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Equity Indexed Universal Life (EIUL)

Including a Policy That Credits 140% of What The S&P 500 Returns

As many owners of variable life policies have found out, cash values in a variable policy not only go up with the stock market but they fall with the market as well (see 2000-2002 and 2007-2009 returns). This prompted proliferation of a "new" universal life policy, the Indexed Universal Life Insurance (EIUL) Policy. An EIUL is a UL policy that has an annual minimum return guarantee every year but still allows the cash value in the policy to grow at **market rates** every year if the stock market performs well.

The policies also **LOCK IN THE GAINS** which is very helpful in a volatile equity market.

How are investment returns calculated in an EIUL policy?

The vast majority of EIUL products peg the cash value growth in the policies to the Standard & Poor's 500 stock Index (the best performing stock index). When I first looked at indexed life products, I actually thought the insurance companies took an insured's money, applied X amount to the costs of the policy, and invested the remainder into the S&P 500. I thought that was a bit risky, but I figured insurance companies own half the world so they could afford it if they had a few bad years.

In fact, the insurance companies DO NOT invest premium dollars inside an insured's policy into the S&P 500. After X amount of the premium dollars are allocated to pay the costs in the policy, the remaining amount of money is used to purchase income producing Bonds. The insurance company then takes the income from the Bonds and buys the most favorable "**options**" it can on the S&P 500 index.

In the real world, when you buy "options," there are costs to the options; and I do not want to get into the exact structure in my discussion in this book. What I will tell you is that, because of the costs and the structure of the options purchased by life insurance companies, the option returns in an EIUL policy are **capped**. By capped, I mean that, if the S&P 500 returns 25% in one year, you will not be earning 25% in your EIUL policy.

Caps on EIUL policies vary per company. Some companies have annual caps of 16% and some as low at 10%. Usually with the 10% cap products, the company will credit more than what the S&P 500 returns up to the cap.

My favorite EIUL product (**Retirement Life**) has the option of receiving a 13% annual cap or one with a cap of 10% except that the policy will credit 140% of what the S&P 500 returns in any given year. Therefore, if the S&P 500 returns 5%, the life policy would credit 7% growth on the cash value. That's pretty neat and is a policy for readers who think like many that the equity markets are going to be flat over the next 10 years.

It should also be noted that the returns in EIUL policies do not include the dividends that would normally be paid to an indexed mutual fund.

Don't Forget the Guarantees

Talking about upside growth that is pegged to the best measuring stock index is great. However, what is equally as great is the fact that the policies have guarantees in them so your money does **NOT GO BACKWARDS** when the S&P 500 declines. Every year there is a positive investment return inside the EIUL, the policy locks in the gains.

When you couple the locking/guarantee feature of EIUL policies with the potential to earn returns that closely mirror the S&P 500 stock index, you really have in my opinion the "best" type of life insurance policy to grow cash for retirement planning.

I know the whole life policy advocates take issue with my stance and that's okay. Everyone is entitled to their opinion. I won't know which policy works the best for 10-20-30 years after one is purchased. At this point, all I can do is look at the numbers of past performance and make an informed opinion as to which life insurance policy will work best to grow wealth.

An **example** is the best way to illustrate how switching to the "new" EIUL policy can save you significant money.

January of 1999, Doctor Smith had a variable life insurance policy with a $2,000,000 death benefit and a cash value of $250,000. Because Dr. Smith had his cash value invested in an XYZ aggressive growth fund, which I will assume averaged negative 18 percent (–18%) over the last two years, today Dr. Smith's cash value in his variable life policy is $168,100. Needless to say, Dr. Smith is not happy.

If Dr. Smith had the "new" EIULP, today he would have had plus-2% credited towards growth in his policy; and, therefore, his cash value would be approximately $260,100.

For those clients using a traditional whole life policy, an example works as well to illustrate how much money could be lost by not using the "new" indexed life insurance policy.

If Dr. Smith bought a whole life policy today, typically the investment return inside the whole life policy will be less than 5% a year. If Dr. Smith has $250,000 in cash value inside a whole life policy today making 5% in growth every year, Dr. Smith will have $319,070 in five years. If Dr. Smith used the "new" Indexed Universal Life Insurance policy and the S&P 500 Index had returns of 8%, Dr. Smith would have $367,332 or about $48,262 more in cash value just over that five-year period.

Pros and Cons of the "new" EIUL policy:

<u>Cons</u> – 1) If the market averages over the annual cap for the time you have your life insurance policy, which is not very likely, you would be better off in a variable policy.

2) If the market averages less than 5% over the time you have your life insurance policy, which also is not very likely, you would be better off in a conservative whole life policy.

<u>Pros</u> – 1) There is no risk of loss when the stock market goes negative.

2) The policy does let the owner partake in the upswings in the market up to the annual cap (which varies per company).

3) Mortality costs (costs of insurance) are much lower in the later years than a variable life insurance policy.

4) Flexibility. Unlike typical whole life policies, the "new" EIULP is very flexible with its premium so the owner can choose when and how much premium is to be paid each year.

One good thing about using an EIUL policy is that it protects you from yourself. How?

The American public is professional at <u>buying high</u> and <u>selling low</u>. When you use any life insurance policy with guarantees, you have put yourself in a position not to go backwards. Those who use EIUL (Retirement Life specifically) receive the following benefits:

1) Your growth is locked in (you do not partake in the downside of the market).

2) Your growth is pegged to the best measuring stock index (S&P 500).

3) Your cash is allowed to grow inside the life insurance policy without capital gains or dividend taxes.

4) Your cash is allowed to grow without mutual fund expenses.

5) Your cash is allowed to grow without money management fees.

6) You receive a FREE long term care benefit (as well as a FREE critical and terminal illness benefit)

7) And, finally, when you have your money growing in an EIUL, you take out of your hands the ability to buy high and sell low and; therefore, you are positioning

yourself in the best possible tax-favorable tool to build wealth for the future in a conservative and protective vehicle.

Participating Loan Option in Life Insurance Policies

After you build wealth/cash in a life insurance policy, the preferred way to remove the cash for use in retirement is through a policy loan (also referred to as tax-free retirement income).

Only certain products can have a participating loan option. A participating loan allows policy holders the potential to generate a positive loan arbitrage when borrowing tax-free from their EIUL policy.

For example, if you borrowed $50,000 from your policy, the insurance company actually lends you money from the company not the policy. The $50,000 is still in your policy and can grow at the market rates of return over time up to the cap. If the returns annually in the policy exceed the lending rate, a positive loan arbitrage is created and policy holders are able to remove more money from the policy tax free than if they'd used the more standard "wash loans."

For more information on participating loans and their pros and cons, contact your locally trusted professional.

Conclusion EIUL policies

If you would like the possibility of earning upwards of a 10-13% return on the cash value in your life insurance policy every year and would like to avoid the stock market's negative years, then you should look into using EIUL policies to grow and protect your wealth. Also, if you are nearing the age of 50 and have a variable life insurance policy, you should seriously consider 1035 exchanging the policy to an EIUL policy to protect the principal cash value and to lower the costs of insurance inside the policy.