

Four Strategies for Old or Unwanted Insurance Policies

July 10, 2020

Adam Hyser, CFP®, CLU, ChFC®, Wealth Protection Strategist

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The four strategies for outdated or unwanted policies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Listed below are the four approaches for handling these outdated or unneeded policies: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*.



Four Strategies for Old or Unwanted Insurance Policies

Publish Date: July 10, 2020

Key Private Bank is part of KeyBank National Association (KeyBank). Bank and trust products are provided by KeyBank, Member FDIC and Equal Housing Lender. Credit products are subject to credit approval.

Investments are:

NOT FDIC INSURED • NOT BANK GUARANTEED • MAY LOSE VALUE • NOT A DEPOSIT • NOT INSURED BY ANY FEDERAL OR STATE GOVERNMENT AGENCY

* Insurance products are offered through KeyCorp Insurance Agency USA Inc. (KIA). Variable insurance products are securities and are offered through Key Investment Services LLC (KIS), member FINRA/SIPC. KIA and KIS are affiliated with KeyBank.

Insurance products and securities made available through KIA and KIS are:

NOT FDIC INSURED • NOT BANK GUARANTEED • MAY LOSE VALUE • NOT A DEPOSIT • NOT INSURED BY ANY FEDERAL OR STATE GOVERNMENT AGENCY

Insurance products offered through KIA are underwritten by and the obligation of insurance companies that are not affiliated with KeyBank. When you buy insurance, you are dealing with a licensed agency, not KeyBank. Before purchasing an insurance policy, you should compare information obtained from more than two agents. You have the right to obtain insurance from the agent or insurer of your choice and your decision will not in any way affect KeyBank's credit decision. KIA, KIS and KeyBank are separate entities, and when you buy or sell insurance products and/or securities you are doing business with KIA and/or KIS, and not KeyBank. KIA, KIS and its representatives do not provide tax advice. Individuals should consult their personal tax advisor before making any tax-related investment decisions.

Key Private Bank Wealth Protection Strategists are not fiduciaries, as such, they are compensated based on insurance product sales.