Indexed Universal Life Insurance ("IUL")

with secondary death benefit guarantees

IUL policies are highly 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. 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	IUL policies have limited flexibility if the owner intends to maintain the death benefit guarantee due to the complexity of those calculations. Many products have inherent penalties for use of some of the flexible features including premium changes or accessing policy equity. The owner may pay any premium amount including zero if needed. 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 based upon the change in a reference index of investments such as the S&P 500. IUL products do not actually purchase the investments. Downside protection is provided via a minimum floor on earnings. Positive earnings are limited by carrier discretion over various elements including caps on upside. Policy cash values may be accessed by the owner via withdrawals or policy loan. Access provisions vary greatly and can trigger earnings forfeitures or carry significant interest rate risk. Equity access can terminate or shorten the death benefit guarantee. The carrier portfolio behind the product is primarily high quality fixed income investments.
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 General Account asset portfolio and subject to claims of carrier creditors in the unlikely event of carrier failure.

Design and Maintenance Suggestions

1. Use a conservative earnings assumption to build in a cushion for inevitable earnings 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.

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