Four Strategies for Old or Unwanted Insurance Policies

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Permanent life insurance policies should be monitored and reviewed regularly to maximize opportunities and support your financial plan.

Regular insurance policy reviews allow you to update a policy's beneficiary and ownership structure to match any recent changes better and identify potential performance issues with the policy. You may also be in a situation where you want to reduce premium payments or find that the policy is no longer wanted or needed.

The four strategies for outdated or unwanted policies

Depending on your goals, age, health and policy details, several possible approaches may be available. Before canceling a policy, each of these solutions should be carefully reviewed and considered.

Listed below are the four approaches for handling these outdated or unneeded policies:

1. **Adjust your current policy**: The current policy may be flexible enough to adjust premiums or death benefits. In particular, universal life policies provide the most flexibility, but whole life policies may offer dividend options that can be considered.

2. **Replace with a new policy**: A new policy may offer lower premiums, a higher death benefit, or enhanced benefits (like a long-term care rider) implemented through a tax-free 1035 exchange of policy values.

3. **Surrender the policy**: As the policyholder, you will receive the net cash surrender value (cash value minus any loans or surrender charges). Upon surrender, any gain in the policy is subject to ordinary income tax.

4. **Choose a life settlement**: The policy is sold at fair market value on the secondary market to a third-investor, who becomes the new owner/beneficiary of the policy and assumes future premium payments. This solution is often considered at older ages (70 and older) when there is relatively low cash value.

Benefits that support your financial plan

Updating your insurance policy has several potential benefits, including:

- Lower premiums
- Higher death benefit
- Higher cash payout
- Lower tax impact

Stay focused on outcomes and value

When considering whether to maintain or cancel a policy, many individuals are not aware of all their options. After reviewing the various strategies, you can find the solution that optimizes the policy's benefits and ensures that the coverage or surrender proceeds will align with your wealth plan.

See reverse for disclosure

For more information, please contact a Key Private Bank Wealth Protection Strategist*.

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