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TIME FOR TAKEOFF:

Boost your business with IUL

By Mark Peterson

Sales of index universal life insurance have skyrocketed. If you're not already considering IUL solutions as a way to help clients, you're missing out on its unique capabilities to diversify their retirement plans while taking your own business to new heights.

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When SpaceX founder and CEO Elon Musk blasted his red Tesla Roadster, complete with mannequin driver "Starman," into infinity with the world's most powerful rocket, he delighted space buffs around the globe.

Like that now-famous car, sales of index universal life (IUL) insurance have skyrocketed, soaring more than 725% since 2006 and representing nearly two-thirds – an all-time high – of recent universal life (UL) insurance premium, according to LIMRA data.[1]

In a time when decreasing sales have occurred in various aspects of the business, this data clearly shows a trend toward IUL as a way to meet needs of the marketplace. So, if you're not already considering IUL solutions as a way to help clients, you're missing out on a unique way to utilize life insurance to diversify their retirement plans. The life insurance industry itself is evolving and, for proactive financial professionals, IUL products offer the potential to boost business by responding to client needs and providing potentially greater growth tied to upward market movement.

When you home in on IUL solutions and their plethora of customizable options, you just may find they exceed guaranteed universal life (GUL) insurance products in terms of helping fulfill client needs. In fact, some value-oriented IUL insurance solutions have many of the same attractive features of GUL policies and even offer premiums in the same ballpark.

Why IUL

As permanent life insurance, IUL products offer not only death benefit protection, but also the compelling potential for cash value accumulation. Furthermore, IUL insurance is designed to help protect against market volatility, while providing customers alternatives to retirement income. Although not an investment, an IUL contract credits interest based upon the index crediting strategy selected by the client and the upward movement of a stock market index or multiple indices.

But that's not all. When accompanied by specific types of riders, such as installment death benefit payout options, potential financial protection from the impacts of chronic illness, or guaranteed lifetime income, IUL solutions provide even more flexibility and utility.

IUL products also offer an array of tax advantages. Always tell clients to consult a qualified tax expert regarding their own situation. But, consider the advantages that IUL insurance offers (based on current tax law) and how these attributes can help address retirement income challenges.

The advantages include:

- tax-deferred accumulation
- tax-free distributions (when properly structured) through loans and withdrawals
- a tax-free death benefit

Keep in mind that distributions will decrease policy values and may lower benefits; and the availability of policy withdrawals and loans is subject to numerous factors, such as policy terms and conditions, performance, and fees or expenses. Regardless, clients may be quite grateful for the tax diversification opportunity that an IUL policy provides, in addition to its other attractive features.

Matching needs to solutions

So how do you determine whether an IUL insurance solution is the best fit? If you're considering it for the client, you've probably completed a comprehensive financial assessment of him or her. If you haven't, now is the time to get it done. It's a crucial first step.

Once you've determined that IUL insurance is appropriate, you have the opportunity to match needs to specific solutions. The great thing about today's IUL marketplace is that a variety of solutions are available to meet needs. Some products are structured for robust cash accumulation and others are designed to offer death benefit guarantees with, potentially, some growth in cash value. You'll want to be able to draw a dotted line from the client you're serving to the IUL insurance product that's best suited for him or her.

Let's consider two hypothetical clients and the types of IUL insurance offerings that may be most fitting for each. These examples are for illustrative purposes only.

Client A – Oliver

Oliver, age 45, owns a local CPA firm that's doing well. He's in the mass-affluent bracket and has significant investable assets and a working spouse. He owns a 30-year term life insurance policy, and his desire for supplemental death benefit protection is secondary to his goals for growth and retirement income. He's seeking the potential for aggressive accumulation and also wants supplemental income in retirement.

For Oliver, consider an IUL insurance solution designed to provide strong cash accumulation that can be used for a variety of purposes, including supplemental retirement income. This type of product offers the opportunity for Oliver to take advantage of the current markets for growth potential, with the possibility of significant tax-free income at retirement, lasting 20 years.

An IUL insurance solution such as this, focused on maximizing income potential, may feature a guaranteed death benefit that ends at Oliver's retirement. However, it may also offer current (non-guaranteed) death benefit coverage that can last Oliver's entire life.

It's prudent to provide Oliver with a basic illustration and explain to him that policy loans will reduce the death benefit and cash value and could reduce the duration of coverage. Also educate him on the fact that certain IUL product features and riders typically are optional and subject to specific terms, limitations and restrictions; therefore, he should refer to the policy for details.

Client B – Candice

Candice, a 55-year-old longtime dental practice manager, is divorced, upper-middle-income and has two sons in college. She would welcome a solution that offers an opportunity for cash accumulation, but she also wants a death benefit guarantee, at least to her life expectancy.

Candice is familiar with GUL insurance and loves the idea of the guaranteed death benefit that product offers. However, she wants a product with added flexibility and the potential for substantially more growth in cash value.

For Candice, consider a "bridge" product – an IUL insurance solution that features the security of a guaranteed death benefit, like traditional GUL products, while also offering the flexibility and meaningful cash accumulation that index products are designed to provide. Some "death benefit protection" IUL products offer several index strategies from which the client can choose.

Additionally, some feature a guaranteed enhancement to the account value after several years. Given innovation in the market, it's possible to obtain bridge IUL solutions such as this that not only are competitively priced, but also offer attractive ways to access cash features.

Look for an IUL offering that allows for withdrawal of excess cash value, with no decrease in the death benefit amount or guarantee duration, if the terms of the policy are met and the policy cash surrender value exceeds benchmark assumptions due to strong index performance. Also seek a solution that allows for withdrawal of excess premium, with no decrease in the death benefit amount, if the contract terms are met and additional premiums exceed the benchmark premium. Help Candice understand the terms and conditions that apply.

Consider available riders

Both types of modern IUL product (cash-accumulation and death-benefit-focused) are available with riders designed to enhance optionality. For example, living benefit riders for chronic illness allow the policyholder to accelerate a portion of the policy's death benefit, albeit with a corresponding decrease in the death benefit, when the conditions of the rider are met. With some offerings, the chronic condition does not have to be permanent for the rider to be activated.

Additionally, both types of IUL products may feature a rider that gives the policyholder the irrevocable right to convert all or a portion of the death benefit to installments for the beneficiaries. This feature, which decreases policy premiums, may also increase cash value in the policy.

Longevity riders on death-benefit-focused IUL products are designed to translate the life insurance benefit into an income stream that can be used for any purpose. And, lifetime income riders on IUL solutions that are structured for robust accumulation are designed to convert cash value into a guaranteed income stream. Again, just be sure to understand, and convey to the client, the terms and conditions that apply to each type of rider.

Leverage carrier resources

Although it has been reported (inaccurately) that there's no noise in outer space – where that Tesla Roadster is orbiting – there's lots of noise in the insurance market. To help cut through it, tune in to carrier-provided online webinars, demos and other resources created to clarify how, and for whom, modern IUL insurance is designed to work. You may not be aiming to make history like Elon Musk, but when fully equipped to meet client needs, you certainly have the potential to propel your book of business to new heights. ◆

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[1] U.S. Individual Life Insurance Yearbook 2016, LIMRA, Sept. 2017, www.limra.com (note that site login credentials are needed to access the report) and "First Quarter 2018 Industry Briefing," LIMRA, Feb. 20, 2018, https://limra-1.wistia.com/medias/zq4xx90w4x

An Accelerated Death Benefit Rider (ABR) is not a replacement for Long Term Care Insurance (LTCI). It is a life insurance benefit that gives you the option to accelerate some of the death benefit in the event the insured meets the criteria for a qualifying event described in the policy. The rider does not provide long-term care insurance subject to California insurance law, is not a California Partnership for Long-Term Care program policy. The policy is not a Medicare supplement.

ABRs and LTCI provide different types of benefits. An ABR allows the insured to access a portion of the life insurance policy's death benefit while living. ABR payments are unrestricted and may be used for any purpose. LTCI provides reimbursement for necessary care received due to the inability to perform activities of daily living or cognitive impairment. LTCI coverage may include reimbursement for the cost of a nursing home, assisted living, home health care, homemaker services, adult day care, hospice services or respite care for the primary caretaker and the benefits may be conditioned on certain requirements or meeting an elimination period or limited by type of service, the number of days or a maximum dollar limit. Some ABRs and all LTCI are conditioned upon the insured not being able to perform two or more of the activities of daily living or being cognitively impaired.

This ABR pays proceeds that are intended to qualify for favorable tax treatment under section 101(g) of the Federal Internal Revenue Code. The federal, state, or local tax consequences resulting from payment of an ABR will depend on the specific facts and circumstances, and consequently advice and guidance should be obtained from a personal tax advisor prior to the receipt of any payments. ABR payments may affect eligibility for, or amounts of, Medicaid or other benefits provided by federal, state, or local government. Death benefits and policy values, such as cash values, premium payments and cost of insurance charges if applicable, will be reduced if an ABR payment is made. ABR payments may be limited by the contract or by outstanding policy loans.

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