



WHEN “TOO GOOD TO BE TRUE” DESERVES A CLOSER LOOK

A 52-year-old insured was advised to replace 17 whole life policies with a single indexed universal life policy that promised lower premiums and a death benefit increase of more than 50%. However, further analysis showed the outcome depended largely on life expectancy, with the potential for millions less in trust value if the insured lived beyond age 80.

BACKGROUND:

When a client onboards with our tolimonitor solution, each policy undergoes an initial remediation analysis, and if a trustee or insured is considering replacing an existing policy, our remediation team also conducts a pre-acceptance review comparing the current coverage with the proposed alternative.

These reviews examine the guarantees, projected performance, premium requirements, and administrative implications of both options. While many replacement cases involve straightforward, apples-to-apples comparisons, others require a much deeper analysis. This case fell into the latter category.

A 52-year-old insured in relatively good health had accumulated 17 whole life insurance policies owned by an irrevocable trust. The insured's broker recommended replacing all 17 policies with a single indexed universal life (IUL) policy. At first glance, the recommendation appeared difficult to dispute.

THE CHALLENGE:

Replacing multiple whole life policies with a single indexed universal life policy introduces complexity, shifting the analysis beyond a simple comparison and into an evaluation of long-term assumptions.

The proposed replacement would increase the total death benefit from approximately \$2.9 million to \$5.3 million while maintaining or reducing the current premium outlay. Viewed only from today's perspective, the recommendation could easily be considered a “slam dunk.”

However, the existing whole life policies were projected to become paid-up at age 65, while the proposed IUL relied on non-guaranteed assumptions that introduced additional uncertainty over time.

The advantages of the proposed replacement included:

- An immediate increase of more than \$2.4 million in death benefit
- Higher projected death benefit values through approximately age 80
- Administrative efficiencies gained by consolidating 17 policies into one

WHEN “TOO GOOD TO BE TRUE” DESERVES A CLOSER LOOK

The potential drawbacks included:

- Lower projected cash value accumulation
- The possibility of increased out-of-pocket premium requirements later in life
- A potential reduction of more than \$2 million in death benefit available to trust beneficiaries if the insured lived beyond the projected crossover point

The analysis showed that while the IUL solution outperformed initially, the existing whole life policies were projected to provide greater value later in life, with the crossover occurring around age 80. The insured's life expectancy was estimated at age 85.

THE RESULTS:

Our role was not to determine whether the replacement should or should not occur, but rather to provide an objective analysis that:

- Presented the facts based on available policy information
- Highlighted both the opportunities and risks associated with the replacement
- Confirmed that trustees and insureds understood the long-term implications of the decision
- Properly documented the trust file to support prudent fiduciary oversight

The outcome of this case ultimately depended on one key variable: longevity. If the insured passed away before age 80, the replacement was likely advantageous. If the insured lived beyond age 80, retaining the existing policies may have produced a better outcome for the trust and its beneficiaries.

Without a comprehensive review, this important distinction could easily have been overlooked.

LET TOLIMONITOR WORK FOR YOU:

Policy replacement recommendations are rarely as simple as they first appear. While illustrations may highlight immediate improvements in premiums or death benefits, trustees also have a responsibility to understand the long-term implications of those decisions.

The remediation and pre-acceptance reviews included in tolimonitor, our trust-owned life insurance solution, provide the objective analysis needed to support informed decision-making. We evaluate existing and proposed coverage to identify potential risks, clarify trade-offs, and document significant policy actions.

Request a consultation today to learn how tolimonitor can support your trust administration process with independent policy analysis and ongoing oversight.