Episode #197: One of the Best IUL's You Probably Have Never Heard About

Video Transcription

Hi, welcome to another episode of "Money Script Monday," my name is Brian Manderscheid. Today I want to talk to you about one of the best IULs you probably never heard about. Now, there are roughly 30 or so IULs in the industry. Out of that, there's maybe a handful or two handfuls of top tier IULs, this is certainly one of them. However, you can have the best IUL in the marketplace, and if it's not structured within the best interests of the client with a minimum amount of life insurance that the IRS will allow, funding right up to the maximum guidelines, the Internal Revenue Code guidelines, it could actually be a poor addition to a client's financial plan. It's important to work with a qualified advisor, an independent advisor who can shop around insurance companies to find the best product for your situation and is properly trained and can set these up correctly. Today I want to talk about this product, and actually...the reason you may not have heard about it, it's a proprietary product only available to some of the top tier organizations and their advisors in the industry.

First, I am going to talk about the simple design and superior results. Now, back in 2015 and again in 2020, there were a couple of different regulations that were put in place to help minimize the illustrated values of IULs, and basically try to get rid of some of the negative sales practices in the industry, all of which were great steps for prospects and consumers alike. However, some insurance companies, they made this great product even more complicated by adding these multiplier benefits, and whether those are multipliers or flat rate bonuses, and added more cost to the policy, making it more confusing. And really their goal was to give the best-looking illustration, the best-looking values and ledger to the prospect. This company did things the exact opposite, as they said, well let's not necessarily focus on the best illustration but instead focus on the best long-term consumer value. To do this, they're not relying upon bonuses to provide the value, they're focusing on low policy costs. This insurance company has one of the lowest policy costs in the industry, and to highlight that, the premium load is only 5.5%. The reason I point this out is premium loads have increased substantially with some of these products, and those premium loads are used to cover state premium taxes, to cover the bonuses and multipliers that are available in the product, and even profitability for the insurance company.

This company has also updated this product with the updated 7702 guidelines. January 1st, 2021, the insurance companies were basically allowed to update their guidelines. Actually, the IRS updated the guidelines, the insurance companies were able to update their products and basically reduce the amount of life insurance that has to exist for the dollar of premium funding. The benefit for this product is they've already updated their IUL so that you can actually buy less life insurance than some of their other peers, which basically further reduces the life insurance cost structure. And lastly, they're a highly rated insurance company. They have a 96 Comdex. Comdex is a 1 to 100 score, and 96 is one of, if not the top, ratings for a life insurance company offering an indexed universal life.

We talked about the simple design and superior results. Let's next talk about the fact that it's a proprietary product with proven results. Now, to give you an analogy, there are other low cost products, low cost IULs in the industry, but think of them more like a Prius. You're going to have the efficiency, the high amount of miles per gallon, but you are not going to have the performance, the horsepower and all that comes with more performance sports cars. Now, this product not only has the efficiency, the low cost policy, have low policy cost, but it also has the performance upside, the high horsepower. So think of this more like a Tesla, right, where you have the efficiency of the electric engine, but you also have a high amount of performance.

To do this, they basically have three different uncapped index strategies. And they all have participation rates greater than 100%. What that basically means is let's say the underlying indexed at 10% and your participation rate was 125%, you actually get a 12.5% rate of return with no cap or upside limit. They also have three different index crediting segments. So they have a one-year segment, a two-year segment, and a three-year segment. What I want to do is look at a 30-year historical average. Now, what I'll tell you is that past performance doesn't predict any future results. So, these averages look great, but they look at past index data and current participation rates. We don't know what the next 30 years of index data will look like, and we don't know what participation rates will do as well as those will change based on the underlying interest rate environment. But to look at this back cast, you can see that the one-year did 7.55%, 30-year average, two-year did 8.18%, and the three-year did 10.63%, double digits. Again, all very strong returns, but again, I'd take that with sort of a grain of salt because we don't know what the next 30 years will look like. What I'll tell you though is that the way these products are structured is the insurance company can provide higher cap in participation rates, based on the cost of the options. And the options and derivatives are...the price are based on the volatility of the index and also the index segment, the length of it. So, if we're able to stretch our index segment from one-year to two-year or a one-year to three- year, that essentially allows the insurance company to have lower cost options and greater participation rates.

However, there is some risk with longer term segments. Let's say you have two really good years where you are chugging along and getting great returns but a really bad third year, that could potentially wipe out all your gains for that three-year segment. One way we mitigate against that is a very diversified approach, is we recommend a third into each of these segments. So not only are we diversifying allocations, but we are also diversifying time. One key piece of this product that is a differentiator is that it has partial index credits for really three reasons. One, our monthly deductions, which are basically the costs that come out each month to cover the underlying insurance expenses, withdrawals that you may take, or even debt. With most insurance companies if you die within let's say halfway through the segment, you're not getting an index return. You have to live to the end of the index segment. With this policy, let's say you're two years in to a three-year segment, you pass away, your beneficiaries are still getting proportionate credit for the time you were in that index segment. Not only diversifying the strategies but we also have a feature in this policy to help mitigate against some of those longer-term segments.

Lastly, loan flexibility and larger liquidity. The way these policies work is you're not actually withdrawing money from your life insurance policy, you're merely loaning from the insurance company with your life insurance cash value and death benefit as collateral. Additionally, the amount you borrow from the insurance company continues to earn index returns in the contract, which can be quite substantial. The way to win with one of these policies is to have a low borrowing cost from the insurance company and a high upside on the index, which this policy certainly has.

This insurance company has three different loan types. One I am not going to talk about today, it's a fixed loan. They also have two different participating loans, and those are an index loan and a variable loan. The index loan has a contractually set guaranteed rate of 4.75%. No matter what happens with interest rates, the insurance company can never charge more than that stated rate in the contract. They also have a variable rate loan. Now the variable loan works a little differently, where it is based on an underlying index, in this case the Moody's Corporate Bond Yield Average, which right now at least as of May

27, 2021, was 2.88%. So you know, essentially, we're able to borrow around 3% in this policy, which is really, really low compared to other indexed universal life policies in the industry.

You may ask yourself, what happens if interest rates increase? Well, that is going to increase the loan rate. However there is a cap in this policy of 1% over and above the fixed rate, which is sort of a moving target. The fixed rate currently is 3.25%, so 1% above that is 4.25%. So right now, there is a cap of 4.25%, but what happens if interest rates increase even further? The nice thing about this policy is that this allows for the ability to switch loan types once per year. Hypothetically your variable rate loan starts to exceed 4.75%, you can switch loan types to the index loan and lock in that 4.75% for the rest of your life. Or let's say, interest rates start to decrease, and you know you're basically able to have a lower loan rate with the variable, you can switch back from the index loan to the variable. The nice thing again is this insurance company gives you the flexibility to decide that.

To wrap things up today, we talked about this product, how it offers simple...has a simple design, offers superior results, it's a proprietary product with proven performance, and lastly, we finished up with loan flexibility and loan liquidity. If you're a client and you're interested in adding an indexed universal life policy to your overall holistic financial plan, please contact the advisor who sent you this video. They could talk to you about this product as well as some of the other top tier products in the industry. If you're an advisor and looking to add one of these top tier products to your portfolio and be able to offer it to your clients, please contact your field support representative today. We can provide you illustrations, the pros and cons of each, so that you can talk to your clients about the best options for them and their situation.

Thank you very much, we'll see you next time.