

Episode #307 – IUL Crediting Explained

Hello and welcome to this episode of Money Script Monday. I'm Adam Reyna, and I want to thank you for attending. Today's topic is one that can sometimes be confusing for some consumers. My expectation for today is that after watching this video, you'll have a better handle on the index, credit methods for your IUL policy. With that said, let's get started.

Just to recap, IUL is a form of permanent cash value life insurance that you pay for with after tax premiums. It provides a tax-free death benefit to your beneficiary, has tax deferred growth and tax-free access to capital that you can use as you see fit. It's often used for large capital purchases, other investments, and most commonly, tax-free retirement. Now back to our question for today, which is how does that cash value component grow?

Remember, when you pay your premium, a portion of the premium goes towards the internal cost of the policy and the rest of it goes into the accumulation value, which is your interest earning account. This is one of the most important values in your insurance policy as this is the gasoline that keeps the IUL engine running. During your accumulation and distribution phase, another very important factor to note is that IUL is principal protected with a 0% floor, which means in a negative market you will not see your account balance go down. Again, very important, so, I'll say it one more time. IUL is principal protected and shielded from negative stock market returns due to the 0% floor.

Now let's talk about the crediting period. Unlike the stock market, where you buy, sell, and trade daily, an IUL is much more conservative and credited once annually. The most common form of crediting in an IUL is an annual point to point method, which you can see on the board behind me. Annual point to point indexing involves tracking the performance of a chosen index like the S&P 500 over a one-year period. In my example one year ago in October 2022, it was \$3,859 and then October 2023, it was \$4,155. On an annual point to point basis, that's a 7.7% growth, therefore,

your policy would be credited 7.7%. However, as the industry has evolved, so have crediting methods.

In comes volatility-controlled index. These are meant to diversify away from purely stock index options and reduce your chances of receiving a 0% credit. They're typically made-up of a stock component and a bond component, and as you can see in my graphic, the index manager would typically balance the weight of the index between stocks and bonds. The reason being is the relationship between stocks and bonds is typically inverse. That means if stocks are up, then bonds will typically flat or down and vice versa. If the stock market is projected to go up, the manager would shift the weight to the stocks, and you participate in the upside. If they're projected to go down, they would shift over to the bond side and stabilize again. The goal with these is to reduce the chances of getting that zero percent return.

Finally, there's another option that has nothing to do with the market and is guaranteed for one year. This option is the fixed account. The fixed account has a set rate at the beginning of every policy year. And this rate is guaranteed to credit your policy that amount, no matter what the stock or bond market does. The fixed rate is however correlated to the interest rate environment. So, at the time of this video, we're in a very high interest rate environment. The fixed rate is paying a very healthy 5%. However, three years ago when interest rates were lower, the fixed was around 3% and much less appealing. Again, the fixed rate is determined at the beginning of every year, so you can decide if you're happy with that rate and plan accordingly.

Now to wrap it up, you need to take away a few things from this video. #1 IUL is one of the best ways to access capital tax free and generate tax free retirement. #2 IUL is principal protected from market risk no matter what one of these index options you choose. And finally, IUL has many different crediting methods that you can choose from year over year to help add that gasoline to your IUL engine.

Again, I'm Adam Reyna. I want to thank you for watching and I hope you found this video insightful. We'll see you next time.