



## How Has the Bear Market Affected Your Insurance?

*When the markets dip, the effects can be readily seen in portfolios and house values. However, the effect on life insurance coverage may not be so obvious. The following discusses how the recent market downturn may have affected life insurance coverage and why investors may need to have their current coverage reviewed.*

It can be easy to see how the recent bear market affected portfolios and home values, but the effect on insurance may not be as apparent. It is important to understand that effect, as not making proper adjustments could result in problems with coverage.

There are a few significant factors regarding how bear markets can affect life insurance coverage:

- s Some of the underlying assumptions of the contract may no longer apply.
- s Life insurance premiums may be withdrawn from investments within the policy.
- s Life insurance contracts incur an annual cost of insurance expense, which is an immediate withdrawal from the contract and increases annually as the insured ages.

In addition, certain contracts have had a negative impact from the recent financial downturn on the value of the policies' assets. A summary of the impact is as follows.

### **Universal Life Insurance**

Universal life insurance policies build cash value, which can be used to help pay premiums. However, the rates on these savings are variable. With interest rates being relatively low for a significant period of time, the value of the policy may now be under the original projection.

### **Variable Life Insurance**

The cash balance of variable life insurance policies is invested in vehicles such as equity or fixed income. When markets are up, some of the investment returns may be used to pay the premium. However, when investments do poorly (as they may have in 2008 and early 2009), not as much may be available, meaning policyholders may have to increase out-of-pocket expenses to pay the premiums.

### **Whole Life Insurance**

Whole life insurance policies guarantee a low earnings rate with the expectation that the owner will earn a dividend over the guaranteed amount. Recently, companies have been reducing their dividend rates.

### **Summary**

Life insurance contracts are similar to other assets in that they should be professionally managed and integrated into an overall estate, tax and risk management plan. They should also be periodically reviewed to ensure they are still fulfilling the intended purpose, especially after an investment period like the past bear market.

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