

CASE STUDY

SUBACCOUNT ALLOCATION AFFECTS POLICY PERFORMANCE

THE SITUATION

In 2008, Richard and Susan Snyder¹ established a trust which purchased a \$7 million Survivorship Variable Universal Life policy on both of their lives. After the market crash a year later, the Snyder's trustee moved 100% of the policy's cash value into a Money Market fund subaccount, despite the fact that the policy was guaranteed to earn a minimum of 3% in a fixed account.

WHAT WENT WRONG

The policy's cash value remained in the Money Market subaccount for seven years and missed out not only on equity opportunities resulting from the market recovery, but also, at a minimum, on the fixed account returns which were over 4% in 2016 when the Policy Management Company (PMC) was brought in to review the policy.

The PMC also identified an issue with the duration of coverage stemming from the lack of growth in the policy's cash value. Since the cash value was originally projected to grow at 8%, the projected coverage duration was reduced from age 125 to age 114. This projected age would continue to decrease if the 8% target was not achieved.

SUMMARY

SUMMARY	ORIGINAL DESIGN	CURRENT PERFORMANCE
Projected Coverage	Age 125	Age 114
Cash Value	\$268,451	\$218,757
Cash Surrender Value	\$242,470	\$192,776



THE OUTCOME

With the goal of recalibrating the policy to return its guarantees and projections to plan, the PMC recommended a subaccount review and allocation based on the Snyder's risk tolerance. With the Snyder's approval, the PMC immediately moved the policy's cash value to a fixed account currently earning 4.05% and set up Dollar Cost Averaging for the next 12 months to move into subaccount allocation. In addition, annual reviews were scheduled to monitor the policy's performance.

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¹Client name has been changed to protect confidentiality.

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