COMMON MISCONCEPTIONS ON IULs

WHAT ARE THE BENEFITS OF AN IUL?

An IUL policy provides permanent life insurance protection and is guaranteed to remain in force as long as the premiums are paid. But for consumers looking for additional benefits, an IUL policy also offers:

- Cash value potential through index-linked strategies
- The opportunity for tax-free supplemental income[1]
- Flexible premium payments[2]

Index universal life (IUL) insurance can be a great way to protect your client's loved ones with a death benefit and the potential of cash value accumulation.

But there's a lot of misinformation about IULs on the internet, and even from those within the industry. To help you sort fact from fiction, we present **TRANSAMERICA'S COMMON MISCONCEPTIONS ON IULs.**

1. "Money collected to fund an IUL policy is held by the insurance company and never enters the market."

While it is true that the money in the policy never enters the market as far as purchasing a security, the cash value is exposed to growth that is linked to the index used in a given index strategy. If the growth in the underlying index is positive, the policy's cash value is credited any growth up to the stated cap rate and/or participation rate. IUL products provide protection against market loss by offering a floor rate of **0%** or greater that is applied to policy values when market returns are negative.

2. "Growth potential is always capped with IULs so policy owners never experience any meaningful growth."

The floor on IUL policies is designed to provide protection from market losses that may occur in the underlying index (such as in 2008 when the S&P 500® declined by **37%**). In exchange for this valuable protection, most IULs may place a limit on upside growth, currently ranging from **8%** to **14%** — still considered solid growth in most years.

[1] When cash value is sufficient, tax-free loans and withdrawals are available as long as policy is not and does not become a Modified Endowment Contract (MEC).
[2] Premium payments must exceed monthly charges and fees for cash value to grow.

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3. "Not being able to reinvest earned dividends means losing out on money from dollar cost averaging over time."

It's true the underlying account options on IUL policies do not include stock dividends. To receive stock dividends, the funds would have to be invested in the stocks themselves, which would also expose the funds to the full market downside potential. Plus, many growth stocks that make up a large portion of major market indexes pay little or no dividends at all.

As investors get closer to retirement, many typically reallocate their investments to less risky options. An IUL policy provides consumers with growth potential up to a cap rate along with full protection from market loss. Many IUL policies also offer a dollar cost averaging feature that spreads the allocation of premiums into the selected index account(s).

4. "High policy fees take a big chunk of any accrued cash value."

All types of life insurance policies have charges that are either built into the annual premium or are deducted from the policy's cash value. These charges pay for the death benefit protection from the policy as well as ongoing expenses of issuing and servicing the policy.

For permanent life insurance policies with cash value, the cash value generally grows on a tax-deferred basis that may be accessed tax-free through policy withdrawals to basis and loans.[3] These favorable tax features make IUL policies attractive to consumers looking for both life insurance protection and a source of tax-free income when structured properly.

5. "It takes many years before any cash value will accumulate."

The net premium on IUL policies is allocated to the policy owner's choice of available index accounts.[4] This generates immediate policy value regardless of index performance. IULs and other permanent life insurance policies typically have a surrender charge for a limited time in the early policy years that may restrict how much cash value is available for loans, withdrawals, or upon policy surrender. Life insurance is designed to provide long-term death benefit protection and cash value accumulation.[5]

[3] Loans, withdrawals, and death benefit accelerations will reduce the policy value and the death benefit and may increase lapse risk. Policy loans are tax-free provided the policy remains in force. If the policy is surrendered or lapses, the amount of the policy loan will be considered a distribution from the policy and will be taxable to the extent that such loan plus other distributions at that time exceed the policy basis.

[4] Net premiums are equal to gross premiums paid less applicable premium expense charges.

[5] An IUL is not a short-term savings vehicle nor is it ideal for short-term insurance needs. An IUL is designed to be long term in nature and should only be purchased if a client has the financial ability to keep it in force for a substantial period of time.

6. “Consumers are better off using an alternative investment option such as a Roth IRA, since an IUL’s cash value earns a much lower rate of return.”

Life insurance is not considered a replacement for a Roth IRA. Many consumers purchasing an IUL policy are often already contributing to a Roth IRA or may not qualify to contribute based on their earnings. IUL policies complement Roth IRAs by providing tax-advantaged growth, tax-free access to cash value, and a federal income tax-free death benefit.[3]

7. “Policy owners are penalized if they borrow from their cash value because they have to pay it back — plus interest.”

IUL policies generally offer two types of policy loans: fixed interest loans and index loans. After a certain number of years, any fixed loan taken out of the policy may receive a corresponding credit to the policy cash value that’s equal to the fixed loan rate. These types of loans result in a zero net cost to the policy owner. Index loans offer the potential to earn a “positive spread” on any loan taken from the policy. This means the cash value allocated to the index account may still potentially earn a higher rate of return than the rate charged on the loan. Life policy loans do not have to be paid back during the insured’s lifetime so long as the policy is active and has positive cash surrender value. The loaned amount will be deducted from the death benefit proceeds.

8. “The insurer keeps any accrued cash value if the insured dies while the policy is in force.”

The death benefit represents the policy’s accumulated cash value plus an amount of “pure death benefit” over and above the accumulated cash value. Many permanent policies are designed so the cash value equals the death benefit upon policy maturity.

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