

Money Matters

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Question of the Month: Is Your Life Insurance Eroding?

By **Aaron Skloff**

Q: As the financial markets have declined over the last two years, has my VUL insurance policy become a ticking time bomb ready to implode?

A: Variable Universal Life insurance (VULI) is subject to financial market risk. Combining something that is intended to be your safest financial instrument (life insurance) with risky investments (stocks and bonds) can be a recipe for disaster.

The first step in defusing the implosion is obtaining a current prospectus that provides an overview of the policy. Next, obtain an in force illustration of the VULI policy, ideally every two to three years.

After careful review, determine:

- 1) which sub-account changes should or should not be made
- 2) what additional contributions may be required
- 3) if you want the policy to implode (cancel)
- 4) if the policy should be exchanged to another insurance carrier or another type of policy

Fortunately, section 1035 of the Internal Revenue Code permits you to make a tax free exchange of a VULI policy to another insurance contract that is considered a “like kind exchange”. There are a number of ways of ways you can trip this up, so work closely with each carrier throughout this process.

Unless you are extremely comfortable reviewing an extensive set of tables provided with your in force illustration, work with a licensed insurance agent that has in depth analytical skills - ideally a CFA.

Note. Aaron Skloff, Accredited Investment Fiduciary (AIF), Chartered Financial Analyst (CFA), Master of Business Administration (MBA) is CEO of Skloff Financial Group, a Registered Investment Advisory firm based in Berkeley Heights. He can be contacted at www.skloff.com or **908- 464-3060**.