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Protected for Life: New Policies Cover Economic Downturn

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NEW YORK -- Life insurers are offering more than just protection for when you die -- they are offering a guarantee that your policy won't lapse if the economy turns sour.

This feature is being marketed to potential investors of so-called variable-universal life policies, which are tied to the stock market. With traditional variable-universal life policies, you can invest in equity accounts to increase the cash value -- against which you can borrow -- and, sometimes, the death benefit of the policy. During strong markets, the policy may pay for itself, since holders can apply market gains to the premium.

But in recent years, as the market dragged down investment portfolios, some policyholders found that how much they had to shell out of their own pockets varied with the market's whims. Others were concerned they would have to step in with a cash infusion to prevent policies from lapsing.

"No one contemplated that this would happen when they bought the policies," said Paul Graham, chief actuary at the American Council of Life Insurers in Washington. "People want the comfort that if investment performance is bad, they're not going to lose their life insurance."

With the no-lapse features, as long as set minimum premiums are paid, the policy will remain in effect, and heirs will get death benefits if the policyholder dies suddenly.

Insurers are hoping the no-lapse feature will help prop up the weak flow of money into equity-linked insurance products. In 2003 alone, new premiums on variable-universal life policies fell 33% compared with the year before, according to Limra International, a market-research organization in Windsor, Conn. Plain variable life products saw a decline of 40% on new premiums.

Massachusetts Mutual Life Insurance Co., one of the first to bring this feature to a variable-universal life policy, in May 2003, calls it one of the company's "most successful insurance products in several decades." In the year to date, new premiums for all the insurer's variable products are up 46%, a significant portion of the growth because of the popularity of its year-old "VUL Guard" product, according to Spencer Williams, senior vice president of life and sales marketing at Massachusetts Mutual in Springfield, Mass.

Hartford Financial Services Group Inc., **Lincoln National** Corp. and National Life Insurance Co. also offer this type of product.

No-lapse features have been offered on universal life products, a type of permanent insurance not tied to the equity market, for a while, but the movement to apply it to equity-linked insurance products is just beginning.

When variable-universal life was introduced more than a decade ago, the possibility of the policy's lapsing wasn't a significant concern because most buyers were relatively well off, with more than enough money to cover their premiums.

Insurers know, though, that old investing habits aren't likely to just go away. That is why even with some of the new variable-universal products, the cash value built up in the variable accounts can still be used to cut down or even eliminate out-of-pocket premiums.

To be sure, investors considering this type of product should realize that variable-universal life is a permanent, lifetime policy. So it will likely cost more than term life, which pays out only if you die during the one to 30 years for which the policy lasts.

A no-lapse feature may also raise your insurance costs. For example, National Life's "No-Lapse Guarantee" rider costs an additional five cents each month per $1,000 of the policy's face value, which is the amount that heirs would get if the policyholder dies.

Investors should also know that guarantees mean little unless insurers' financial health allows them to satisfy their obligations. So always check insurers' ratings with agencies such as A.M. Best, Moody's Investors Service and Standard & Poor's before buying any product.

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