



Top IUL Talking Points

Three important areas to address when discussing indexed universal life.

#1] The Role of IUL in Planning for Retirement

Many producers are unaware of how much death benefit can be accessed for a certain premium. This means more money for less death benefit. From time to time, a marketer will run an IUL quote for a producer but due to a common misunderstanding about applying two different strategies -- one regarding the death benefit, the other the importance of cash value growth in retirement -- an IUL sale may fall through or be pivoted to a guaranteed universal life sale (GUL).

While the primary purpose of life insurance is to provide death benefit protection, a life insurance policy can also potentially provide cash value growth to assist with both planned and unplanned financial needs in retirement. It is the policyholder's responsibility to make sure that their IUL policy is funded with enough premium and earning enough crediting to sustain the ongoing mortality charges. A policyholder can manually adjust their total death benefit to address these charges and cash value growth. Education on this concept for both producer and their clients is critical and should be unbiased - meaning that clients should be communicated the primary purpose of life insurance, in addition to the various strategies such as "max-funding IUL" to provide an important source of cash value in retirement.

#2] Understanding IUL Illustrations

It's important to understand the nuances presented by certain IUL illustrations. When showing the IUL policy's cash value growth, an illustration may reflect premiums for a period of years, followed by a series of contract loans over the retirement period. As a result, it is not unusual for such illustrations to show values 20 years, 40 years or even more years in the future. Keep in mind, however, that the underlying index return may differ greatly from the assumptions used in creating the illustration.

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It's important to communicate to your clients that illustrations are not "real life" -- they are run on an indexed average and should be run again at least every 5 years minimum while the contract is in place to take into account real returns on the policy year over year.

It is critical to avoid illustrating above-average rates of return on what might be possible but is not a sure thing when it comes to the growth of the retirement income. Many inexperienced producers have made this mistake and it must not occur, in order to avoid potentially dire consequences for the client and the producer. There is a difference between actual and average rates of return. In general terms, if someone comments on stock market returns averaging 8%, it's possible the actual returns were 6.5% as one example. Therefore you cannot have an illustration showing 8% returns every year for 40 years, to avoid disappointments and miscommunication.

#3] Understanding the Non-Guaranteed Death Benefit

Critics claim that while many IUL policies do have death benefits that stretch as long as 15 years, these guarantees expire at a time in the client's life when they may need the death benefit most. First, it's important to know that many IUL companies do offer IULs with death benefit guarantees to age 120, not just the first 15 years. Secondly it's important to understand how any withdrawal strategy impacts a death benefit -- all based on the varying terms and conditions of each IUL policy -- in that, withdrawing cash value can potentially void the death benefit feature. This is why educating clients on the retirement goals behind the utilization of an indexed universal life policy is so critical.

Policy loans and withdrawals will reduce available cash values and death benefits, and may cause the policy to lapse or affect any guarantees against lapse. Additional premium payments may be required to keep the policy in force. In the event of a lapse, outstanding policy loans in excess of unrecovered cost basis will be subject to ordinary income tax. Tax laws are subject to change. You should consult a tax professional. The information and opinions in this document are for general informational purposes only and is not a solicitation to buy or sell the products mentioned. The information is not intended to be used as the sole basis for financial decisions, nor should it be construed as advice designed to meet the particular needs of an individual's situation.

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