What is Universal Life?

Universal Life (UL) is a type of permanent life insurance which will last your entire life if it is managed closely and funded properly. Unlike whole life, there is not a fixed premium for universal life. The premium is a factor of ongoing crediting rates and expenses of the contract, which may differ significantly from original expectations and projections. The premiums may be structured as ongoing payments or for a limited number of years.

Universal life can be designed with a level death benefit or an increasing death benefit. Other options, such as including a return of premium rider, exist. An increasing death benefit contract has a death benefit equal to the original death benefit plus the cash value of the policy.

Flexibility is a hallmark of UL. Within certain parameters, premiums can be increased, decreased or skipped altogether, each of which will affect long term performance of the contract. UL can be envisioned as a type of defined benefit plan where the contributions must be calculated based on market conditions and policy performance in order to obtain the goal of the death benefit remaining in force indefinitely.

UL is a general account fixed interest product. The cash value is credited, after expenses, with a rate declared by the insurance carrier which is a factor of new money rates in the market

UL has cash value which may be withdrawn or borrowed though this will affect the performance of the policy and have potentially negative tax consequences. Any accumulated cash value at death does not get added to the death benefit but goes back to the insurance company.

Different generations of UL have different rules regarding what happens at policy maturity. Some contracts will terminate at maturity, often age 100 and pay out the cash value. Some will have a policy maturity extension rider which allows the cash value to stay in force as a death benefit. Some will move forward beyond policy maturity with the entire death benefit in force regardless of cash value.

There are UL policies which focus more on death benefit and other which focus more on cash value. Different contracts can have significantly differing guarantees.

UL policies which are not closely managed can fall apart leaving no death benefit despite years of paying premiums. If policy crediting rates are lower than expected or contract charges are greater than expected, policy owners may be surprised with substantial increases in premium or reduction in death benefit required to keep the policy in force.

UL policies may be single life or second-to-die contracts.

All permanent life insurance must be managed.

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