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MAGAZINE

March 2015

Insider's Guide to

INDEXED UNIVERSAL LIFE

Expert Advisors
Share their Strategies
on these Hot Sellers

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the "Tax
Torpedo"

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as an
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FINANCIAL

HOW TO SELL IUL TO THE BUSINESS OWNER

How advisors are positioning Indexed Universal Life to answer the biggest concerns that business owners face today

BUSINESS OWNER "HOT BUTTONS"

BUY-SELL AGREEMENTS



Why all business partnership agreements are in jeopardy — and the reason IUL is the only solution.

KEY EMPLOYEE COVERAGE



Maintaining key employees with the benefits of a tax-free pension and reward the employer with tax breaks.

EXECUTIVE BONUS PLAN



Most advisors don't know how an IUL can pay corporate taxes on these plans. Do you?

LEARN HOW TO FIND AND SELL BUSINESS OWNER CLIENTS



Download our FREE report at IULsellingGuide.com or call us directly at 866-268-2640 to learn more.



The Insider's Guide to IULs

By Cyril Tuohy, InsuranceNewsNet

Indexed universal life (IUL) insurance products are hot, red-hot. And why not? From the death benefit to living benefit riders, from funding a grandchild's college education to funding retirement, from upside potential to downside protection, from survivorship issues to Social Security withdrawals, from tax management to estate planning — IULs offer something for consumers in the middle market and the high-net-worth market alike.

"IUL is very suitable as a component in an insurance portfolio," said Randy Forcht, advanced sales director with Lincoln Financial Distributors.



Randy Forcht
Lincoln Financial
Distributors

IULs are great at managing mortality risk, or the risk of dying too soon, and the longevity risk of outliving income, he said.

In the third quarter, individual life premium rose 19 percent compared to the year-ago quarter, according to the

insurance researcher LIMRA. In the third quarter, IUL represented 51 percent of universal life premium and 19 percent of overall individual life premium, LIMRA found.

To say that IULs offer a bonanza to the agents and advisors who sell it would be an understatement, and some agents have taken an aggressive approach to illustrating the returns on IUL investments — so much so that regulators are looking into the sales practices of some agents.

Are IULs simply the latest fad within life insurance sales? Time will tell. But while IUL sales are hot, the question for advisors is how to sell.

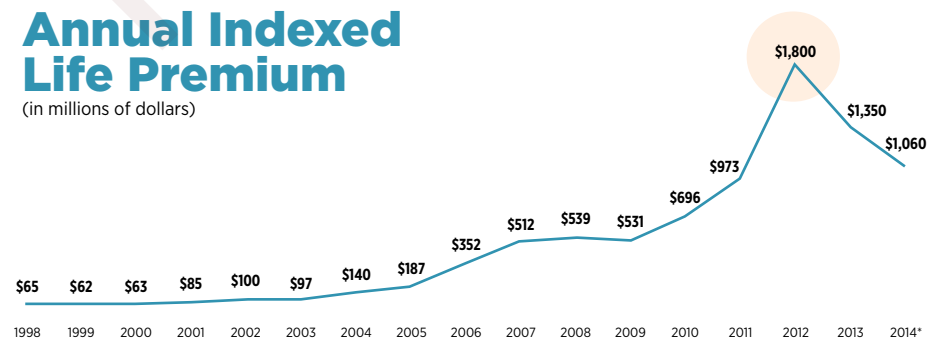
In the 2015 issue of the *Insider's Guide to IULs*, InsuranceNewsNet interviews four financial advisors with very distinct approaches to selling IULs.

IULS AND THE "TAX TORPEDO"

Independent financial advisor Doug Warren, in Temecula, Calif., says the biggest opportunity for selling IULs revolves around selling to people collecting or getting ready to collect Social Security benefits.

Annual Indexed Life Premium

(in millions of dollars)



*As of 3Q Source: Wink's Sales & Market Report, 3Q 2014

This is an opportunity so large, in fact, that it outweighs all other IUL sales opportunities combined, Warren said.



Doug Warren
Independent
financial advisor

“From the advisor’s perspective, the biggest opportunity for IULs today is to understand the advantage of using IULs in conjunction with a Social Security claiming strategy,” said Warren, author of the book *The Synergy Effect*.

He even has a name for it: the “tax torpedo.”

Warren said that for advisors looking to convert the Social Security seminar attendee into a client, there’s no more persuasive argument than talking about how to blow up the tax torpedo.

When a Social Security recipient withdraws a dollar from a traditional individual retirement account or 401(k) that exceeds the top Social Security tax threshold, it creates \$1.85 of taxable

income, said Warren in an interview with InsuranceNewsNet.

For a married couple with that threshold of \$44,000 and a marginal tax rate of 25 percent, “you just paid 46 cents in taxes on that dollar.”

Enter the IUL and its connection to what he calls a potential “dramatic reduction” in Social Security taxes for some clients.

“That tax torpedo is where the financial advisor should be focusing attention,” he said.

Warren said that a Social Security recipient can take all the “withdrawals and cash value loans you want from a non-Modified Endowment Contract (MEC) IUL,” but that none of those distributions are counted toward the Social Security tax calculation.

“The difference is the potential for no income tax and not having any Social Security tax created as well,” Warren said.

He also said that since IULs are “front-end loaded” products not designed to

Torpedoed by Taxes

Impact of withdrawing one extra dollar from a retirement plan on Social Security benefits

Withdrawal from IRA, SEP, 401(k), 403(b)*	\$1.00
Additional taxable income on each \$1 of Social Security	\$0.85
Total taxable income (Marginal tax rate of 25 percent)	\$1.85
Total tax	\$0.46

*Each dollar over the \$61,130 top income threshold for Social Security taxation
Source: Doug Warren, advisorgrid.com

deliver income for 10 years at least, it’s important to properly coordinate the IUL with the client’s Social Security and other sources of retirement income.

With 10,000 Americans a day moving into retirement and many of them opting to take Social Security withdrawals sooner rather than later, withdrawals around Social Security is a full-time activity for specialist advisors.

Defusing the tax torpedo isn’t limited to IULs. It’s an opportunity for fixed index annuities as well. (Hint: Put the annuity in a Roth IRA.)

Headlines obsessing solely over how advisors can increase the amount of gross Social Security benefits are somewhat misguided because it is the after-tax spendable income from Social Security that is important, Warren said.

Using IULs as a strategy in tax planning is nothing new, but the potential tax bite on Social Security benefits is very real for many investors who have used only traditional IRAs and 401(k)s to accumulate retirement savings.

For their part, advisors are under no

illusion. Future taxes are going only one way: up.

Advisors with clients in their 30s and 40s should consider the liquidity of savings dollars available within IULs. A 40-year-old with \$200,000 in a 401(k) has assets but can’t get to them to fund a down payment for a home, for example.

Advisors with clients in their 30s and 40s should consider the liquidity of savings dollars available within IULs.

“You get hit with penalties with an IRA, but with an IUL you can take a policy loan and it won’t have any impact on the income as long as you pay the loan back,” Warren said.

SELLING IULS AS AN ASSET CLASS

Alternative assets are hot, and it’s easy to see why.

With fixed-income portfolios delivering anemic yields, alternative investments have generated a lot of chatter among advisor circles.

What’s an advisor to do? Repurpose IULs as an alternative asset. Advisors who do so should at least find a receptive ear among clients in search of ways to boost yield.

“The real challenge is volatility with equities, and the IUL is well-suited as



Indexed Universal Life (IUL) sales as a percentage of universal life (UL) and IUL sales combined **increased from 14 percent in 2010 to 31 percent** during the first nine months of 2013.

an alternative asset portfolio,” said Mike Hamilton, a Lincoln Financial Distributors wholesaler who works directly with financial advisors.

An IUL’s potential to offer investors a taste of market gains when markets rise and the protection from losses when markets fall makes IULs attractive at a time of volatility.

IULs that generate income until age 59.5, when an investor is eligible to withdraw assets from a retirement account penalty free, are a good way to bridge the transition into retirement, Hamilton said.

Independent advisor John Parise, managing director for Copper Beech, an RIA in Moorestown, N.J., likes IULs for several reasons.



John Parise
Independent
financial advisor

If there’s one idea that encapsulates all those reasons, it’s the word “flexibility.”

IULs, Parise said, along with other insurance products, help him craft a protection plan that no other asset

class offers, and IULs offer flexibility and design latitude that no other insurance products offer.

For Parise, selling IULs is less about “slotting” a product toward a need than it is about designing a bespoke insurance protection program for the high-net-worth clientele he serves.

“One of the big issues around life is that it is a design issue, not a product issue,” said Parise. “It’s always based on the client objective, and (insurance sales) guys get away from that. ... We have a plan, and we want to go somewhere (with it). It’s an asset class like bonds or real estate. It does something.”

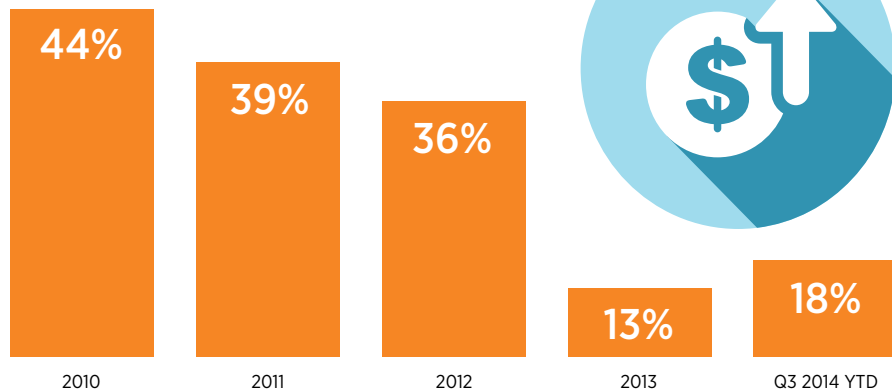
Financial advisors, he also said, should talk to clients about IULs as an asset class used to manage wealth from one generation to the next.

IULs’ features help tailor a protection program around the complex needs of well-heeled investors, whether it’s the tax advantages or the lending power of an IUL.

The components of an IUL provide ample flexibility for family financial planning purposes, he said.

IUL Growth Rates

Based on new annualized planned recurring + 10% of single premium



“It’s an asset protection strategy to protect you from in-laws and ‘outlaws,’ which is what we like to say.”

One IUL offered by Pacific Life Insurance Co. delivers an additional 1.5 percent over the return of an index. Other carriers have different floors used to protect investors from downturns.

Parise said the indexing options give investors plenty of freedom to be as aggressive as they want to be — so long as they accept the limitation to the index options that comes along with the caps to growth.

“It’s all about the design,” he said. “With an IUL, you can pay less in premium or pay more in premium. It gives you flexibility for buy-sell agreements and for gifting.”

SELLER BEWARE

With IUL sales bounding along at a healthy clip, the sun is always shining for advisors and carriers selling IULs.

To hear carriers tell it, there’s not a bad IUL product on the market, even if advisors have heard a range of opinions from clients who love their IULs and from those who detest them.

Frank Seneco, president of Seneco & Associates in New Haven, Conn., reminds advisors to do business with carriers that intend to stay in the market over the long term.



Frank Seneco
President, Seneco
& Associates

With strong stock market returns over the past three years, it’s no surprise that the froth is beginning to collect around index-linked insurance products as sales go through the roof.

(Fixed index annuities have seen

41

Average age of IUL buyer 1Q 2014

similar market gains as index products deliver higher returns than many traditional fixed products.)

Indeed, it even seems as if there’s no carrier with a bad IUL product out there.

But IULs, like every other form of life insurance, carry risks, and not all IULs are equal.

“Clients have to look at who’s issuing the policy,” he said. “Is the carrier committed to the long term? A lot of carriers are jumping into this space, but a life insurance policy is a unilateral contract and

More than \$200k

Average assets of IUL buyers between the ages of 40 and 45

the carriers are bound only to what's in the contract."

The risks are revealed in the fine print. Carriers can drop cap rates or modify participation rates. That might happen in the wake of a merger, or if a company decides to exit the business.

"They can change the participation rate, just like cap rate changes, depending upon the cost of the purchase of the options on the index," he said.

Seneco said advisors need to work with carriers committed to the IUL line of products.

"The advisor needs to make sure they are working with a company committed to the marketplace," he said. "That's something we stress."

Seneco said that his "go-to" carrier is Pacific Life, but that he also likes Penn Mutual, Minnesota Life, John Hancock and Axa.

Today's IUL bonanza — one out of every six dollars in insurance premium is going to IULs, according to one estimate — has many carriers flooding into the IUL space.

The stampede reminds Seneco of times over the years when carriers piled into the market with the new hot product of the day. Each era had its own trend of the new latest and greatest product, such as universal life, variable life and then back to whole life, only to see several carriers withdraw and the ebbing sales tide leave policyholders scrambling.

When the market is hot, there's pressure to add features to make IULs look even more attractive, but Seneco said

he won't even touch some IUL features, such as variable loans.

While the concept works, it has to be used with the right client who understands how it works and the risks of using it.

Because IUL illustrations are incorrect the day after they are sold, loan rates are pretty much impossible to determine. "That's a very dangerous feature, in my opinion," he said.

As regulators hash over how conservative or aggressive to make index crediting illustrations, Seneco doesn't illustrate crediting scenarios of more than 6 or 7 percent.

Anything above that would be "irresponsible," he said.

After a quarter-century in the insurance sales business, Seneco said he's seen "an awful lot of things."

"You want to deal with companies in business for the long term for whatever it is," he said.

STAYING MUM ON THE DEATH BENEFIT

Death benefit? Never heard of it.

Well, not exactly, and certainly not if you're Josh Mellberg, one of the top IUL sellers in the country.

Mellberg, president of J.D. Mellberg Financial in Tucson, Ariz., suggests advisors sell IULs by steering clear of mentioning the death benefit.

"We never talk about the death benefits," Mellberg said.

It may sound counterintuitive, indeed

One out of six dollars in insurance premium is going to IULs.



Josh Mellberg
President, J.D.
Mellberg Financial

\$8,000-
\$10,000



Average annual premium per IUL

even radical. Who buys insurance, if not for the death benefit?

In the case of IULs, there's plenty more to recommend investors than a simple death benefit. IULs offer savings, growth, liquidity and tax benefits. Advisors are much better off talking about what IUL investors have to live for than what they or their estates can collect at death.

"People aren't buying (IULs) for when they die," he said.

Stay mum on the death benefit, and sell the IUL as an investment in secure growth, not as an income vehicle. Clients are more receptive to growth and liquidity.

Mellberg calls it "stripping out the features" and keeping it simple. There's no point getting bogged down in caps and floors, fees and loads, one index over another, or this or that carrier.

"Take the objections out of the way,"

he said, and stick to the big picture by keeping the discussion agenda focused on income, growth, tax advantages and liquidity.

Advisors are much better off talking about what IUL investors have to live for than what they or their estates can collect at death.

Often, that's easier said than done, as most insurance representatives can't help themselves from launching into the details of IUL features, with some pushing the boundaries of index crediting expectations.

Advisors interviewed for this article scoffed at those kinds of promises, and no reputable insurance carrier or advisor should be promising anything of the sort, they said.

"There's no insurance company out there that allows anyone to illustrate at 12 percent," said Jason Konopik, chief financial officer of AMZ Financial Insurance Services, a Des Moines, Iowa-based independent marketing organization.

Five or six years ago, index crediting

may have been as high as 9 percent, “but today the maximum is 7.5 percent or 8.5 percent.”

“That’s the highest any insurance company allows anyone to illustrate, and that’s aggressive,” Konopik said.

State regulators and the National Association of Insurance Commissioners are looking into how to illustrate IUL crediting scenarios to give policyholders a realistic picture of what they can expect.

Mellberg said that an IUL’s “minimum guarantee” of 1 percent to 2 percent is better than what any bank is prepared to cough up.

But, he says, never draft it before getting an offer from the insurance carrier.

Mellberg said the sweet spot for his IUL sales is buyers between the ages of 50 and 70 — people who can’t afford to make a mistake in life because they have neither the opportunity nor the time for a do-over.

Buyers who can’t afford a financial do-over are in the sweet spot for IUL sales.

It’s a time in life when investors turn risk averse, so advisors might describe an IUL using the language of risk: Why take any risk at all when you can get most of the (market) return with a lot less risk using an IUL?

Mellberg says his team is selling IULs as liquid growth vehicles that deliver much better returns than investors can get in a bank — so long as IUL investors and the carrier stick to the terms of the contract.

“We’re selling it as a liquid growth vehicle: Give me 5 to 7 percent and don’t hurt me,” Mellberg said. ♦

InsuranceNewsNet Senior Writer Cyril Tuohy has covered the financial services industry for more than 15 years. Cyril may be reached at cyril.tuohy@innfeedback.com.



HOW TO SELL IUL TO THE SENIOR MARKET

How advisors are positioning Indexed Universal Life to answer the biggest concerns seniors face today

SENIOR CLIENT “HOT BUTTONS”

TAX-FREE INCOME

Have you ever heard you can’t utilize IUL in the senior market? With a properly-structured IUL you can provide tax-free income for your senior clients!



LONG-TERM CARE

Find out how IUL is a more cost-effective option with an easier underwriting process than other long-term care alternatives. Plus, IUL is not a use-it-or-lose-it program.



LEAVING A LEGACY

Unlike traditional planning, you can provide multi-generational income, tax free! Let’s see if your competition can match that.



\$430k



Average IUL face amount

LEARN HOW TO FIND AND SELL SENIOR MARKET CLIENTS



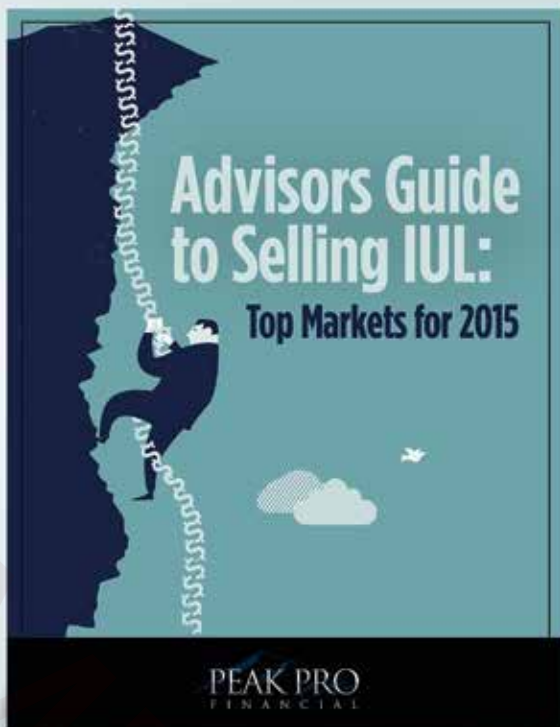
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FREE REPORT

Indexed Universal Life has quickly become the hottest product on the market today. While its benefits for preventing loss and providing tax-free income are well-known, advisors are still confused about how to sell and structure an IUL to benefit each market.

This comprehensive free report dives deep into the market opportunities and sales techniques every advisor needs to know to sell more IUL.



Request your **FREE REPORT** today to discover:

- The top markets for IUL in 2015
- How to get an IUL underwritten in 21 days or less
- Market-specific “hot” buttons to use when selling IUL
- What makes an IUL attractive to high-income earners
- How an IUL can create a greater tax-free income stream versus a 401(k)



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