Cashing in Bonuses: Bad or Good?

We regularly come across policies where bonuses have been cashed out to free up funds. Policyholders may believe this is the only way to partially withdraw cash from their policy, but is bonus encashment wise? Often the answer is 'No' - bonus encashment inevitably affects the future value of policies and may result in a sub-optimal outcome. But there are alternatives, e.g. PX's *Sell Some, Keep Some* which offers greater flexibility and also better value in certain circumstances.

In this issue

Sell Some, Keep Some

Unfortunately, when bonuses are cashed out with the life company, the policy foregoes future annual and terminal bonuses accruing to those bonuses. However, if those same bonuses are sold rather than cashed out, the whole policy and its future entitlements remain intact and the benefits can be shared between the policyholder and the buyer under a joint ownership arrangement.

The benefit to the policyholder of selling rather than cashing out is normally more cash in their hands, but they can also choose to take the same amount of cash and keep more of the bonuses.

Here's a recent case where the policyholder could have benefited from selling rather than cashing out via the life company.

Key facts

- The policyholder owned an endowment policy with remaining term to maturity of 6.75 years
- He cashed out annual bonuses with a face value of $17,715, and received $14,000

If he'd instead sold all of the cashed out bonuses to Policy Exchange, he would have received a payout of $14,716, an extra $716. On a larger policy the enhancement amount would increase accordingly.

By using the Policy Exchange ***Sell Some, Keep Some*** option the adviser can create additional value for the client, and receive a 2% referral fee for doing so.

Flexibility for Future Cash Outs

An added advantage of *Sell Some, Keep Some* is greater flexibility for future cash outs: policyholders can sell down portions of all policy components (including the sum insured) with no restriction on how much they can cash out over the remainder of the policy term.

In comparison, bonus encashment limits future cash out options via the life company. Once bonuses have been fully cashed out, the only remaining option via the life company is to surrender outright: it's not possible to cash out a portion of the sum insured with the life company. It's all or nothing.

Bonus Encashment – When it Does Work

Of course, sometimes bonus encashment is a reasonable solution - if policyholders need cash but also want to keep some life cover, bonus encashment satisfies both needs. There'll still be an adverse impact on the policy's future value, but the residual cover is likely to be higher than under *Sell Some, Keep Some*.

However, where policyholders no longer need life cover and simply want to supplement retirement income, bonus encashment is generally considered to be a sub-optimal solution.

If you'd like more info on our partial sell down options, including *Sell Some, Keep Some,* try out our Online Calculator, or call us on 0800 476 542.

Life Company News

It's been a busy couple of months in the life insurance space.

AMP Life

As reported in Good Returns (Link: AMP Adviser finally break free from the mother ship), a new entity has been established which will see all previous AMP tied adviser groups operating as independents.

We see this as a great opportunity to work with advisers under this new model, to help their clients get the most from their policy – whether that's a higher cash payout now, or providing creative solutions leading up to and in retirement.

Foundation Life

A recent update from Foundation Life on the potential restructure and closing down of its business advised delays in completing the modelling, but with matters now moving to the next phase involving separate scrutiny by an independent actuary, the Reserve Bank of New Zealand and the High Court. Subject to approvals being granted, the comprehensive information pack is now expected to be delivered to policyholders in the latter half of 2019.

The Reserve Bank has clearly shown its teeth in recent times, with the AMP sale to Resolution Life under a cloud due to regulatory requirements imposed by them. We're certainly interested in seeing how this new show of regulatory rigour plays out in terms of achieving an appropriate and equitable split of assets between policyholders and shareholders. We'll keep you informed of any developments.

Sovereign Assurance

And finally, the acquisition of Sovereign by AIA has now been completed, with the AIA brand taking over at some point in the future. For the near term, existing products will continue to be offered under the respective brands.

If anything in our newsletter is unclear, or there are other issues you'd like us to cover, please do get in touch; we're always happy to discuss.