Negative: Universal Life Insurance – not a problem

By “Coach Vance” Trefethen

***Resolved: The United States Federal Government should substantially reform its banking, finance, and/or monetary policy***

Summary: Universal Life Insurance is a type of life insurance product where the consumer pays more than the cost of the insurance in the early years, and the surplus is stored up as cash value and invested. Later in life, the purchaser can either cash out the policy (retrieve his cash value), borrow against the cash value, or let the cash value cover the increasing cost of the insurance (which is more expensive as people get older) so that their premiums do not rise or may even decline or disappear if the cash value is high enough. Some people have been disturbed recently because UL policies sold in the 1980s (when interest rates were high) were sold with a promise of high returns and big cash value. As interest rates came down in the ‘90s and 2000’s, those projected returns were unrealistic, and now these policyholders are being told they must pay more to keep their policies in force. NEG brief argues that this is not a problem, and that the States can solve.

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Negative: Universal Life Insurance - good

DEFINITION

What is “Universal Life Insurance”

Julia Kagan 2019 (Former vice president and editorial director of Consumers Union, editor of Consumer Reports and Psychology Today) “Universal Life Insurance” 1 May 2019 <https://www.investopedia.com/terms/u/universallife.asp>

Universal life insurance is permanent life insurance with an investment savings element and low premiums like term life insurance. Most universal life insurance policies contain a flexible premium option. However, some require a [single premium](https://www.investopedia.com/articles/pf/05/singlepremlife.asp) (single lump-sum premium) or fixed premiums (scheduled fixed premiums).  
How Universal Life Insurance Works  
A universal life insurance option provides more flexibility than [whole life insurance](https://www.investopedia.com/terms/w/wholelife.asp). Policyholders have the flexibility to adjust their premiums and death benefits. Universal life insurance premiums consist of two components: a cost of insurance (COI) amount, and a saving component, known as the cash value.

How the cash value works

Julia Kagan 2019 (Former vice president and editorial director of Consumers Union, editor of Consumer Reports and Psychology Today) “Universal Life Insurance” 1 May 2019 <https://www.investopedia.com/terms/u/universallife.asp>

Much like a savings account, a universal life insurance policy can accumulate cash value. In a universal life insurance policy, the cash value earns interest based on the current market or minimum [interest rate](https://www.investopedia.com/terms/i/interestrate.asp), whichever is greater. As cash value accumulates, policyholders may access a portion of the cash value without affecting the guaranteed death benefit. A policyholder will pay taxes on any withdrawals they make from the excess cash value of the universal life insurance plan. Also, depending on when the policy and premium payments are made, earnings will be available as either [last-in-first-out](https://www.investopedia.com/terms/l/lifo.asp) (LIFO) or [first-in-first-out](https://www.investopedia.com/terms/f/fifo.asp) (FIFO) funds. Upon the death of the insured, the insurance company will retain any remaining cash value. [Beneficiaries](https://www.investopedia.com/terms/b/beneficiary.asp) will receive only the policy's death benefit.

**Summary / Analysis**

**The consumer makes one payment that covers the cost of their life insurance plus extra for long-term savings (the “cash value”). As a person gets older, the cost of life insurance goes up (because old people die more often than young people), and the savings they have put into the policy can cover the added cost. During their life, they can withdraw the cash value and spend it. They can also let the cash value pay for the premiums when they get older, so they don’t have to pay out of pocket to keep their life insurance coverage active. Whatever is left unspent on the cash value at their death reverts to the insurance company and the heirs/beneficiaries receive the life insurance death benefit.**

TOPICALITY

1. Reforming state laws, not federal

Link: Federal government doesn’t regulate Life Insurance. It’s all handled by the States

Life Insurance Law copyright 2020 (nationwide network of attorneys who work with clients to recover denied or delayed life insurance claims) “Life Insurance Laws by State” <https://life-insurance-law.com/life-insurance-laws-by-state/>

Almost all regulations that life insurance companies must follow are state laws, not federal laws. And every state has its own unique set of rules, its own state insurance commission, and its own set of penalties. This means that even a life insurance company that operates in every state will issue policies that are different in each state, simply because the governing laws are different.

Backup: The “Federal Insurance Office” is only advisory, it has no regulatory function. That’s left to the States

[Center for Insurance Policy & Research 2020 (agency of the National Association of Insurance Commissioners) last updated 12 Feb 2020 “FEDERAL INSURANCE OFFICE (FIO)” https://content.naic.org/cipr\_topics/topic\_federal\_insurance\_office\_fio.htm](Center%20for%20Insurance%20Policy%20&%20Research%202020%20(agency%20of%20the%20National%20Association%20of%20Insurance%20Commissioners)%20last%20updated%2012%20Feb%202020%20%20“FEDERAL%20INSURANCE%20OFFICE%20(FIO)”%20https://content.naic.org/cipr_topics/topic_federal_insurance_office_fio.htm)

The Federal Insurance Office (FIO) was established by Title V of the federal Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (Dodd-Frank). The FIO is housed within the U.S. Department of the Treasury and is headed by a director who is appointed by the secretary of the Treasury. The office provides expertise on insurance matters to the Treasury Department and other federal agencies and engages in international discussions relating to insurance.  However, it is not a regulatory agency and its authorities do not displace the time-tested robust [state insurance regulatory regime](https://www.naic.org/cipr_topics/topic_mccarran_ferguson_act.htm).

Violation: Must fiat the States to do their plan

Since life insurance is regulated at the State level, of necessity their plan will have to change State laws. But they have no power to do that under this topic. The resolution only allows them to reform Federal policies, not State policies.

Impact: Abusive to the Negative

As if this topic weren’t broad enough, Affirmative wants to expand it beyond current federal policies in 3 very broad areas and now add State policies too. This is grossly abusive to Negative teams, who can’t possibly prepare for an infinite number of possible cases they would have to research against. Please teach them not to do this by awarding a Negative ballot.

MINOR REPAIR – Better disclosure under State regulation

Link: Life insurance is regulated at the State level, and they have strict oversight and safeguards in place

Shelly Gigante 2018 (financial journalist) 14 May 2018 “How life insurance is regulated” <https://blog.massmutual.com/post/life-insurance-regulation>

The life insurance industry is regulated on the state level. State insurance departments maintain strict oversight and verify independently that life insurance companies have the resources to meet their financial obligations. According to the [National Association of Insurance Commissioners](http://www.naic.org/documents/consumer_state_reg_brief.pdf)(NAIC), which is comprised of chief insurance regulators from all 50 states, the District of Columbia and five U.S. territories, although state laws differ, they all protect policyholders in several key ways:  
- **Licensing:** Insurance agents and brokers must be licensed to sell insurance in the states where they do business. Those that fail to comply with various state laws and regulations governing their activities are subject to fines and license suspension or revocation. They must also participate in continuing education programs to ensure professional standards.   
- **Product Regulation:** State regulators review and monitor the products sold by life insurers, including term life, permanent life, and other products such as annuities. While premiums and rates for life insurance and annuity products are not typically subject to regulatory approval, the NAIC notes they may be monitored to ensure the benefits provided are commensurate with premium charges.

Solution: Fix the marketing. There’s nothing wrong with Universal Life Insurance policies, just the way they’re marketed.

Brantley Whitney 2012 (life insurance agent for over 18 years, who formerly agreed with AFF position against Universal Life, but changed his mind after further study) September 2012 “Universal Life Insurance-From Pure Evil to Absolute Truth” <https://theinsuranceproblog.com/universal-life-insurance-from-pure-evil-to-absolute-truth/> (article is undated but refers internally to an article published “last night” that is dated in Sept 2012)

It's no secret that I'm not a lover of 401k plans, I take them to task a bit in my post back a few months ago where I discuss creating your own pension.  However, I'm not sure how the author connects the birth of universal life insurance to the death of defined benefit pensions.  That's not how universal life insurance was sold at all.  It was sold mistakenly in many cases, as the cheap alternative to whole life insurance.  You could have coverage that would last forever, build cash value and pay a whole lot less than you were paying for that silly old whole life insurance. As Brandon pointed out in his post[Universal life is NOT the Cheap Alternative to Whole Life Insurance](https://theinsuranceproblog.com/universal-life-insurance-is-not-the-cheap-alternative-to-whole-life-insurance/), if you paid the same premium into your universal life insurance that you were required to pay on a comparable whole life insurance policy, there wouldn't be an issue.  The problem with universal life is not the mechanics of the policy, it's how it was sold and that it wasn't funded correctly.

INHERENCY

1. UL already declining

Regulatory scrutiny and market conditions are motivating insurers to discontinue selling UL

Bloomberg news 2011 (financial news agency) “State crackdown could be the death of some universal life policies” 11 Oct 2011 <https://www.investmentnews.com/state-crackdown-could-be-the-death-of-some-universal-life-policies-40045>

In recent years, a handful of insurers have either exited that business or repriced the policies to the point that they’re not competitive, largely due to fewer lapses than expected and lower interest rates. Low interest rates hamper insurers’ ability to earn investment income, and products that guarantee a certain interest rate — which is the case with UL — are particularly affected by low rate environments. Insurers that have abandoned the product include Sun Life Financial Inc. and Axa Equitable Life Insurance Co. Greater scrutiny on reserving merely adds another challenge for market participants and could lead to more exits, said Larry J. Rybka, president and CEO of ValMark Securities Inc., an independent broker-dealer specializing in life insurance.

HARMS / SIGNIFICANCE

1. A/T “Market risks / investment losses”

Consumers are fully aware of the risks and they don’t make Universal Life good nor bad

Brantley Whitley 2012 (life insurance agent for over 18 years, who formerly agreed with AFF position against Universal Life, but changed his mind after further study) September 2012 “Universal Life Insurance-From Pure Evil to Absolute Truth” <https://theinsuranceproblog.com/universal-life-insurance-from-pure-evil-to-absolute-truth/> (article is undated but refers internally to an article published “last night” that is dated in Sept 2012)

So, I can only infer that he is again trying to bash universal life insurance here.  At any rate, he's referring to high interest rates and growth in stock prices which are really two totally separate issues–interest rates are a key component of traditional universal life insurance but the stock market is not. Variable universal life insurance is where the returns of the market come into play but this is a choice that someone would willingly and clearly make when purchasing a policy, it's not something you wouldn't be aware of as a consumer.  Furthermore, neither of these components, interest rates nor market investment, make universal life inherently good or bad.

“Market crash” risk isn’t a problem for Indexed Universal Life (IUL)

Brantley Whitley 2020 (life insurance agent for over 18 years, who formerly agreed with AFF position against Universal Life, but changed his mind after further study) “Indexed Universal Life Must Be Contained: It’s Getting Out of Hand” <https://theinsuranceproblog.com/indexed-universal-life-must-be-contained-its-getting-out-of-hand/>

Nothing that relates to IUL happens in a vacuum. But I’m not sure that a market crash is necessarily trouble for all indexed universal life policies. They all have a 0% return floor on the indexed accounts. Some have guaranteed minimum return at 1% or 2% on some older contracts. And every IUL I know of also offers a fixed account that pays a guaranteed interest rate for the policy year. Not to be snarky but you know what will get crushed in a market collapse? Everything you or I have invested in the market. Just bringing that up because articles that rail on IUL being crushed in a down market act as if it will somehow behave differently.

2. Nothing wrong with the product itself

If it were bad, no one would buy it. The problem is people mistakenly thinking it was cheaper than “whole life” insurance

Brandon Roberts 2019 (life insurance industry consultant; formerly agreed with AFF position against Universal Life, but changed his mind after further study) “The Doomed Index Universal Life Insurance Policy” <https://theinsuranceproblog.com/the-doomed-index-universal-life-insurance-policy/>

If universal life insurance is so bad, why does it still exist? So my annoying inquisitive nature forced me to investigate a bit further.  I don't intend this blog post to be about how I found religion with universal life insurance, perhaps in an upcoming blog post. But here's the short version of what I learned: way too many people bought universal life insurance because they thought it was cheaper than whole life insurance.  The *failure* was operator error, not the product.

“Horror Stories” about universal life are bogus, and simply based on misunderstanding how it works

Brandon Roberts 2019 (life insurance industry consultant; formerly agreed with AFF position against Universal Life, but changed his mind after further study) “The Doomed Index Universal Life Insurance Policy” <https://theinsuranceproblog.com/the-doomed-index-universal-life-insurance-policy/> (ellipses in original)

The “horror stories” about universal life insurance are more a lesson on user error.  When agents tried to sell unwitting clients “cheap permanent life insurance,” it resulted in a number of people who owned a poorly capitalized product. Whole life insurance avoids this pitfall because the life insurer demands more money (i.e. it doesn't let agents sell it as cheap insurance), but the reality of the expenses exists just the same. While it's absolutely correct to point out that whole life places the guarantee on the shoulders of the insurance company, an individual who buys universal life insurance and pays a premium commensurate to a whole life premium with the same death benefit has little to worry about as it relates to the rising cost of insurance. But going beyond that, we see plenty of universal life insurance policies around today that are in no trouble at all.  As you can see from the example above, indexed universal life insurance policies correctly designed will far outpace the costs and will very likely continue to do so forever.

3. A/T “High fees”

No actual proof of problems with fees

Brandon Roberts 2019 (life insurance industry consultant; formerly agreed with AFF position against Universal Life, but changed his mind after further study) “The Doomed Index Universal Life Insurance Policy” <https://theinsuranceproblog.com/the-doomed-index-universal-life-insurance-policy/> (ellipses in original)

I never thought that infinite bankers and Suze Orman would agree on everything.  But they've found a common enemy in the undeniable fact that indexed universal life insurance is bad for you. Why?  Fees…mostly.  You see, indexed universal life insurance is more doomed than the Titanic, the Hindenburg, and the Alamo. The fees run out of control and you simply cannot escape them.  There's proof of this, somewhere. Where is the proof? Good question…as best I can tell…the agent in the office down the hall who has a brother who knows a guy who had an agent that told him about a cousin he had on his mother's side who once bought a universal life insurance policy that didn't work out.

4. Rarely used, but still needed

Universal life policies are rarely used, but they fit the needs of a few people

Brandon Roberts 2019 (life insurance industry consultant; formerly agreed with AFF position against Universal Life, but changed his mind after further study) “The Doomed Index Universal Life Insurance Policy” <https://theinsuranceproblog.com/the-doomed-index-universal-life-insurance-policy/>

In truth, we write about 10 whole life policies for every one universal life insurance policy these days.  It just happens to be the case that whole life matches the needs better for a majority of people who choose us as their agents. We clearly see the value in both, and we refuse to take a myopic approach to life insurance that suggests one approach rules them all just because we don't always see a benefit to one product or another.

5. A/T “Bad policies sold in the ‘80s are harming people now”

**[Background: In the 1980s, interest rates were much higher than today. Universal life policies were sold back then under the belief that high interest rates would rapidly grow the cash value and easily pay for the life insurance costs, with plenty left over. But interest rates have fallen dramatically, so these old UL policy holders are now being told they have to pay a lot to maintain their life insurance coverage, because the cash value isn’t what it was expected to be.]**

Old policies aren’t a crisis, there are lots of alternatives

Shomari Hearn 2019 (*managing vice president of Palisades Hudson Financial Group in Fort Lauderdale, Florida.  He holds the Certified Financial Planner (CFP®) and IRS Enrolled Agent (EA) designations* ) What to Do If Your Universal Life Insurance Policy is About to Crash” 14 July 2019 <https://www.mdmag.com/physicians-money-digest/personal-finance/what-to-do-if-your-universal-life-insurance-policy-is-about-to-crash>

**Consider dropping or exchanging the policy if you no longer need insurance.**The main purpose of life insurance is to provide protection for your loved ones in case you die early and deprive them of your income. If you’re retired and have finished paying for your children’s educations, the policy has likely served its purpose and you may not need it. While it is frustrating to surrender a policy or let it lapse after paying years of premiums, don’t let the “sunk costs” affect your course of action. One possibility is to surrender the policy and receive the cash value in it. Depending on how much remains, you may owe tax on the distribution. If there’s still a lot of money in the policy, surrendering it could cause a substantial tax hit. But there’s a way around it. You can exchange a universal life insurance policy for a different life insurance policy, such as a whole life policy, or an annuity tax-free. This is called a Section 1035 exchange. Another possibility is to let the policy lapse once the cash value has been exhausted—especially if paying higher premiums would break your budget.  
**Keep your policy; consider reducing the death benefit** **to reduce premiums**. If you are in poor health and it seems likely the policy will pay out soon, it may be worth maintaining your universal life policy. If your budget allows you to pay the higher premiums needed to maintain the full death benefit, this may not be a hard decision.   
Many insurers will let you substantially reduce your death benefit, and thus your premiums. This can be a good way to maintain your policy and still get some benefit from it. While you may no longer need the original death benefit, a smaller benefit can be valuable to cover specific expenses, such as funeral costs

SOLVENCY

1. No federal agency to implement the plan

Federal regulation of insurance (currently run by the states) would require constructing a big new federal agency

US Dept. of the Treasury, Federal Insurance Office 2013. “How to modernize and improve the system of insurance regulation in the United States” <https://www.treasury.gov/initiatives/fio/Documents/How%20to%20Modernize%20and%20Improve%20the%20System%20of%20Insurance%20Regulation%20in%20the%20US.pdf>

The limitations inherent in a state-based system of insurance regulation, however, do not necessarily imply that the ideal solution would be for the federal government to displace state regulation completely. The business of insurance involves offering many products that are tailored for and delivered at a local level. For the most part, effective delivery of the product will require local knowledge and relationships, and local regulation. Moreover, establishing a new federal agency to regulate all or part of the $7.3 trillion insurance sector would be a significant undertaking. The personnel, resources, and institutional expertise needed to execute such an endeavor at a professional and rigorous level would, of necessity, require an unequivocal commitment from the legislative and executive branches of the U.S. government.

DISADVANTAGES

1. Federal deficit

Link: AFF plan requires big increase in federal spending to create a new insurance regulatory agency

Cross apply the Solvency evidence.

Impact: Every increase in the federal deficit hurts the economy

Dr William Gale and Benjamin Harris 2010.  (Gale - PhD in economics, Stanford Univ.; senior fellow at the Brookings Institution and co-director of the Urban-Brookings Tax Policy Center; former assistant professor in the Department of Economics at UCLA, and a senior economist for the Council of Economic Advisers under President George H.W. Bush;  Harris -   master’s degree in economics from Cornell University and a master’s degree in quantitative methods from Columbia University; senior research associate with the Economics Studies Program at the Brookings Institution)  “A VAT for the United States: Part of the Solution”  https://www.brookings.edu/wp-content/uploads/2016/06/0721\_vat\_for\_us\_gale.pdf

But even in the absence of a crisis, sustained deficits have deleterious effects, as they translate into lower national savings, higher interest rates, and increased indebtedness to foreign investors, all of which serve to reduce future national income. Gale and Orszag (2004a) estimate that a 1 percent of GDP increase in the deficit will raise interest rates by 25 to 35 basis points and reduce national saving by 0.5 to 0.8 percentage points of GDP.