Index Universal Life (IUL) Part 4

New Guidelines to Promote Consistency in Illustrations and Protect YOU!

Finally, some regulations that make sense! IUL is now the "hottest" product being sold….it is the current flavor of the day! Yet again, BUYER BEWARE. Remember what I have said in the past; life insurance fails because of lack of management and improper acquisition. Improper acquisition is relying on the illustration to come true! Life insurance illustrations are built on assumptions and if these assumptions do not hold true for your life time then the product is impacted in some way! As with all performance based policies, the key is the management of the funding. *The planned premium is only the suggested deposit based on the assumptions in the illustration.*

IUL, like any other performance based product, relies on proper understanding of all the moving parts to properly fund the contract for long term viability. IUL can be more challenging in that they have more moving parts than any other life insurance policy structure.

A few questions to ask:

1. Is the participation rate guaranteed?
2. What are my participation rate options?
3. Can the Cap rate change?
4. What is the minimum guaranteed Cap rate?
5. Which crediting strategy should I use? There are generally several crediting strategies available, the dominant one is called "S&P 500 Annual Point to Point"
6. How do they credit the returns generated?
7. If presented a opportunity to use life insurance as a tax-free retirement income vehicle, you need to ask what kind of loan is it; fixed or indexed? If an index loan, what is the assumed arbitrage?
8. What is the assumed crediting rate used in the illustration? Many "games can be played to justify the assumed crediting rate shown.

There are a few more questions but you get the hint? Since there are so many assumptions "in site" and "behind the scene" the Regulators wanted to make sure the consumer would be able to compare and contrast company illustrations. Another very difficult task but a good one at that!

What is going to be implemented will be Actuarial Guideline 49 (AG 49) which will govern IUL illustrations. This new actuarial guideline establishes a uniform methodology that must be followed in determining the maximum annual rate of index-based interest that can be used to calculate policy values in an IUL illustration. This methodology includes a maximum interest crediting rate - based on the historical performance of the index/indices being presented – that may be used in an IUL illustration.

The Efficient Edge ◆ 120 S. LaSalle ◆ Suite 1710 ◆ Chicago IL ◆ 60603 ◆ P: 312.368.7560 ◆ peter.steger@efficientedge.net
Peter F. Steger CLU®, ChFC®, REBC® – Principal, The Efficient Edge

In addition, for policy loans, AG 49 limits the maximum spread between the rates of interest that may be credited and charged to ensure that illustrations to do not overstate the effect of any interest rate arbitrage that may be achieved through policy loans. There will also be more disclosure about the potential variability of interest rates that may be credited under IUL policies – thank goodness!

This new methodology and requirement of how crediting rates may be determined is expected to keep the maximum illustrated crediting rates shown in IUL illustrations BELOW 7%! What I have seen over the past couple of years are crediting rates over 8% which build expectations that most likely and in all probability will not be met.

Sales of IUL policies rely HEAVILY on illustrations to explain the potential growth of values. Key supporters of this new guideline believe that it should address the concerns that some illustrations could be viewed as misleading because of the use of high index-based crediting rates to calculate policy values.

This is a welcomed "movement" (the vote is to be today, June 18, 2015) and the various parts of AG 49 will go into effect:

- Methodology for calculating the maximum crediting rate that can be used is scheduled to become effective on or after September 15, 2015
- The provision limiting the interest rates spread for policy loans and additional disclosures are scheduled to become effective on or after March 1, 2016

Any questions or concerns please give us a call!!

The Efficient Edge ◆ 120 S. LaSalle ◆ Suite 1710 ◆ Chicago IL ◆ 60603 ◆ P: 312.368.7560 ◆ peter.steger@efficientedge.net
Peter F. Steger CLU®, ChFC®, REBC® – Principal, The Efficient Edge