Factsheet on *Feller v. Transamerica* Universal Life Insurance Lawsuit re "Cost of Insurance" Charges

What's Universal Life Insurance? Universal life insurance provides both traditional life insurance protection (payment of benefits in the event of an insured's death) and an investment component.

When and why did Transamerica sell the policies that are the subject of the lawsuit? Transamerica sold these policies in the late 1980s and early 1990s to consumers looking for a way to protect their families against an untimely death and at the same time accumulate savings.

How does the Transamerica Universal Life policy work? When a consumer purchased the policy, Transamerica set up an account in the policyholder's name. Premiums are deposited into this account and Transamerica credits interest payments into the account.

On certain of these universal life policies, Transamerica "guaranteed" it would credit interest of at least 4% annually to the account value every month, and that the account value would never be less than an amount as if Transamerica had credited the account 5.5% annually.

Each month, Transamerica reduced the account value by the amount of the Monthly Deduction, which for non-smokers Transamerica called the "cost of insurance." (For smokers, the company also withdrew an additional expense amount.) Transamerica promised that these Monthly Deductions would never exceed a specified cap.

Policyholders can determine the amount of annual premiums to be paid and, typically, a target premium is established when the policy is sold in an amount sufficient to cover future Monthly Deductions for a projected period of time. If the account has insufficient funds to pay the required Monthly Deduction, the policy will lapse.

What happened to the Plaintiffs in this lawsuit? They, and all other owners of this type of Transamerica policy, got a letter last June informing them that the company was going to sharply increase the amount they would deduct each month from the account. For the plaintiffs named in the lawsuit, Transamerica estimated the increase at 38%. Transamerica claimed that the increase was based on its "current expectations regarding our future costs of providing this coverage."

What does the increase mean for policyholders? By massively increasing the Monthly Deduction it takes out of the policyholder account each month, Transamerica is depleting the savings that have accumulated in the account. Eventually the account will be depleted and the policy will lapse, unless the policyholder pays additional premiums sufficient to offset the increased Monthly Deductions. If the policyholder does not pay additional premiums, and the balance in the account falls to zero, the policy automatically terminates. At that point, the policyholder loses all his or her savings to date, as well as the specified life insurance coverage.

What does the lawsuit say Transamerica did wrong? The lawsuit alleges that Transamerica acted improperly by raising the Monthly Deduction based on purported changes in its "cost of insurance" expectations. The Plaintiffs allege that Transamerica breached its contract and acted in bad faith by raising the Monthly Deduction charges as a pretext to avoid or offset its obligation to pay guaranteed monthly interest payments to the policyholders. The complaint says that because people are now living longer, the cost of insurance under the policies is *lower* than when the policies were issued, yet Transamerica is attempting to collect *increased* Monthly Deductions from the policyholders.

The lawsuit also alleges that Transamerica is improperly trying to recoup losses it has sustained as the result of low interest rates since the Great Recession -- while at the same time it "upstreamed" billions in profits to its parent company -- and that Transamerica not only expects, but intends, that thousands of policyholders will be forced to give up their policies as a result of the increases in the monthly deductions.
What laws does the suit charge Transamerica with violating? The lawsuit charges Transamerica with breach of its contracts with policyholders nationwide; for California residents, it further alleges violation of the state's elder abuse law, violation of the state's consumer protection laws, and acting in bad faith.

What does the lawsuit seek? The lawsuit asks the Court to order Transamerica to reverse the Monthly Deduction increases, pay damages to affected policyholders and reinstate the policy of any consumer whose policy was cancelled or surrendered. For California policyholders, it also seeks compensatory and punitive damages for violation of the state's elder abuse statute, as well as an injunction and restitution under the state's consumer protection law.

What kind of lawsuit is this? It's a class action lawsuit, through which people aggrieved by the practices can join together in a court challenge.

Where was the lawsuit filed? In federal district court in Los Angeles, CA.

What happens next? Unless Transamerica chooses to stop improperly imposing higher Monthly Deductions and refund past overcharges to the policyholders, the case will proceed to discovery, various procedural motions and ultimately Transamerica will stand trial.

3-21-16