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Why Some Life Insurance Premiums Are Skyrocketing

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Jo Ann Sparks's elderly parents, Sara and James Cook, faced the near doubling of their life insurance premium and were persuaded by the insurance company to walk away from the policy, despite paying into it for years.

Credit: Kevin D. Liles for The New York Times

Like clockwork, Sara and James Cook paid $452 a month for life insurance. That is, until a letter arrived last year telling the elderly Georgia couple the premiums on the policy they'd had for 25 years were rising sharply.

They held a universal life policy, a popular type that includes an investment account that accumulates cash when interest rates are high. But with rates at historic lows, it was being drained — quickly.

When the Cooks' daughter, Jo Ann Sparks, asked an expert to explain her options, she recalls: "He said to me, 'Please don't take this the wrong way and, not to be morbid, but your mother needs to die.'"

Around the world, life insurers are wrestling with existential questions. Interest rates are near zero, and in some places have turned negative — unprecedented until recent years. It is contributing to a crisis moment for a business once considered a bedrock of financial stability and an industry that supports the retirement of millions.

In particular, companies that sell policies that run for decades, like life and long-term care insurance, face a twofold challenge: how to fund policies that were sold back when their actuaries couldn't envision a world of interest rates below 8 percent, and what to sell now, when those same actuaries can't envision an appreciable rise in rates anytime soon.

People who bought universal life policies in the 1980s and 1990s — some of which guaranteed annual returns of 4 percent or more — are seeing their premiums soar.

It has precipitated about a dozen lawsuits against insurers, some seeking class-action status. Many of the lawsuits claim that the insurers are raising their rates to force people to drop their policies entirely, often when they are too old to buy replacements. A canceled policy means an insurer gets to keep years of premiums without facing a future death-benefit payout.

Low interest rates are a big part of this new pressure on insurers; their earnings are being squeezed. But in recent years insurers have also undertaken various financial maneuvers to pay dividends to their shareholders despite their low earnings. Now, some say, policyholders like the Cooks are having to pay for that.

While the Federal Reserve bumped up short-term interest rates late last year, yields in the bond market continue to remain at depressed levels. In recent weeks, the yield on the 10-year Treasury note slid to a record low of 1.358 percent.

Very low interest rates cut both ways. They are good for home buyers and corporate borrowers, who can get cheap loans.

But for life insurers — where more than three-quarters of the industry's $6.4 trillion in invested assets are parked in bonds — low rates like these can be calamitous.

If, say, an 8 percent bond from the 1990s matures, the cash must be reinvested in something new. But now, a similar bond may pay only 2 percent. The insurance policy sold to a customer back in the 1990s guaranteed a 4 percent return.

It adds up to a vexing math problem: how to back a promise of 4 percent in a 2-percent-or-less world.

The predicament crosses borders. This year, the head of Allianz of Germany, the largest insurer in Europe, called the move by the European Central Bank to slash rates to zero "a catastrophe."

And last year, several Japanese life insurers acquired American insurers. But that says more about the weakness in Japan than it does about the strength of the American insurers. Japan, like Germany, now has negative interest rates — so interest rates in the United States are considered high.

In the United States, in the hope of staving off a reckoning, some insurers have stopped selling certain products, and have raised what policyholders must pay for some existing policies.

And they have moved into riskier investments in search of higher returns. Last year, MetLife, the nation's largest insurer, reported a 46 percent drop in its fourth-quarter profits, not because of low interest rates but because of poor performance in the company's hedge fund and private equity investments. Although performance has improved somewhat, MetLife now says it will drop most hedge fund investments.

Juggling to Pay Dividends

Universal life insurance was invented in the 1970s as an alternative to popular, lower-cost term life insurance. A term life policyholder buys coverage that expires at the end of a term, usually one to 30 years.

Universal policies typically cost more, but the coverage never expires and the buyer gets both a fixed death benefit and a “cash value” account, designed to earn tax-exempt interest. Money in the account can be used to help pay the policy’s premiums. But there is a risk: If the account gets used up paying those costs, the policy can lapse and coverage ends.

Universal life insurance policies sold today do not guarantee returns of 4 percent or more. Instead, many policies are loosely tied to the growth of the stock market.

Still, in the United States, some doomsayers warn that big trouble is ahead. “The word ‘insolvency’ hasn’t been said very loudly, but certainly on the street people are concerned about insurance companies and their promises and the ways they are trying to avoid keeping their promises,” said J. Robert Hunter, a former Texas insurance commissioner who is now the director of insurance for the Consumer Federation of America, an advocacy group.


Louann Sherbach, of Amityville, N.Y., bought a long-term care policy from Genworth and was assured the premium would not go up. But it did, and she could not continue paying.

Credit: Heather Walsh for The New York Times

Others dispute such alarmist sentiments. They argue that the life insurance industry today is already vastly different from the industry your grandfather knew. The companies, they say, are better capitalized than they have been in a decade, and the big ones have gone into new lines of business, offering a plethora of insurance and asset management products and services.

“We don’t have a doom-and-gloom scenario for the industry,” said Laura Bazer, a senior credit officer at the ratings agency Moody’s Investors Service.

But in recent years, even as low interest rates ate into the industry’s profits, some companies engaged in complex financial maneuvers that enabled them to pay hefty shareholder dividends. Normally, life insurers cannot pay shareholder dividends unless their balance sheets are flush. These maneuvers involve shifting a company’s future obligations to policyholders into special financial vehicles that do not appear on the insurer's balance sheets.

Many of the moves were made with the blessing of state regulators who, in some cases, waived accounting rules or also approved the dividends.

For instance, one British company told investors in 2011 that it used techniques like these to navigate around "redundant" American insurance regulations requiring it to hold "excess" reserves for future claims. The firm's American subsidiary, Banner Life Insurance, then sent the parent company "extraordinary dividends" totaling $785 million.

But now some Banner policyholders are being told their monthly payments must rise as much as sixfold, prompting a lawsuit that accuses Banner of raiding customers' accounts to pay the dividends.

Banner said in court filings that the Maryland Insurance Administration had reviewed and approved the dividends, as well as the calculations justifying them.

In a similar vein, this spring, Axa Equitable Life Insurance raised the monthly payments on about 1,700 universal life policyholders who were over 70 and whose policies had a face value of over $1 million.

Axa said the increase was necessary because its customers were dying sooner than it expected.

Some policyholders question that argument, saying the increases were aimed at improving Axa's bottom line. Axa, which has been increasing its dividend payouts for shareholders, projects that the premium increases will raise its profits by approximately $500 million, according to a lawsuit filed in federal court in Manhattan this year by a policyholder.

In its court filings, Axa included a letter from the New York State Department of Financial Services that found the proposed increase for the small group of policyholders to be "unobjectionable" and that the higher charges did "not reflect an increase in your profit goals." In a statement, Jennifer Recine, an Axa spokeswoman, said the company believed that the lawsuit had no merit.

Having to Walk Away

Similar problems are playing out in the long-term care insurance business, which has sold policies designed to pay for nursing homes, assisted-living facilities and home health. Today, however, long-term care insurers face accusations of badly underpricing their policies as costs skyrocket. Many have either left the industry or severely reduced benefits. The remaining players, contending with low interest rates, are getting state regulators across the country to approve big premium increases.

Twelve years ago, Louann Sherbach, of Amityville, N.Y., bought a long-term care policy from Genworth. “I was assured when I purchased the policy, even though the premium was high for me at $2,300 a year, that the premium would not increase,” said Mrs. Sherbach, 65, who recently retired as an administrative director for a day care center.

About a month ago, the rate increased to $3,700. “That’s outrageous! I can’t afford that,” she said.

After paying $27,000 in premiums over the years, Mrs. Sherbach dropped the policy, believing she was walking away empty-handed. “I feel like they mismanaged my money to pay other people’s claims and now I have nothing,” she said.

But after being asked about Mrs. Sherbach’s situation, a spokeswoman for Genworth said the company was voluntarily giving customers like Mrs. Sherbach who canceled their policies new coverage, reflecting the premiums already paid.

“If a policyholder had paid $27,000 in premiums and did not have any claims,” wrote Julie Westermann, a spokeswoman for Genworth, in an email, then that customer “would have a maximum available benefit of $27,000.”

For Ms. Sparks — whose elderly parents, the Cooks, faced the near doubling of their life insurance bill — the insurance company’s strategy was clear: persuade her parents to simply walk away from the policy, despite a quarter-century of paying in.

“There’s no doubt in my mind that they were trying to get us to drop the policy,” Ms. Sparks said.

She said the insurer, Transamerica Life Insurance, sent the family charts showing the financial damage her parents would suffer if her mother lived a few more years. The charts showed that keeping the policy at the higher monthly payments “would have wiped them out for everything they had,” Ms. Sparks said.

In recent years, Transamerica has used a series of complex financial transactions to shift a large share of its obligations to policyholders into off-balance-sheet vehicles. That allowed it to send about $2 billion in “extraordinary dividends” to its corporate parent in the Netherlands, Aegon.

That left a hole in Transamerica’s finances, which policyholders like the Cooks are now being forced to fill, according to one of several federal lawsuits filed against the insurer seeking class-action status. Lawyers in those cases are seeking an injunction to block the rate increase.

Transamerica said it was “in full compliance with its contractual obligations, and intends to contest vigorously the recently filed litigation.”

After months of considering their options, the Cooks ultimately decided to drop their life policy, walking away from the $55,000 that they had spent on it over the last 25 years, Ms. Sparks said. They took the remaining cash in the account, which totaled $4,100.