Variable Universal Life Insurance ("Hybrid VUL")

with secondary death benefit guarantees

Hybrid VUL policies are complex products that provide a death benefit as long as policy cash value is sufficient to cover the monthly charges deducted for the coverage or if the death benefit guarantee is in effect. Policy earnings and expenses are shown in detail in annual reporting. The policy prospectus describes policy mechanics in-depth. Details around calculation of the guarantee values usually aren't reported to the policy owner.

Certainty	When sufficient premiums are paid to maintain the death benefit guarantee, the owner will have high certainty over policy performance expectations. Left unattended, it is likely the guarantee provision may become compromised or that cash value will become insufficient to cover monthly policy charges which will terminate the policy. The carrier may alter the policy charges in extreme circumstances subject to maximum levels stated in the policy, but the carrier can't alter provisions of the secondary death benefit guarantee.
Flexibility	Hybrid VUL policies have limited flexibility if the owner intends to maintain the death benefit guarantee due to the complexity of those calculations. The owner may pay any premium amount including zero if needed. This is a powerful feature for adapting to changing personal financial resources over time. However, failure to monitor the impact of taking such actions can lead to cash value insufficiency or loss of the death benefit guarantee down the road. Policy coverage may also be reduced in the future if desired by the owner.
Equity	Premiums net of premium loads increase policy cash value and are credited with earnings or losses based upon the performance of owner choices of various fixed income and equity investments called sub-accounts. The owner may alter allocations over time. Volatility of investment performance will impact the policy. Policy cash values may be accessed by the owner via withdrawals or via a policy loan, but it could endanger the death benefit guarantee. Equity access can terminate or shorten the death benefit guarantee. Policies commonly have some investment restrictions when the death benefit guarantee is in effect, but equity may also enhance the guarantees in some products.
Premium	Premiums are usually calculated to have the death benefit guarantee in effect for a specified time period. Payment of this premium exactly as planned guarantees the death benefit. Deviations will require recalculation of the necessary premium often at a much higher amount (depending upon the degree of deviation and specific product provisions).
Safety	All guarantees are backed by carrier financial strength which will change over time. Policy cash values are part of the carrier's Separate Account asset portfolio which isn't subject to claims of general carrier creditors in the unlikely event of carrier failure. This provides an extra level of safety.

Design and Maintenance Suggestions

1. Use a conservative earnings assumption to build in a cushion for inevitable investment volatility over time. Avoid over-reacting to short term volatility.
2. Be very diligent about paying the premium on time, and use the premium flexibility sparingly. Always expect to increase future premiums any time you choose to pay no or a lower premium than planned.
3. Periodically request revised policy illustrations from the carrier to monitor for cash value and premium adequacy as well as to determine if death benefit guarantees have been impacted.
4. Ensure you are comfortable with the rigid premium requirements of the contract over a policy holding period expected to span multiple decades.