3 Ways to Position Indexed Universal Life (IUL)

By Tony O'Kussick, CLU, as seen in ThinkAdvisor

As with any trend, there are reasons to back it up. IUL is the fastest growing individual life insurance product. LIMRA shows 2018 second quarter growth at 23%. In its simplest form, it is a universal life product supported by the cash value that is credited by the index it is tied to and the deposits the client funds it with. By far, the most common index is the S&P 500.

The other information that helps with the positioning idea I am about to share is that there is a cap and a floor associated with the product meant to share in the upside of the index and limit the downside in years the index has a negative return. So, based on this knowledge here is how to position this as a product to help when planning for retirement.

1. Diversification

The key is to position IUL to be used for a portion of the client's retirement plan, not all of the plan. IRAs, 401k's and other qualified plans should certainly be considered for use as accumulation vehicles. They have the advantage of potentially being tax-deductible when contributions are made, but there is a limit as to how much can be placed in them.

2. Tax Deferral

Assets in both the qualified plan and the IUL grow tax-deferred. Therefore, the IUL is best utilized when the client has exhausted their tax-deductible contributions so is looking for other options to put away more money and receive tax favorable treatment. In this case, tax deferred growth and a method to take money out with no taxes.

3. IUL's Caps and Floors Benefits as Product Features

Your presentation is showing clients an actual history of the S&P 500 and have them pick a 20-year period to represent their retirement time frame. Point out the negative years and ask them which of their accounts they would draw from as a source of income. A brokerage or investment account that is down represents using money that is at a loss. If that account is qualified not only is it down, but they need to withdraw more to cover the taxes owed to receive the same net income.

What if part of your income money source has a floor, even 0%, so there is no negative loss and you could withdraw that income tax-free while waiting for the market to turn positive and then have the "choice" to go back to their other sources? Years you don't use it provide the opportunity to participate in the upside of the index it is tied to.

This is the case for clients to put some of their money in an IUL product. From there, they can leverage the death benefit, tax-free transfer to beneficiaries and other benefits, such as riders tied to life insurance. It's this flexibility that has a strong appeal to clients. It gives them choices for exercising control over their financial situation.

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