Episode #318 – IUL Has Strong Minimum Guarantees

Hey there, my name is Kevin Nuber. Thank you so much for watching today's Money Script Monday video where I'm going to be talking about how index universal life has strong minimum guarantees. What I want you to get out of this video is two things. First is that IUL, index universal life, actually has extremely strong minimum guarantees. And the second thing is that if you understand that the minimum guarantees are strong and that potentially you could do so much better, that at the end of this video, you feel far more comfortable thinking of index universal life as a safer place to actually put your money.

You see, there's like these myths that are out there about index universal life. If you go out there on the Internet, or somebody else who doesn't like indexed universe life tells you about how horrible it is, the thing that they're going to say inevitably is that index universal life has no guarantees, poor guarantees, horrible guarantees, so on and so forth.

I'm here to say today that it's absolutely not true. You know, on top of that, think of all the other places that people tend to be comfortable putting their money. They many times have money coming on their paycheck every single month, going into a 401K and mutual funds, into stocks, into bonds and all of those places have no guarantees whatsoever. Bonds can default, and you have no idea what's going to happen in the stock market day-to-day. Yet people feel so comfortable just putting their money in there and not ever asking too many questions about it. Yet, as soon as somebody mentions something about indexed universal life, it doesn't have good guarantees. Suddenly they stop and they start asking all these questions and they become extremely concerned.

What I want to show you today is that there's absolutely nothing to be concerned about when it comes to index universal life’s minimum guarantees. In order to illustrate this point, what I want to show is a quick example. I'm going to keep it simple. I'm going to show you one example and this example, even though it's one, applies to any type of policy that we do with an index universal life policy, as long as we follow two simple rules.

In this scenario, what we're going to show is we're going to show a male who's 45 years old. Now these are the two conditions. There are two things that you have to do to make everything I'm saying come true. First is that you have to structure the policy such that it has a maximum premium. Most insurance policies you think like “I want to pay the minimum premium, as little as possible.” But when it comes to cash value life insurance, you want to put as much as you possibly can in there because you want it to grow as much as possible as fast as possible. And the IRS has very strict rules about how much premium has a maximum that you can put into it. We're going to go right up to that guideline.

The second thing is that the death benefit has to be the absolute minimum, and the IRS also says that there's a minimum amount of insurance that an insurance policy must have given a certain amount of premium in order for us to call this life insurance. We're going to follow these two rules. I think one of the problems with index universal life in general is that there's so many different ways in which you can design a contract, but there's only one perfect way, and that is to have a maximum premium and a minimum death benefit. There's only one way to do it, and we're following exactly that way.

So we're going to show a premium of $20,000 per year for 20 years. You can pay, everything is still true for what I'm saying, as far as guarantees, it could be $5,000 per year, it could be $50,000 a year, the guarantees are still going to be strong. It's just you're going to have more or less money for your death benefit inside the policy. I'm showing $20,000 per year for 20 years.

What would happen after 20 years, after 30 years, after 40 years, if you paid this money into one of these policies? Well, all the naysayers out there about indexed universal life are going to say, "Well, all your money is going to disappear, you're going to lose it all. You're going to have no insurance policy. You have no death benefit for your kids." And once again, it is simply not true and I want to bust that myth once and for all and make it go away. So, what are the actual results? What would you actually see after 20 year period?

If we looked at just, the guaranteed cash value, this is the minimum guaranteed cash value, so the worst possible case scenario, if everything went perfectly wrong, then you would still have $390,000 of cash value at age 65. You pay in in this scenario $400,000 and you still have $390,000 of guaranteed cash value. That's still really strong and you've had an insurance policy and a death benefit the entire time and you still have almost the same amount of money that you put in. You could almost get all of your money back at the end of 20 years, completely guaranteed.

The second thing is, at age 75 you would have $446,000 of guaranteed minimum cash value and at age 85, you would have $510,000 of cash value in the worst-case scenario. You can see that the cash values are actually quite strong as far as the guarantees go. On top of this, you would have a guaranteed death benefit so no matter how long you lived, if you lived past age 100, no matter what happened, the worst-case scenario, the insurance company would still be paying a death benefit to your beneficiaries. No matter what, that is guaranteed as well, so guaranteed cash value, guaranteed death benefit.

The third thing is depending on the policy you choose, you can even have a guaranteed lifetime retirement income coming out of the policy at age 65. If you were paying $20,000 per year for full for 20 years, you could get $26,788 coming out of the policy as guaranteed income no matter how long you live, for the rest of your life. This completely tax-free, so you put in

$20,000, you're getting $26,000 out for the rest of your life. I have to say that these guarantees are actually quite strong.

What do I mean about guarantees? What does that mean? Now what this doesn't mean, is that it's that this is guaranteed to happen. This is the minute. What I mean is this is the minimum guarantee. It's the worst-case scenario. What I mean by that is in order for this to come true, everything would have to go perfectly wrong for the rest of your life. Two things would have to happen.

First off, is the day you sign your delivery requirements, and as soon as that insurance company cashes the check, the first thing that has to happen is that you would have to earn a 0% interest rate inside your policy for the rest of your life. This would mean that the S&P 500, which is one of the external indexes you're going to use it, would have to perform at a 0% year to year performance or negative every single year for the rest of your life. Of course, that's never happened. It's so unlikely ever to happen that this scenario almost can't come true, that's how unlikely it is.

The second thing that would have to come true is that insurance companies would have to increase mortality cost by over 40%. What would have to happen? Some sort of global mortality event would have to occur that would have to force insurance companies to increase mortality rates by over 40%. The first thing that people think of is a pandemic. But even the recent pandemic in which 10s of millions of people across the world died, no insurance company that issues IUL increased the mortality expenses because of that pandemic. Something on a scale so much more substantial than anything that we've ever experienced in the modern history would have to occur for an insurance company to increase their mortality cost to that extent. So, if the S&P 500 and stock market indexes were negative every year or we had some sort of global mortality event, and if those two things happen every single year, then at minimum you would still have this at the end of the day.

I hope that I've accomplished my two goals. One, is that you understand that there are quite fantastic minimum guarantees inside of an IUL policy and 2nd is that if you understand that in order for this to come true, something so horrible would have to happen and that you actually feel a lot more comfortable using indexed universal life as a place to put your money compared to these other places that have no such guarantees. If mortality events went up through the roof and the stock market was negative, all these other places that you're putting money would be in pretty bad shape and the best place that you would have put all your money would actually be inside this index universal life policy. I hope everybody now feels comfortable about how the guarantees work inside one of these policies. Thank you so much.