would otherwise.

Please let us know if you have any questions or would like our assistance in determining the premium expense charge brackets for your life insurance policies. We would be happy to help you minimize premium expense charges and maximize cash value in your policies by putting together a schedule for strategically timing your premium payments.

END OF MEMO