Policy Loan & Dividend Management

Sometimes the simplest things can make the biggest difference.

I was once brought a universal life policy with a modest loan; about a $500,000 policy with a $20,000 loan. An in-force projection showed the policy was suffering. The death benefit was degrading significantly over time and the policy was projected to lapse before maturity.

Our analysis showed that paying back the loan and making a withdrawal of the same amount made sense. In the big picture, it was a zero sum transaction in terms of cash flow, death benefit and cash value; a kind of a shell game. But, the effect was tremendous. Because we removed the loan, we removed all accumulating loan interest which was what was causing all the problems. A new projection, assuming the change, showed the policy performing very well with an increasing death benefit over time.

In another situation, a policy owner had a whole life policy which was “over loaned” and it was bound for failure with adverse income tax consequences. It turns out that no one was paying attention, let alone closely managing the policy. A simple dividend option change self rescued the policy and it performed well afterwards. The fact that the client was uninsurable made this internal remediation strategy all the more important.

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