Securian FINANCIAL®

Indexed Universal Life

Individual Life Insurance

Insurance products issued by:
Minnesota Life Insurance Company
Securian Life Insurance Company

The impact of indexed account fees

ACTUARIAL GUIDELINE 49 (AG49) AND HIGH-FEE/LARGE-MULTIPLIER PRODUCTS

Since AG49 …

Some products and indexing strategies have been created that utilize comparatively high fees and large multipliers. Although the maximum illustrated rates of these products comply with AG49, the illustrated cash value growth can be significantly affected by the high fees and large multipliers. These indexing features have become prevalent in the industry – and while many advisors use them, they have varying degrees of insight into how they work, and how they could impact a policy over time.

In this document, we are going to look at a few key aspects of high-fee/large-multiplier indexed accounts – and why you need to understand how they function.

What is AG49?

In 2015, AG49 was developed to bring uniformity to the illustrations of policies tied to an external index or indices by providing a reasonable maximum on the illustrated credited rate. Uniformity across illustrations helps clients more easily compare policies of different companies.[1]

However, it's also prompted the creation of very controversial product features: high fees and large multipliers.

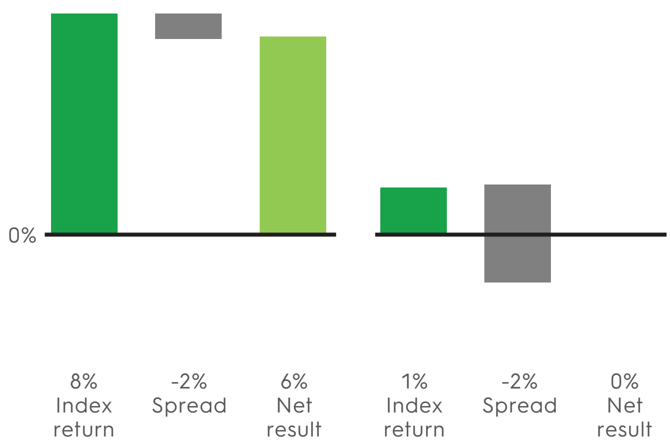
1. https://www.naic.org/cipr_topics/topic_life_insurance_illustrations.htm 10/2018

Fees are not the same as a yield spread

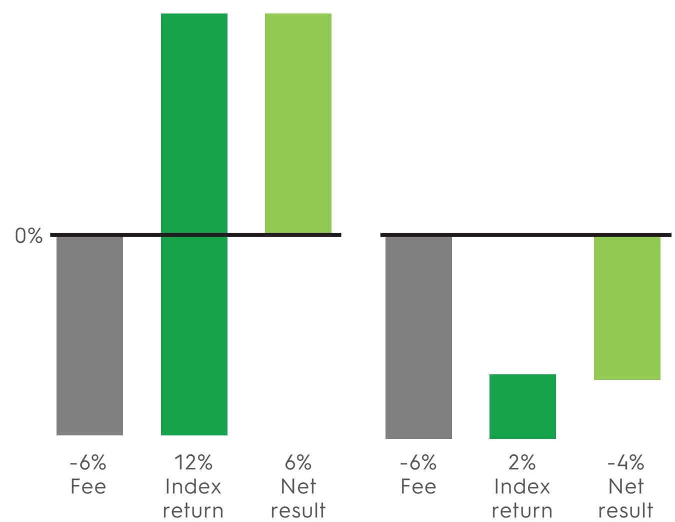
Although both a fee and a yield spread can reduce potential index credits, they function very differently when index credits aren't sufficient to offset the reduction.

A yield spread is normally collected at the end of an index segment (i.e., at the end of an annual point-to-point strategy). If the index credits are less than the yield spread, the index credit would be zero. On the other hand, the fee is generally collected at the beginning of a segment, and the remaining amount is eligible for index credits. If the fee is greater than the index credits, it could cause a loss of cash value at the end of a period.

YIELD SPREADS



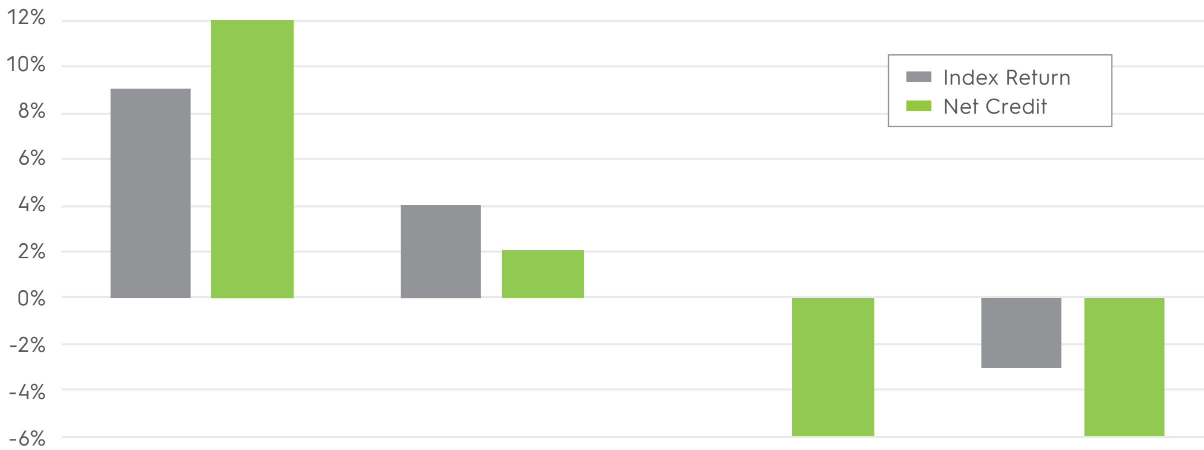
INDEXED ACCOUNT FEES



This is a hypothetical example for illustrative purposes only.

A tale of four markets

An indexed account that utilizes high fees and large multipliers is meant to take advantage of market growth and deliver additional credits. Let's take a look at four index scenarios – a great year, a modest year, a zero year and a negative year.



	Large gains	Small gains	Zero year	Negative year
Fee	-6%	-6%	-6%	-6%
Index Return	**+9%**	**+4%**	**0%**	**-3%**
Multiplier	200%	200%	200%	200%
Index Credit	+18%	+8%	0%	0%
Net Result	**+12%**	**+2%**	**-6%**	**-6%**

This is a hypothetical example for illustrative purposes only.

1. Great year

In a great year, the indexed account does what you would expect. It credits the 9% the index grew and enjoys the 200% multiplier. Of course, at the beginning of the year, the indexed account fee was collected – but in a great year such as this, it may not really catch a client's attention.

2. Modest year

Let's move on to a more modest return example. Like the first example, there is a 6% index fee to start the year – and then the index returns 4%. That return gets the multiplier and credits 8% – so the client nets about 2%. This may be more troubling to the client. By paying a 6% fee and getting a net 2% crediting rate, they may have been better off using an option without the high fee/large multiplier.

3. Zero year

What about years of zero growth? Obviously, there are no index credits to apply – and nothing to apply the multiplier to: zero times zero is zero. But let's not forget about the annual fee. Since this was paid at the beginning of the year- the net result to the policy's cash value is -6%.

4. Negative year

In years when the index went negative, the policyholder won't incur a negative index credit – but, let's not forget about the fee. Some advisors might not be expecting that an indexed account would suffer a 6% loss.

So, in these four scenarios, one year works out really well for the policyholder – the other three aren't as positive.

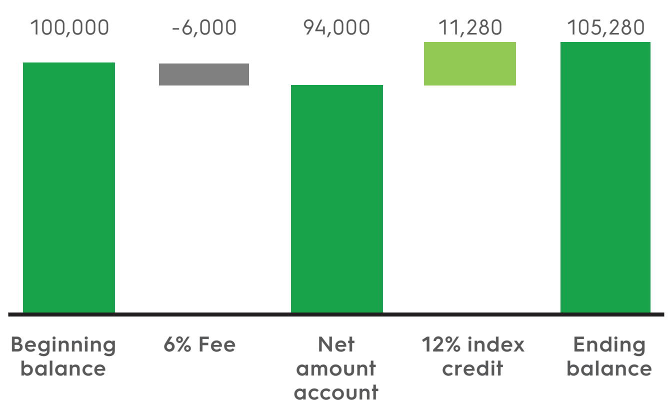
While no one knows what the future holds or how frequently these scenarios might occur, it certainly is important to understand what can happen.

How fees further reduce potential returns

One aspect that our simple "12 percent minus six percent equals six percent" misses is that the amount taken out of the account to pay the fee does not participate in any future indexing.

So, let's look at this example:

$	**100,000**	indexed account beginning balance
$	**6,000**	fee
$	**94,000**	net allocated to indexed account
$	**11,280**	12% indexed account applied to net allocated amount
$	**105,280**	End of year indexed account balance



This is a hypothetical example for illustrative purposes only.

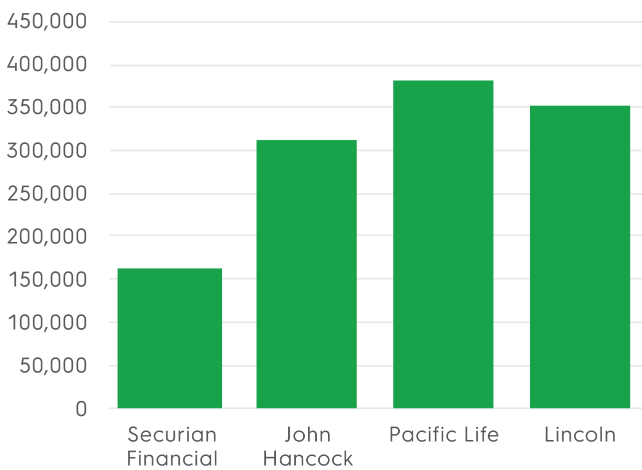
Meaning a 12% index credit (including the effect of the multiplier) is actually 5.28% effective crediting rate on the original $100,000.

Fees add up

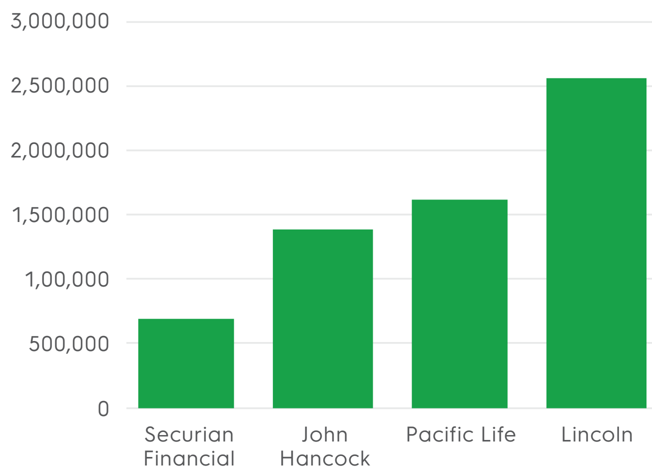
If these fees don't seem like a major concern in any given year, consider how these fees might accumulate over the life of a policy.

Cumulative IUL charges paid by product - 50 male/preferred[2]

By age 65



By age 85



This is a hypothetical example for illustrative purposes only.

When selecting an IUL product or indexed account that utilizes a large fee, the impact of those fees over time seems like important information. And yet, very few of these products offer an illustration that allows the advisor or consumer visibility into these fees.

So, what does this mean for you?

It is more important than ever to understand the details of the products you consider showing a client. When you request an illustration to be run at a particular rate, you will need to be aware of any high fees and large multipliers that result in comparatively aggressive illustrations, even though the illustrated rate seems low.

2. Source: Securian Financial Competitive Research June 2019

Securian Financial – Orion IUL – Index Option L; John Hancock - Accumulation IUL 18; Pacific Life - Pacific Discovery Xelerator IUL 2; Lincoln - WealthAccumulate IUL

This comparison does not take all material factors into account and must not be used with the public. These factors include but are not limited to: indexed account options, rider availability, surrender periods, or fees and expenses. For information regarding these and other factors please consult each company's respective policy guide.

This is a supplemental illustration that is not valid without a basic policy illustration and must not be used with the public These values assume that the currently illustrated non-guaranteed elements will continue unchanged for all years shown. This is not likely to occur and actual results may be more or less favorable than those shown.

What is Securian Financial's position on these types of products?

After extensive analysis, we feel that high-fee, large—multiplier products have a fundamentally different risk/reward profile than traditional IUL products.

Furthermore, because of a lack of transparency and consistency between carriers in regard to these product features, consumers and advisors may not have access to the necessary facts to make an informed decision.

We will continue to design and issue products that perform competitively, but will not create a high-fee, large-multiplier product until they can be illustrated and disclosed appropriately.

Please keep in mind that the primary reason to purchase a life insurance product is the death benefit.

Life insurance products contain fees, such as mortality and expense charges (which may increase over time), and may contain restrictions, such as surrender periods. Policyholders could lose money in this product.

Product features and availability may vary by state.

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400 Robert Street North, St. Paul, MN 55101-2098

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