Consumer Federation of America

Life Insurance Rate of Return Service

How the Service Works – CFA's Rate of Return (ROR) program estimates investment returns (interest rates) earned on cash value life insurance policies: whole life (WL), universal life (UL), indexed universal life (IUL), and variable universal life (VUL). To do so, we need either the sales illustration for a new policy or an "in-force" illustration on a policy you have owned for some time. Either can be emailed to you and relayed to us. We use an actuarial technique known as the "Linton Yield," which derives interest rates. It may help to explain it this way: the premium for a cash value policy buys two things, death protection and a kind of savings account, the cash value. In order to derive an interest rate on the savings portion, one must impute a value to the death protection, the annual excess of the death benefit over the cash surrender value. We use non-guaranteed illustration values to derive these estimates; guaranteed values are not realistic because they assume extremely high mortality rates as a safety measure. We have been doing this work since 1984; there is little we have not coped with.

Who Performs the Service – James H. Hunt, a retired actuary and several decades ago Vermont's insurance commissioner, has reviewed thousands of policies since 1984 when he began the service. In a report added to the computer analysis, he comments on the derived RORs, suggesting changes if appropriate, and he notes future implications for policies worth keeping. The cost is $150 for the first illustration sent, $100 for each additional illustration; payment may be made via USPS or at PayPal with Mr. Hunt's email: jameshhunt8@gmail.com. Call him at 603-224-2805 if you have any questions. He offers to discuss each evaluation when sending it.

Life Insurance in 2021 – A year or ago we noted that U.S. interest rates were at historic lows, making WL policies valuable when premiums have been paid for, say, 10 years or so. Interest rates at this writing in March 2021 have reached even lower levels, while WL companies continue to use interest rates in their dividend formulas as high as 5%. Either yields on new corporate bonds and mortgages that WL insurers buy must rise or dividend interest rates will continue to fall as they have since the double-digit rates of the late 1980s. In the near term, however, mature WL policies represent valuable assets. (2) UL policies can be quite a different matter. Some mature UL polices remain valuable; others can become nightmares, especially those issued in the 1980s and 1990s when many (most?) were underfunded and now threaten to collapse, particularly those issued with increasing death benefits. (3) The pricing of IULs and VULs in recent years usually includes ten years of substantial monthly sales charges keyed to the original face amount coupled with (usually) ten years of decreasing surrender charges. If seeking an illustration, request one with an expense section that identifies charges. We do not favor purchases of IULs, whose interest credits are linked to (usually) the S&P 500 stock market index. In exchange for limiting index credits to 0% if the index is negative for the year, one gives up shareholder dividends, currently about 1.75% annually. VULs, in which cash values may be allocated to mutual-fund-like accounts, and mutual funds include such dividends. IULs are the most complex life insurance policies, by far. (4) There is only one reliable life insurance policy free of agents' commissions: a VUL issued by Ameritas Direct, a unit of agent-represented Ameritas Life, which it markets to fee-only financial planners. It is the best buy in cash value life insurance for those with the discipline to ride out down markets.

2013 PDF is available here.