

CASE STUDY

REVIEW FINDS ROUNDING ERROR CAUSED REDUCED GUARANTEE



THE SITUATION

Bill and Helen Stuart¹, ages 72 and 74, purchased a \$10 million Survivorship Variable Universal Life policy with a secondary guarantee to provide coverage to age 100. Bill had recently sold his manufacturing company and wanted to provide an inheritance for his adult children. The couple's policy was held in an Irrevocable Trust and was to be paid in five annual premium installments of \$500,309.



WHAT WENT WRONG

In Year 4 (after the fourth premium installment had been paid), the policy's guaranteed coverage age was reduced from age 100 to age 81 which was significantly below the couple's life expectancies. Further, the policy's cash value and projected coverage age were behind due to the policy performing less than originally illustrated.

When PMC (Policy Management Company) was brought in to review the policy, they discovered that the trustee had mistakenly sent a check in Year 4 for \$500,000 instead of the full premium amount. With only one premium payment remaining, the Stuart's were unaware that the policy's guaranteed coverage age had dropped by 19 years because of a mere difference of \$309.



SUMMARY

GUARANTEED COVERAGE AGE

ORIGINAL DESIGN - Age 100

CURRENT POLICY - Age 81



THE OUTCOME

PMC worked with the insurance carrier to resolve the issue.

A premium check for \$500,750 in Year 5 made up the shortfall and brought the policy back to the original design and guaranteed coverage duration.

The policy was subsequently scheduled for performance monitoring and annual reviews by PMC.

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¹Client name has been changed to protect confidentiality.

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