The Huge Untapped Audience for IUL Marketing

by Gregory E. Schwabe, FLMI, as seen in LifeHealthPRO

If your prospecting is mainly with the age 55-80 group, you know it's not what it was even a few years ago. "Almost tapped out" is the way some advisors are describing it. If your practice is feeling that pain, there's a way to reach a broader, motivated, and largely untapped audience—consumers age 36-55.

You can do it with Indexed Universal Life's (IUL). What grabs the attention of this age group is the concept of a "tax-free retirement."

Unlike IRAs and other qualified retirement accounts, there are few cap limits on IUL contributions. Essentially, this means your clients can invest as much as they want into IUL savings vehicles.

These accounts not only help them hedge their risks associated with their retirement savings, but they also offer them the potential of having tax-free distributions in retirement. The higher contributions are not only wonderful news for your clients, but you can also benefit from a greater earning potential based on the regular and automatic deposits they make to these accounts.
As you know, IUL is experiencing double-digit growth in the insurance and financial services industry. This is so significant, you can be sure that if you're not selling IUL, the competition is out there getting the business.

IUL opens up more sales opportunities

1. Over-funded minimum death benefit sale showing income distribution in retirement years.
2. As a GUL alternative. Often showing the same premium with slightly lower guarantees and far better cash value potential or solving for a slightly higher premium with same guarantees as a GUL.
3. Buy-Sell cases where the policy values can be used for key person retirement income or to buy out a retiring principal.
4. Frustrated high earners at the inflexibility of their other tax-deferred accounts. IUL is an excellent option for clients who have maxed out their retirement accounts or find themselves limited in the amount of tax-deferred income they can contribute to their 401(k).
5. 401K alternative. Why invest retirement dollars tax-free and be taxed on the growth over time? Five dollars invested in an IUL is taxable, but when it turns into $20 later, there's no tax bill. A 401k lets you invest the $5 tax-free, but taxes you when it grows to $20 later at who knows what percentage.

6. Protection against the stock market volatility. IULs offer market-linked gains without market-based risk. Consider this case study: A 45-year-old preferred nonsmoker can buy $1 million of a GUL for $7,230 and have coverage guaranteed for a lifetime with little to no cash build up in his plan.

However, he can the same $7,230 and deposit it into an IUL product and have guarantees to age 95 with a projected cash value of $152,000 at age 65, using the default interest rate the carrier can show under AG49.

Even at a lower rate of return, the values are far better than nearly all GULs on the market. Would a client trade the handcuffs that most GULs come with for a few less years of guarantees and the future flexibility than an IUL offers? It has been said this product offers "optionality," the flexibility of deciding how to use it in the future without having to make any decisions today.

Why accountants and other advisors prefer IUL instead of mutual funds

1. An IUL policy account value can never lose money due to a down market. IUL guarantees an account value, locking in gains from each year.
2. IUL account values grow tax-deferred like a qualified plan (IRA and 401(k)). Mutual funds don't—unless they are held within a qualified plan. Simply put, this means that your account value benefits from triple compounding: You earn interest on your principal, you earn interest on your interest and you earn interest on the money you would otherwise have paid in taxes on the interest.
3. There are few limitations on the amount that may be contributed annually to an IUL.
4. You control your taxes, not the fund manager. IULs grow tax-deferred, and are never taxed if taken in the form of policy loans.
5. Mutual funds often make annual taxable distributions to fund owners, even when the value of their fund has gone down in value. An IUL grows tax-deferred, cannot lose value in a market downturn, and imposes no annual tax reporting as it increases in value.
6. Mutual funds may cause income taxation of Social Security benefits. The growth within the IUL is tax-deferred and may be taken as tax-free income via loans. The policy owner (vs. the mutual fund manager) is in control of their reportable income, thus enabling them to reduce or even eliminate the taxation of their Social Security benefits.
7. The record-keeping requirements for owning mutual funds are significantly more complex. The keeping of excellent records (redemptions, purchases, dates, values, commissions, etc.) is often one's only defense in the event of an IRS audit. With an IUL, the insurance company keeps one's records, copies of annual statements are mailed to the owner, and distributions (if any) are totaled and reported at year-end.

8. Medicaid disqualification and lifetime income. An IUL can provide their owners with a stream of income for their entire lifetime, regardless of how long they live. Insurance is often classified so that it is not considered assets for Medicaid disqualification of nursing home costs.
9. Chronic and terminal illness rider. All policies allow an owner's easy access to cash from their policy, often waiving any surrender penalties when such individuals suffer a serious illness, need at-home care, or become confined to a nursing home. Mutual funds do not provide a similar waiver when contingent deferred sales charges still apply to a mutual fund account whose owner needs to sell some shares to fund the costs of such a stay.
10. Indexed universal life insurance provides death benefits to the beneficiaries of the IUL owners. Mutual funds provide no such guarantees or death benefits of any kind.
11. IULs allow the tax-free exchange of one policy for another. A mutual fund owner cannot move funds from one mutual fund company to another without selling shares at the former (thus triggering a taxable event), and repurchasing new shares at the latter, often subject to sales charges at both.
12. Mutual funds don't provide cost-free asset rebalancing whereas IUL does. Rebalancing one's portfolio within a family of mutual funds always requires the sale and purchase of shares, often generating both taxes and commissions.

It's easy to understand why IUL is setting sales records, particularly with 36-55 year old prospects. They're motivated consumers who take retirement seriously and want to do all they can to maximize their assets. While IUL may not fit every prospect, the opportunities are enormous.

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