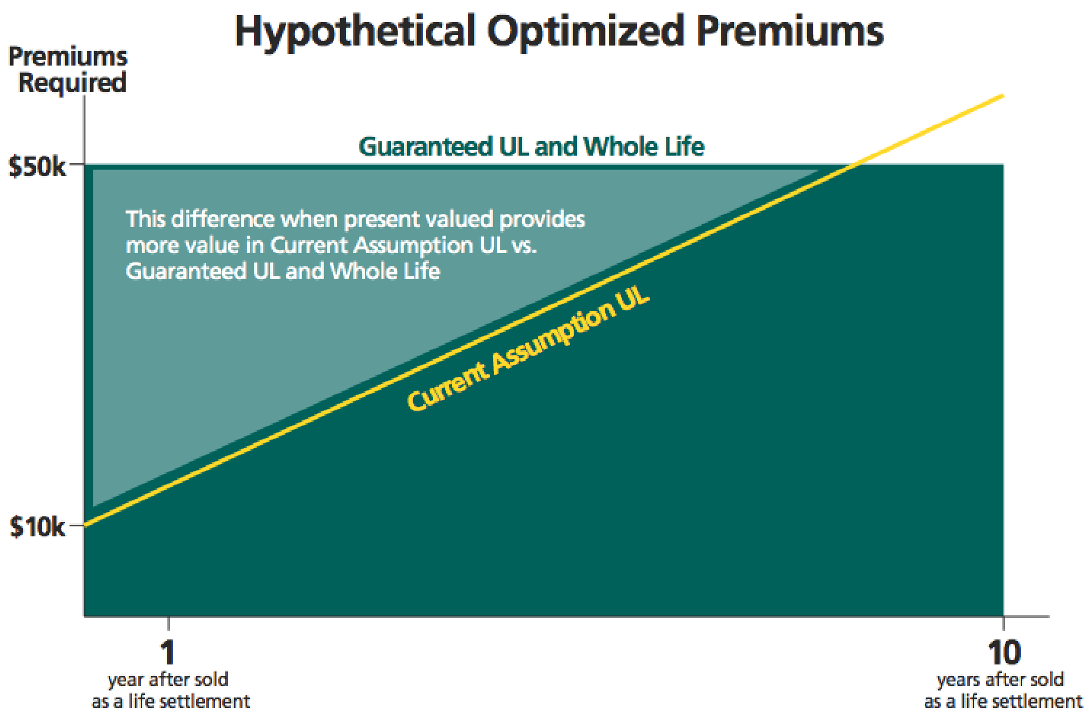
Why Current Assumption UL Policies Are More Valuable as a Life Settlement Than Guaranteed UL and Whole Life
By Russel Dorsett, CLU

One of the hallmarks of a well-managed portfolio of life settlements is that the premiums required to support the policies are well "optimized." To minimize future cash requirements and maximize returns, the fund manager seeks to pay the minimum premium required to keep a given policy in force at the latest possible time. This is one of the primary reasons why traditional, non-guaranteed universal life policies make up the vast bulk of life settlements: flexible premiums.

Consider, for example, three $1,000,000 policies on the same insured: a current assumption universal life, a universal life with secondary guarantees and a whole life policy, each of which illustrates a level premium to maturity of $50,000 per year.



For many (if not most) **guaranteed universal life policies**, the optimized premium is $50,000. Although the premium is theoretically "flexible" in that a premium greater than $50,000 can be applied to the policy, failure to pay the minimum (guaranteed) premium results in a lapse.

For the **whole life** policy, the "optimized premium" is also $50,000 paid at the beginning of the policy year. Although that premium can be paid quarterly (or monthly in some cases), any premium mode other than annual involves additional charges due to interest. If the premium is not paid in full, the policy lapses.

The optimized premium on a **current assumption universal life**, however, is typically a fraction of the illustrated premium. For most such policies, the charges for mortality and expenses are deducted from the account value, and so long as there is a sufficient account balance to pay the charges in any given month, the policy stays in force. By using actuarially-designed software, it is possible to determine a schedule of future monthly cost of insurance (COI) and expense charges. This optimized premium stream may only amount to $10,000 to $15,000 rather than $50,000 in the first year, and can be paid monthly if the fund manager so desires. Although the COIs will rise over time and will ultimately exceed $50,000 per year, the present value of future premiums is lower than the other two policy types, making the current assumption policy more valuable as a life settlement.

If the possibility is to sell the policy as a life settlement, make sure to realize this difference of value at the time of issue or prior to a term conversion.

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