

# Episode #222: How to Protect Your Wealth from Illustration Manipulation

## Video Transcription

Hey, there. My name is Kevin Nuber. Thank you so much for watching today's Money Script Monday where I'm going to today be talking about how to protect your wealth from illustration manipulation.

What is illustration manipulation? Illustration manipulation is a term that we use here internally to describe the process by which insurance companies and advisors will go out of their way to intentionally make an illustration for an Indexed Universal Life policy seem to be much better than it actually is.

It's intentional because what they're trying to capitalize on is how we as consumers purchase things. I'm going to give you an example.

I recently purchased solar for my house and just like any consumer, I went out there and I got multiple quotes; I got all the different prices from the different companies. But we're trained as a consumer that the best purchase decision is the one that has the lowest bottom line price.

Well, as a consumer saving for retirement, you're trained the same, but slightly different. You might say, "Well, if I'm going to put a certain amount of money into some sort of savings vehicle, then I need to compare all the different places I'm going to put my money. And I want to pick the company or the product that gives me the most, the biggest number in the future."

Unfortunately, insurance companies and some advisors understand this component. So they purposely manipulate the illustration in such a way that will show you some sort of expectation that is not based on reality, it is not achievable, and there's no way for you to know that.

Today what I want to talk about what you need to do to protect yourself from illustration manipulation. The first thing I want to talk about is what to look for, a red flag that this is illustration manipulation.

The second thing is, is I want to make you feel safer by saying that the industry has done things in order to protect the consumer through different types of protection that have been put into place.

Then third, the main point I want to make is that when comparing all the numbers on an illustration is actually not the most important thing when choosing to purchase an Indexed Universal Life contract.

It's in fact, something completely different. If you just follow these three things, then most of the time, 90% of the time, your policy is going to perform exactly how you want it to.

First, let's talk about what to look out for with illustration manipulation to make sure that it's not happening on what you're considering purchasing. The first thing you want to do is you want to look out for artificially high-index rates.

Without getting into what this actually is, I'll just say that there are certain features inside an Indexed Universal Life contract that determine how much interest you can earn. That's an attractive component.

Well, if this is the industry standard that says this is how much interest you should be able to earn in one of these contracts and there's some other company that says, "Well, our product or our company can do this amount that's way more than everybody else," then, well, that's probably a red flag.

Now what these insurance companies do, and there's not too many of them, but there's still a couple of insurance companies that do this, is they intentionally know, I mean, they actually know. They do not intend on keeping the rates at the level that they are showing you at the time of sale.

In fact, a year or two down the road after you purchased the contract and you're putting your money into it, they're going to bring those rates back down and put them in line with everybody else. That's one of the things you want to look out for is somebody who's offering these rates that are just way higher than everybody else.

The second thing is bonuses. Bonuses inside IUL contracts aren't a bad thing, but there's a difference between ones that are guaranteed and versus ones that aren't guaranteed. And there's a difference between small bonuses and big bonuses.

There are some insurance companies out there that have a practice of having these things called performance bonuses and they make up a majority of the actual credits that go into your contract. There's really no rule or regulation or disclosure about how any of this stuff actually works.

Bonuses are good, but, again, if you see this bonus with some other company that's just a multiple higher than everybody else, that's probably a red flag and is a great sign of illustration manipulation.

The third thing is just non-disclosure of features. Sometimes what insurance companies will do is they won't disclose how they come up with some of this stuff like performance bonuses or how they've come up with these higher rates.

One of the benefits of an IUL contract is transparency: the fact that you can see everything that goes on inside a contract. If you can't see something, if all of a sudden there's this black box that gets created around a certain component of an IUL product, that is a red flag. That is something you want to avoid.

Lastly, it's just high illustrated rates in general. Right now the industry standard is about 6% for an illustrator rate. If some other insurance company comes along and they have this illustrator rate, that's 7.75%,

and on top of that, they have some bonus that's an extra 1%, so now they're illustrating an 8.85%.

That is a massive red flag that there's some sort of illustration manipulation going on with that company or that product and that those values, those numbers that you're looking at in the future, are not going to come true.

I know this sounds scary. You might be thinking like, "Why would I buy anything like this if there are all these things to be scared about?" The good news is that it's a minority of companies out there that do this. It's a very small handful of companies and it's easy to see which ones are doing it.

The industry itself has regulated itself through something called Actuarial Guidelines, specifically AG 49. There's been a series of Actuarial Guidelines that have come out that have self-regulated the Indexed Universal Life industry to limit the amount of illustration manipulation that might occur.

However, unfortunately, there are gross offenders. This, gross offender, is a term we use internally to describe these companies; insurance companies who every time there's a new Actuarial Guideline that says, "You can't do this, this, and this," they come up with some new way in order to get around that Actuarial Guideline and go back to having this illustration manipulation.

These gross offenders are out there. Thankfully, it's only a handful of companies; it's easy to see them. But for the most part, this is well regulated and established through these Actuarial Guidelines to make sure that you as a consumer are protected in the end. For the most part, 9 out of 10 times, it's going to be a product that is not utilizing illustration manipulation.

As I mentioned, we're all kind of conditioned to do this projection where we put in a certain amount of money, we look at how much money

we're going to have in the future, and we think we want the one that gives us the most money. Insurance companies might have all these things that they do to make the number bigger and actuaries are trying to keep it all regulated in place.

I'm here to say that none of that stuff is the most important thing to determine why you should or how you should purchase an IUL contract. That might shock you; it doesn't matter who has the biggest number or what. There are three things that you have to do to make sure that your policy actually comes true.

These are the most important factors to determine your policy's success and we've been doing this. I've been here for 17 years. I've seen tens of thousands of IUL contracts go in-force. This isn't just something I'm making up. When I see policies are performed well, these are the three things that they're doing.

First is they properly design the contract. There's only one way to properly design an Indexed Universal Life contract that is with the minimum death benefit, paying the least amount of insurance. There's only one way to design that policy. If you do that, then you're 50% of the way there to make sure that your policy is going to perform as you want it to.

The next key is to pay the contribution as planned. If you plan on paying \$1000 a month for 10 years, then you should pay \$1000 a month. If you don't pay the \$1000 a month, obviously, the numbers that you're expecting in the future aren't going to come true. If you do these two things, you're 75% of the way to making sure that your policy performs.

The third thing is illustrating at a reasonable rate. This is where illustration manipulation comes into play, as you need to be able to illustrate at a reasonable rate. Right now we use 6% as a reasonable rate. Anything higher than that is excessive.

Once you get into these bonuses and all these things like that, that's where we can get into some trouble. But anything more than that is a little bit excessive. As long as you're using a good illustrated rate and you're doing these other two things, then your policy will perform as you want it to.

We're so passionate about this. We're so committed to this idea that your Index Universal Life contract will perform as you want it to that we've created this microsite. It's called [www.lifepro.com/stories](http://www.lifepro.com/stories).

If you go to [www.lifepro.com/stories](http://www.lifepro.com/stories), you're going to find a whole list of actual real-life in-force IUL contracts. These are not hypothetical., these are in-force policies that are 10, 15 years old.

You will see that these policies have performed exactly how we intended them to. That's how we determine these three things because is if you do these three things, then your policy will come true. Those are the three keys to success.

The truth is, you'll see all kinds of different insurance companies listed on these reports. It doesn't matter what insurance company you illustrate or you pick. As long as you do these three things, then your illustration will come true and your IUL contract will perform as you expect it to.

Thank you so much for watching.