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Some Americans Are Being Turned Away Trying to Buy Life Insurance

Certain buyers moved quickly to purchase policies before they became tougher to get last month



David Hungerford purchased a \$1 million life-insurance policy right before most insurance companies sharply raised their premium prices.
CREDIT: MATTHEW SCOTT GRANGER FOR THE WALL STREET JOURNAL

By Leslie Scism

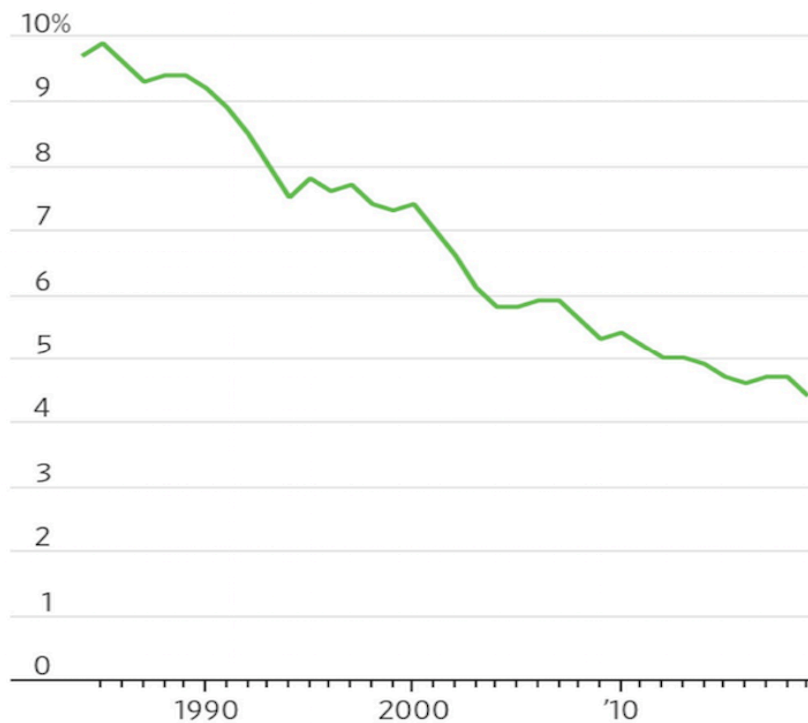
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U.S. insurers are doing the once unthinkable, turning away business from some Americans who want a life-insurance policy.

The driving force behind the action: a collapse in interest rates tied to the spread of the new coronavirus and an expectation from insurers that rates won't rebound significantly anytime soon.

Life insurers earn much of their profit by investing customers' premiums in bonds until claims come due. In simplest terms, when they price policies, they make assumptions about how much interest income they will earn investing these premiums years into the future. The less they earn, the more they may need to collect in premium or fees to turn a profit.

Life insurers' investment-portfolio net yield



Source: A.M. Best

For now, a wave of stopgap measures is hitting potential buyers even as some companies say more consumers are seeking out life insurance during the coronavirus pandemic. In addition to suspending sales of some popular products and raising prices, insurers are also scaling back policy sizes and reducing benefits.

"In 33 years, I have never seen more changes come more quickly to the life-insurance products we sell," said Lawrence Rybka, chairman of ValMark

Financial Group, an insurance brokerage in Akron, Ohio. “It is unprecedented how fast and widespread—it is across lots of carriers.”

His staff has had a hard time keeping up with insurers’ bulletins, and they have less time to redirect business to insurers still willing to issue certain types of large policies, he said. Historically, insurers would give a month or 60 days before a change became effective. Now, two weeks is common.

Some insurers are reacting directly to the new coronavirus.

Penn Mutual Life Insurance Co., among others, has temporarily halted life-insurance sales to people 70 and older and who are in poor health. Insurance-industry executives say that analysis shows older people with underlying medical problems are dying at much higher rates from Covid-19 than younger people.

In a memo to brokers, Penn Mutual said it expects “to revisit these and other changes as we gain better insight into the impact of the Covid-19 pandemic.”

Among those prompted to move quickly amid the changes was David Hungerford, 72 years old, who bought a \$1 million policy from Prudential Financial Inc. last month.

Mr. Hungerford, an owner of a package-design company in southern California, said his broker advised him to act fast because of looming premium hikes. Calling life-insurance buyers “collateral damage” of ultralow interest rates, he said he hustled to wrap up a medical exam.

“I was concerned about my overall bucket of assets in the stock market, and I wanted another bucket to depend on” for his wife’s financial protection, he said about his desire to purchase the policy.

Prudential, the nation’s biggest life insurer by assets, told brokers in a March missive that its late-April rate increases of 8% to 12% on the type of policy bought by Mr. Hungerford, and other actions, “put us in a much better position to withstand the low interest-rate environment.”

The insurer also temporarily suspended sales of 30-year “term-life” policies, an offering popular with young families, a spokeswoman confirmed. Such policies provide a basic death benefit during the years in which they rear their children. Prudential also reduced the amount of interest it is crediting to certain combination savings-and-death-benefit “universal life” policies.

Typically, life insurers hold about 70% of their general investment account in long-term bonds. In general, the yields on these holdings, many of them corporate securities, follow the 10-year U.S. Treasury. Its annual yield has been mostly declining since the 1980s, when it peaked at nearly 16%.

The yield dove after the 2008-09 financial crisis and was as low as 1.366% in 2016 before rebounding to about 3% in 2018. In March, it plummeted again as coronavirus sparked a rush to safer assets and investors feared interest-rate cuts from the Federal Reserve.

The yield on Friday: 0.679%.

Corporate-bond yields have held up better than the 10-year of late, but the overall trend has been tough on life insurers. Life insurers’ net portfolio yield averaged 4.4% last year, down from 9.9% in the mid-1980s, according to ratings firm A.M. Best Co.



'It is difficult for consumers to have a lot of empathy for the life-insurance companies, but I can imagine they're really getting squeezed' by low rates, says Mr. Hungerford. **CREDIT:** MATTHEW SCOTT GRANGER FOR THE WALL STREET JOURNAL

Some insurers now are turning away business they consider the riskiest. American International Group Inc., Nationwide Mutual Insurance Co., Pacific Life Insurance Co. and Principal Financial Group Inc. are among big insurers that have limited the size of so-called guaranteed universal-life policies, which are highly sensitive to low interest rates.

The guarantee is a promise that the annual premium bill won't ever increase during the owner's lifetime. That means the insurer is on the hook for any shortage of interest income over the years. Consumers bear the risk of premium hikes in other types of universal life to make up for such shortfalls.

A Nationwide spokesman said the insurer's pricing and product adjustments were motivated by "the extremely low interest rates and market volatility that drives up the cost of our hedging instruments, and [the] evolving landscape related to Covid-19."

Mark Chandik, president of FDP Wealth Management in Irvine, Calif., said many carriers held off raising prices and retooling offerings immediately after 2008-09 on a belief that rates would soon edge up. They gradually made changes when low rates persisted for years.

In this crisis, “they see no end in sight and they are all rushing to react to that,” he said.

Over the past decade, life insurers offset some earnings pressure by deploying money into higher-yielding, triple-B debt, but potential downgrades in the worsened economy may make some insurers pause, said Tracy Dolin-Benguigui, a senior director for North American Insurance Ratings at S&P Global Ratings.

Certain insurance products that pay interest to consumers will experience a meaningful decline in sales, she forecasts. “It becomes extremely hard to provide a decent multiyear guarantee when you are facing the prospect of zero or even negative rates,” she said.

In another example of how low interest rates are being passed on to consumers, payouts on “income annuities,” also known as “immediate annuities,” have dropped 24% since 2005, industry figures show. A 70-year-old man investing \$100,000 into one of these contracts for lifetime payments would get \$556 a month today, down from \$730 a month in 2005.

Some industry executives are hopeful one positive outcome of the Covid-19 turmoil is a greater appreciation for life insurance.

“The superlow interest rates today are certainly not good for Americans looking to save nor broadly for the life-insurance industry, but the value of protection products with guarantees will increase in this unpredictable environment,” said Theodore Mathas, chairman-elect of trade group American Council of Life Insurers and chief executive of New York Life Insurance Co.

Some insurers say they already are enjoying sales boosts. The 164-year-old Northwestern Mutual Life Insurance Co. said April was one of its five best months ever as measured by number of new clients buying various types of insurance, up 33% from the year-earlier period. Haven Life, an online unit of

Massachusetts Mutual Life Insurance Co., reported a 42% jump in term-life sales in March.

Sales at some companies with product changes have been lifted by buyers trying to get ahead of the deadlines.

Alan Boudreau, a 51-year-old owner of an infrastructure pipe-laying business in southern California, said he was “a little leery” about committing in March to a multimillion-dollar Prudential policy, with Covid-19’s economic damage unfolding.

“I was dragging my feet,” he said. But with changes ahead, “we decided it was smart to move forward now rather than to wait for down the road.”