What is Indexed Universal Life?

Indexed Universal Life (IUL) is a product which will last for your entire life if it is managed closely and funded properly. Unlike whole life, there is not a fixed premium for IUL. The premium is a factor of ongoing crediting rates and expenses of the contract, which may differ significantly from original expectations and projections.

IUL is a general account fixed interest product. However, the crediting of the cash value is based on the performance of indexes chosen by the policy owner of indexes made available by the Insurance company. The most common index is the S&P 500 though there are many more available in the market.

This type of contract is often market as having upside potential while limiting downside risk by never crediting a negative rate and sometimes even a modest positive rate. However, do not conflate this the possibility of an IUL policy potentially collapsing. Contract expenses may, and sometimes do, outstrip crediting causing a policy's cash value to decrease. Crediting parameters of IUL policies often are limited by caps or index participation percentages. Caps and participation rates may and do change.

IUL can be designed with a level death benefit or an increasing death benefit. Other options, such as including a return of premium rider exist. An increasing death benefit contract has a death benefit equal to the original death benefit plus the cash value of the policy.

Flexibility is a hallmark of IUL. Within certain parameters, premiums can be increased, decreased or skipped altogether, each of which will affect long term performance of the contract. IUL can be envisioned as a type of defined benefit plan where the contributions must be calculated based on market conditions and policy performance in order to obtain the goal of the death benefit remaining in force indefinitely.

IUL has cash value which may be withdrawn or borrowed though this will affect the performance of the policy and have potentially negative tax consequences.

Different generations of IUL have different rules regarding what happens at policy maturity. Some contracts will terminate at maturity, often age 100, and pay out the cash value. Some will have a policy maturity extension rider which allows the cash value to stay in force as a death benefit. Some will move forward beyond policy maturity with the entire death benefit in force regardless of cash value.

There are IUL policies which focus more on death benefit and other which focus more on cash value. Different contracts can have significantly differing guarantees.

As a general rule of thumb, IUL policies should not be utilized in an attempt to lower premiums based on attractive projected returns. They don't tend to be appropriate for maximizing early death benefit. Building an IUL contract with a higher premium to death benefit ratio can reduce contract expenses, make the contract more conservative and lead to higher long term cash value and death benefit.

IUL policies which are not closely managed can fall apart leaving no death benefit despite years of paying premiums. If policy crediting rates are lower than expected or contract charges are greater than expected, policy owners may be surprised with substantial increases in premium or death benefit reductions required to keep the policy in force.

IUL policies may be single life or second-to-die contracts.

All permanent life insurance must be managed.

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