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Reducing Your Future Premiums

In Part I of this book, I've offered you a wide variety of strategies to help you save money when you first buy your life insurance—and to make sure that you get the most for every dollar you spend. But here is the single most overlooked fact about owning life insurance: It is often possible to reduce your premiums *after* you have purchased your policy—even years or decades after.

This chapter outlines several different money-saving strategies, each of which could significantly reduce your out-of-pocket costs for life insurance. To make use of any of these strategies, simply call your agent, explain which one(s) you wish to use and ask him or her to make the necessary changes for you.

Some of the options presented in this chapter will not only reduce your future premiums, but may also entitle you to a refund of part of the premium you most recently paid. (This depends on the type of policy, the carrier and the type of premium reduction.) For example, if you have already paid the annual smoker's premium on your whole life policy, but halfway through the year you qualify for a nonsmoking discount, your insurance company will refund half the difference between the smoking and nonsmoking premiums. Check with your agent for details on mid-year refunds.

REENTER YOUR TERM POLICY

Reentry is one of the ways in which insurance companies reward some of their healthy policyholders. It gives you the opportunity to lower *all* of the future premiums on your term policy simply by demonstrating stable or improved health. (Not all term policies include a reentry provision, however.)

To qualify for reentry, you must provide "evidence of insurability"—normally by providing satisfactory answers to a series of health questions. If, based on your answers, the carrier considers your health good enough, it will permit you to reenter the policy and will issue you new, lower schedules of illustrated and guaranteed premiums.

Term policies that contain a reentry provision allow you to apply for reentry only at specified intervals, such as every five years. If your request for reentry is not approved, you lose nothing. Your premium schedules remain unchanged, and you have the right to apply for reentry again in the future. Here is the best part: It is usually possible to reenter a term policy over and over—for example, once every five years. Each time you reenter, your future premiums are reduced.

I strongly encourage all potential buyers of term insurance to purchase reentry term coverage.

IMPROVE YOUR RISK RATING

As you'll recall, whenever a life insurance company issues you a policy, it assigns you a risk rating. This rating is based on your health, life-style and health history at the time you applied for coverage. The poorer your risk rating, the higher your premiums.

Most life insurance companies offer a preferred rating to people whom it expects will live longer than average; a standard rating to people whom it anticipates will have normal life spans; and one or more substandard ratings for people whom it believes could die prematurely because of some illness, condition or aspect of their life-style.

If your current rating is standard or substandard and your health has noticeably improved since you

first bought your policy—or if you have permanently given up some hobby or activity that the insurance company considers dangerous—you can ask your agent to have the company reevaluate your risk rating. You may need to take a medical exam (almost certainly at your own expense), or you may have to answer a series of health questions, or both. If your answers and/or test results are positive enough, the insurance company will reunderwrite your policy, assign you an improved risk rating and issue you a new schedule of lower premiums. If you do not qualify for an improved rating, there is no penalty; your premiums will simply remain unchanged. Here are some signs of improved health that may qualify you for a more favorable risk rating:

- Your high blood pressure has gotten significantly lower.
- Your high cholesterol has gone down significantly.
- You have lost a substantial amount of excess weight.
- You participate in a systematic exercise program.
- A chronic condition or illness has substantially improved or disappeared.
- Your overall health has gotten noticeably better.

The best thing you can do to improve your risk rating, of course, is to live a healthier life-style: eat sensibly, exercise regularly and get enough sleep.

You may request a reevaluation of your risk rating at any time, simply by speaking to your agent. There is no limit to the number of times you may request such an evaluation, and it is possible (though very rare) for people to improve their risk rating more than once. Once you have received a preferred rating, however, you cannot reduce (or further reduce) your premiums through this strategy.

While it's not uncommon for people to improve a substandard rating to a standard one, it's fairly rare for a standard rating to be improved to a preferred one. And it should go without saying that there's no point in asking for an improved risk rating unless your health genuinely merits it.

You may ask to have your risk rating reevaluated on any type of life insurance policy. If you own a term policy, however, you have the option of lowering your premiums through reentry *and* through improving your risk rating. In fact, it is sometimes possible to lower your premiums in these two different ways *at once*.

Some people have a substandard or standard risk rating not because of their health but because of some potentially dangerous activity they have engaged in, such as piloting their own plane, skydiving, etc. If this situation applies to you and you have given up the activity in question *completely*, ask your insurance company to reconsider your risk rating. Some companies may give you the improved rating immediately but will insist on excluding that activity from coverage; others may require that you have not engaged in that activity for at least three to five years.

QUIT SMOKING

Most insurance companies calculate premiums not only according to risk ratings, but also according to whether or not you smoke, with nonsmokers receiving a substantial discount in their premiums. You can usually qualify for a nonsmoker discount once you have gone one full year without smoking any cigarettes. Once such a 12-month period has passed, tell your agent, who will process the change for you.

Most life insurance companies define a nonsmoker as anyone who has smoked no cigarettes in the past year. This means that if you smoked one or two cigarettes last year, you're still considered a smoker; but if you smoke cigars or a pipe, chew tobacco or take snuff, you're probably considered a nonsmoker.

BORROW AGAINST YOUR POLICY

One way to temporarily reduce or even eliminate your *out-of-pocket* premium costs on a whole life, universal life or blended policy is to take out a loan against the policy and use the borrowed money to pay part or all of your premium. This doesn't reduce the size of your premium, of course, but it *does* reduce or eliminate the amount you must come up with out of your pocket. You will be charged annual interest on any borrowed funds; typically, the interest rate is quite favorable. Perhaps the best feature of this arrangement is that you can pay back any or all of the loan whenever you please—or, if you wish, not at all.

I don't recommend borrowing against your policy as a standard or frequent procedure; but I do recommend it when you have a temporary cash flow problem, or when an opportunity, emergency or other unusual circumstance arises.

Borrowing against your policy does not normally reduce your buildup of cash value. However, if you have an outstanding loan against your policy when you surrender it, the outstanding amount is subtracted from the total cash value to which you're entitled. And if you have not repaid all your policy loans when you die, the amount you owe will be deducted from the death benefit.

One very useful variation on this theme is an **automatic premium loan** provision, which I believe should be a part of virtually every whole life or blended policy. With this provision, whenever a premium is due, you

have the option of paying all, part or none of it; the insurance company *automatically* borrows any necessary amount against your cash value and uses it to pay any portion of the premium that you have not paid. (This presumes, of course, that you have enough equity in your cash value to take such a loan.)

Automatic premium loan is a wonderful provision to have, especially since it normally costs nothing at all. If it is not already part of your whole life or blended policy, ask your agent to add it for you. (All universal life policies *automatically* give you the privilege of borrowing against your policy to pay premiums; no special provision needs to be added.)

Like several of the other strategies described in this chapter, automatic premium loan does not actually lower the size of your premiums, but it reduces your immediate out-of-pocket costs. It is also important to note that in the early years of most policies, particularly blended policies, there may not yet be sufficient cash value to cover the cost of a full year's premium.

IMPLEMENT A VANISHING PREMIUM SCENARIO

You can limit the *number* (though not the size) of your premiums on your whole life, universal life or blended policy by asking your agent to set up a vanishing premium scenario for you (see p. 63 for complete details). Under this arrangement, a portion of your annual dividend or excess interest is used to pay your premium each year. Your premiums do not literally vanish (they are still due every year), but your out-of-pocket costs do. (The premiums are simply being paid from another source: the earnings from the policy itself.)

Keep in mind that you don't get something for nothing with vanishing premiums. Because some of your annual dividend or excess interest is paying your next year's premium instead of buying a paid-up addition to your policy, your cash value will grow more slowly. Furthermore, if your policy does not perform according to the insurance company's illustrations, the vanishing premium could reappear some years—or even some decades—down the road.

TAKE YOUR DIVIDENDS OR EXCESS INTEREST IN CASH

The wisest course for most owners of a whole life or blended policy is to use the money their policy earns each year to buy paid-up additions. (You'll recall that these are small additional whole life policies that provide additional cash value and additional death benefit.)

However, there are other things that you can do with your excess interest or dividends each year besides buy paid-up additions. One option you have is to take this money in cash. Under this arrangement, instead of using your policy earnings to buy additional life insurance, you simply receive a check each year from your life insurance company. You can then use some or all of this money to pay part or all of your next premium. (However, because you are not putting these earnings back into your policy, your cash value and death benefit will grow more slowly than they would if you were to buy paid-up additions.)

A common variation on this theme is to have your dividends or excess interest automatically applied against your next year's premium. Under this arrangement, if your earnings were to exceed the premium due, you'd be sent a check for the difference. Or if the excess interest or dividend did not fully cover the premium, you would simply be billed for the difference.

REDUCE YOUR UNIVERSAL LIFE OR UNIVERSAL TERM PREMIUMS

If you own a universal life or universal term policy, you can automatically reduce your premiums whenever you wish. This will affect your cash value and/or death benefit in your universal life policy, and your death benefit in a universal term plan.

TAKE A REDUCED, PAID-UP POLICY

If you own a whole life, universal life or blended policy, you have the option at any time of taking a **reduced, paid-up policy.** Essentially, this is a method for redesigning an existing policy so that no further premiums need to be paid. If you request this option, an insurance company actuary will look at your policy and recalculate how much death benefit and cash value you would be entitled to *if the premiums you had paid had purchased a policy that would endow immediately.* Your policy then transforms into one with a lower death benefit and lower cash value, but that requires no more premiums to be paid, ever. (In fact, you're not even allowed to make more payments.) The cash value will continue to grow until you die or surrender the policy. Taking a reduced, paid-up policy is almost never your wisest or most cost-effective option. It is appropriate only in cases where you do not want to surrender your policy but do not want to continue paying premiums on it, either.

A variation on this theme is a **quick vanish,** in which some of the annual excess interest or dividends paid on your reduced, paid-up policy are used to buy additional term coverage. This gives you a sort of blended policy with a higher total death benefit and lower cash value than a standard reduced, paid-up policy. (See p. 149 for more details.)

If either of these options interests you, ask your agent about them.

REDUCE YOUR COVERAGE

You always have the option of reducing your premiums by canceling one or more of your policies and thus reducing your overall life insurance coverage. However, unless your needs have genuinely diminished, you should avoid reducing your coverage as a cost-saving measure except as a last resort. It is usually far wiser to employ one or more of the other strategies in this chapter instead.

HAVE YOUR COVERAGE EVALUATED REGULARLY OR WHENEVER YOUR NEEDS OR GOALS CHANGE

Perhaps the very best way to keep down the cost of your premiums is to have your agent do a life insurance audit for you every year or two—or, if your needs, goals or circumstances have changed significantly, as soon as those changes have taken place. See Chapter 9 for complete details on making the most of any life insurance coverage evaluation.