



## THE CASE OF THE MISSING LOAN REPAYMENT



### THE SITUATION

Gary Sanford,<sup>1</sup> a 55-year-old architect, had a \$2.5 million policy in place at a carrier that was experiencing financial instability. Gary's advisor recommended taking out a max loan to conserve the policy value and transfer the remaining value to a new carrier. The cash value and loan were transferred to a new Variable Universal Life policy and Gary repaid the loan in full, plus interest, in Year 2 according to plan.

### WHAT WENT WRONG

When the Policy Management Company (PMC) was brought in to review the policy at the end of the fifth policy year, it found there was still a loan balance on the policy which resulted in a reduced death benefit and reduced guaranteed coverage duration.

SUMMARY	ORIGINAL POLICY DESIGN	CURRENT POLICY PERFORMANCE
DEATH BENEFIT	\$2,502,506	<b>\$2,488,211</b>
LOAN AMOUNT	\$0	<b>\$14,356</b>
GUARANTEED COVERAGE LENGTH	30 YEARS (AGE 85)	<b>16 YEARS (AGE 71)</b>

After an investigation with the insurance company, PMC discovered:

- The loan was never carried over from the original carrier.
- When the new carrier received the check for the loan repayment, they assumed the payment was for additional premium since there was no outstanding loan on the books. They refunded Gary an overpayment of \$10,731 to prevent a Modified Endowment Contract (MEC).
- Three years later, the new carrier noticed the loan was never carried over and went back and changed the premium to a loan repayment. However, due to the refund they sent Gary, there was still an outstanding balance on the loan, which had subsequently increased to \$14,356 after interest had accrued.

### THE OUTCOME

PMC, through their relationship with the new carrier, identified the error as being 100% the fault of the carrier for not carrying over the loan at the time of issue. The carrier agreed to accept the \$10,731 that was refunded incorrectly to Gary to pay off the balance of the loan and eliminate any accrued interest. The policy's death benefit and guaranteed coverage duration were restored to the original designed values.

<sup>1</sup> Client name has been changed to protect confidentiality. | The information presented here is for educational purposes only and actual results may vary. Variable Universal Life Insurance products are sold by prospectus. A prospectus is available from your insurance professional. Clients are advised to read the prospectus in full before investing. Securities offered through ValMark Securities, Inc. Member FINRA/SIPC. 130 Springside Dr., Akron, OH 44333. (800) 765-5201. Buckley Financial is a separate entity from ValMark Securities, Inc. and ValMark Advisers, Inc.