

Policy Remediation Case Studies

- Cost of Insurance (COI) increase in a current assumption universal life (CUAL) policy more than doubles the carrying costs of the policy – TOLI Handbook Page 124
 - Background: Before COI increase, annual premiums of \$36,400 were needed to carry the policy to contract maturity (age 100) with minimal cash value. After COI increase, annual premiums of \$81,595 were needed to carry the policy to age 100 (approximately 40% increase)
 - Review: Potential options to keep the policy in force to maturity (age 100) were reviewed
 - Outcome: The decision was made to internally exchange the policy for a contractually guaranteed whole life policy with the carrier for \$2.81 million
 - Notes: This case shows the extent to which as trustee must review all options, not just those easily identified, when determining the best course of action for a policy
- Grantor informs the trustee that he will no longer be funding the policy – TOLI Handbook Page 129
 - Background: 83-year-old grantor/insured has decided to not fund the \$3 million policy and none of the beneficiaries are interested in funding either
 - Review: All potential options for this policy were reviewed to determine what to do with this \$3 million asset. To support the analysis, an LE Report was obtained
 - Outcome: The policy death benefit was reduced to \$2.15 million
 - Notes: This case shows the extent to which a trustee must review all options in a case to arrive at a prudent decision
- Grantor informs trustee his agent is suggesting the three policies in the trust be replaced with one, more efficient policy – TOLI Handbook Page 135
 - Background: The agent is proposing a 1035 Exchange of the three whole life policies totaling \$5.7 million of death benefit (\$2.1 million of total cash value) to a \$3 million equity indexed universal life policy
 - Review: The two best options, should the grantor wish to stop funding, were reviewed
 - Outcome: The 1035 Exchange was refused by the trustee, and the policies were reduced to contractually guaranteed amounts totaling \$3.9 million
 - Notes: This case shows the extent to which a trustee must review the options on the existing policy(s) in a replacement scenario