

What is Variable Universal Life?

Variable Universal Life (VUL) is a product which will last for your entire life if it is managed closely and funded properly. Unlike whole life, there is not a fixed premium for VUL. The premium is a factor of ongoing crediting rates and expenses of the contract, which may differ significantly from original expectations and projections.

VUL is an equities based product with the crediting of the cash value based on the performance of sub accounts chosen by the policy owner from sub accounts made available by the Insurance company.

VUL policies have the greatest upside potential but also incorporate the greatest risk and should only be utilized by someone very familiar with how they work and willing to closely manage the contract regularly. Besides the fact that cash values can be meaningfully reduced in down markets, contract expenses may, and regularly do, outstrip crediting causing a policy's cash value to decrease.

VUL 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 VUL. Within certain parameters, premiums can be increased, decreased or skipped altogether, each of which will affect long term performance of the contract. VUL 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.

VUL has cash value which may be withdrawn or borrowed though this will affect the performance of the policy and have potentially negative tax consequences.

Different generations of VUL 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 VUL policies which focus more on death benefit and others which focus more on cash value. Different contracts can have significantly differing guarantees.

VUL policies that are not closely managed can fall apart leaving no death benefit despite years of paying premiums. If market 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.

As a general rule of thumb, VUL policies should not be utilized in an attempt to lower premiums based on attractive projected returns. They don't tend to be appropriate for maximizing early death benefit. Building a VUL contract with a higher premium to death benefit ratio can reduce contract expenses, make the contract more conservative and lead to higher long term cash value and death benefit.

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

All permanent life insurance must be managed.

Life Insurance Consulting