CFA Consumer Federation of America

Life Insurance Rate of Return Service

How the Service Works – CFA's Rate of Return (ROR) program estimates "true" investment returns on almost any cash value policy - Whole Life, Universal Life, Indexed Universal Life (IUL) and Variable Universal Life (VUL). We need a current illustration from your life insurer that usually can be emailed to you. Using an actuarial program, RORs are derived and divided as percentages into (a) the portion that represents the growth rate of the cash value and premiums (if any) and (b) the value or worth of the death protection - death benefit less cash value each year. The latter, except for old folks, is almost always a small fraction of 1%. Using RORs, one can compare such returns to those on alternative investments to decide if a policy is worth keeping. If you're being presented a sales pitch for a new policy, please telephone Mr. Hunt; more than 95% of his work is on existing insurance policies.

Who performs the Service – James H. Hunt, a retired life insurance actuary and - several decades ago – a Vermont insurance commissioner, has reviewed thousands of policies since 1984 when he began the service. He comments on the implications of the RORs, making suggestions for improvements on policies worth keeping and recommending transfers to better policies when appropriate. The cost is $135; payment may be made via PayPal with Mr. Hunt's email, jameshhunt8@gmail.com. Call first if multiple policies, 603-224-2805 (Early evenings and weekends OK).

Life Insurance in 2020 – (1) With interest rates on alternative, safe investments at historic lows, whole life policies in major mutual insurers have become extraordinarily valuable when premiums have been paid for, say, at least two years. Mature whole life policies - say 15 years or more since issue date - in the better insurers often show yields of 4% or so on the cash value growth alone. (2) There is a big mess in non-variable universal life where millions face policy termination - usually without knowing it - due to low interest rates. (3) Holders of IUL policies know they're protected from market crashes but do not usually know that they do not get the whole upside of market increases because the index - usually S&P 500 - excludes dividends that corporations pay, now really 2.9% in mid-March/ VULs and mutual funds include such dividends. (4) The pricing of larger VULs and IULs in recent years almost always features ten years of (a) substantial monthly expense charges and (b) a surrender charge that decreases to zero after ten years. For IUL and VUL policies, request an in-force illustration that includes an expense "spreadsheet." Add up the remaining monthly charges, (a), and compare to the remaining surrender charge, (b). Unless (b) is a significant fraction of (a), the policy is probably not worth keeping if your health remains OK. (5) Ameritas Direct (AD) issues VULs without agents' commissions, a great advantage. All VULs include Fixed Accounts (FAs) that have no market risk; selection of the FA makes a VUL like a no-commission UL. AD guarantees 3%. There is no better buy for non- IUL and VULs, not even whole life from mutual insurers.

2013 PDF is available here.

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