

Largest holding of AMP whole of life policies surrendered

We recently learned the largest individually owned tranche of AMP whole of life policies in NZ was surrendered. We understand the collective value was in excess of \$1M so it's possible the policyholder missed out on tens of thousands of dollars by going direct to the life company rather than using Policy Exchange. If you have a client considering surrender please do remember the Policy Exchange option: we'll provide an answer quickly, and both adviser and client benefit by trading through us.

Online Calculator Popular

We've had a great response to our Newstalk ZB radio campaign with many using our online calculator for the first time to get an indication of how much they'd receive if they sold a policy. There are clearly still significant numbers of policyholders considering surrender but perhaps unaware of the sale option available through us.

Several of those new users went on to request a formal quote. The majority are aged 65+ - part of an increasing trend of older policyholders cashing out to support themselves in retirement. Over the next few months we'll therefore be shining the light on our new cash out options designed for the retirement-age demographic; the first is below.

Regular Cashflow - Lump Sums: A Closer Look

Designed for policyholders wanting ongoing cashflow in retirement and less concerned with life cover, **Regular Cash – Lump Sums** enables them to sell down portions of their policy gradually over time. Importantly they'll continue to enjoy growth in the unsold policy portion they've retained, which can then fund future partial withdrawals. An added bonus is they no longer need to pay any premiums.

Here's an illustration of how, against an initial SV of \$31,518, the policyholder could receive estimated payouts totalling \$40,593 over 10 years. Policy projected cashflows shown here:

Year	Current Surrender Value	Cash Withdrawals
0	\$31,518	\$13,531
5		\$13,531
10		\$13,531
The Internal Rate of Return (yield) of these cashflow estimates:		5.73%
Estimated margin over 5 year term deposits rate after tax*:		2.76%*

(Ref: Policy Exchange Technical Paper March 2019).

* After tax term deposit yield is calculated here:

Average gross offered rate of 5 major banks (5 years)	3.60%
Less tax portion at an assumed rate of 17.50%	<u>0.63%</u>
Average after tax offered rate	2.97%

How does this compare to partial cash out options available through the life company?

- Partial surrenders (which **Regular Cashflow - Lump Sums** most resembles) are no longer offered by the life companies.
- The only other partial cash out option, **bonus encashment**, we feel is better suited to policyholders who require cash and also want to retain some cover. For those no longer needing cover and wanting to create semi-regular cashflow, we don't consider it optimal. In many cases bonus encashment is at less than face value*, and there's generally a disproportionate negative impact on future policy values from missing out on compounding annual bonuses and terminal bonuses.

* The bonus factor is the ratio at which bonuses can be cashed out. The longer the policy has been in-force the higher the bonus factor. The bonus factor will exceed 1 only when policies have been in-force for a considerable period.

Resources

For more on the new range of Policy Exchange exit options see our [brochure](#), refer to the [Adviser Technical Notes](#) or visit our website www.policyexchange.co.nz.

Best regards

Greg and the team at Policy Exchange