How to Sell IUL Script

Page 1

I always start with the first slide here. Let's assume you put $100k into a no-load mutual fund. Let's just assume an S&P Index fund. Let's say the market goes up 10% then you have $110,000. Then the market goes down 15% you now have $93,500. Year 3 you rebound and the market goes up 5% you now have $98,175. That is a traditional investment. By contrast if you put the same $100k into an indexed universal life plan when the market goes up 10% you are up to $110,000. When the market goes south the following year you do not go south with it. You are guaranteed to get a zero rate of return and therefore as you can see on the slide just go sideways waiting for the market to rebound. When you achieve this gain your gains are locked in and you are never going to lose them. Then in year 3 the market rebounds with a 5% gain and you now have $115,500 which over a 3-year period is a 17.6% advantage over a traditional investment.

Page 2

This next chart here is the growth of $100,000. We have an 18-year period from 2000 to 2018. In red we have the S&P 500. Right out of the gate you can see we had a 3-year bear market then it ticked back up, went down and ticked back up again and eventually grew to $169,184. By contrast if you had the same $100,000 in an Indexed Universal Life product that had a 12% cap and a 0% floor (which means your return will be between 0 and 12). By locking in your gains and never participating in the downside your $100,000 grew to $313,498. Obviously, a huge improvement over a traditional investment.

Page 3

I think most would say the Great Depression is the worst this economy has ever seen. This slide shows if you had $1,000,000 in the S&P in 1930 you can see over that 10-year period you actually lost money. However, if you had a product with a 12% cap and a 0% floor and started with the same $1,000,000 you can see that you actually did OK growing those monies to over $1.5m.

These products didn't exist 30+ years ago but the S&P 500 did. This is an index strategy calculator report. This particular strategy illustrated is an S&P 500 Index, guaranteed minimum interest rate zero with a 12% cap, 100% participation rate, one-year point to point. We're going to back test this back to January 1980.This particular index strategy since 1980 has an average historical return of 8.60%. What this 50th percentile number is telling us is that you are going to get that rate of return about half the time. So, in my opinion running this particular index strategy at 8.60% would be aggressive. Now on the left the 100th percentile column tells us that in every rolling 20-year period since 1980 this index strategy has done 7.30% or better every single time. There are over 10,000 20 year rolling periods in that calculation. You could have started this calculation on Jan 1st, 1980 and that's one 20 year rolling period or Jan 2nd, 1980. That's another 20-year rolling period. It's kind of like a Monte Carlo analysis if you are familiar with that. 90% of the time you got 7.98% or better.

The specified rate on the far-right column is 6.96%. This is the AG49 default illustrative rate for this IUL product (Symetra). So technically if you run the ledger at 6.96% you are actually being conservative.

Page 5

This page shows how these index strategies typically work year to year. From 1980 to 1981 the market did a negative 13.49% so you get credited 12% due to the 12% cap on the product. The next year it did a -8.76% rate of return so you get 0%. What you'll see historically is you are either hitting your caps or getting zero.

Another thing to be aware of is many IUL products in the industry now have bonuses or multipliers in their products. The Symetra IUL product has a guaranteed 15% bonus starting in year 11. If you look at the return from 1991 to 1992 the S&P 500 did 23.49% on the IUL credit was 13.80% which exceeds the 12% cap on the product. The bonus works as follows: 12% cap x 1.15 = 13.80% return.

Page 7

This chart compares and equity investment going up 10% and down 10% every year for 10 years. After ten years you lost money. By contrast if you had an IUL index strategy that did the same thing, you made money.

Page 8

You've probably seen this before. This shows if the market drops 30% then you have to get a 43% rate of return the next year just to be at breakeven.

Page 9

This chart I really like. I often ask clients; do you know the difference between an average return and an actual return. As an example, assume I'm your money manager and you give me $100,000 and I hit the cover off the ball and get a 100% rate of return so now you have $200,000. Next year not so good a 50% loss so you are back to $100,000. Next year kill it again 100% rate of return back up to $200k. Oops lost 50% again in year 4 so you are back to even. After four years you made no money (started with 100k, ended with 100k) but as your money manager I'm advertising the fact I've averaged my clients a 25% return over the last 4 years. That's the difference between traditional investing and using an Index UL strategy where you are guaranteed to never have a negative year and your gains are locked in. With an IUL you get an actual rate of return.

Page 10

What you see in front of you is a copy of the elevator pitch I've successfully used when talking to both agents and retail clients. I've found when pitching anything you have about 17 seconds and if you've peaked their interest you may get another 3 minutes to continue with the dialogue and if they like the 3-minute message than you will have a great chance to get a meeting. So, here's my elevator pitch on indexed UL… Would you be interested in a retirement product that has a historical rate of return north of 7%, you are guaranteed to never have a negative rate of return, it grows tax free, you can pull the money out tax free and its liquid. What I mean by its liquid is you put $30,000 into this thing and you want your money back tomorrow, next week or next year you can get it. Do you have any of that in your portfolio? All I've just described to you is an Indexed Universal Life product with an early cash value rider.

Page 11 (Various Financial Alternatives vs Index Universal Life)

This is a report that we've had a lot of success with. We can add/create this report to any indexed UL proposal for one of your prospects or clients. This example compares an IUL to a Taxable Account (Equity Fund), Tax Deferred Account (Variable Annuity) and a Tax-Deductible Retirement Plan / TDRP (401-k plan) taking real world taxes and management fees into account.

Pages 12 - 13

This example shows a male 45 putting in $30,000 a year for 20 years into four different retirement plans.

Columns (2a) and 2b) Taxable Account / Equity Fund growing at 6.38%, Columns (3a and 3b) Tax Deferred Account / Variable Annuity growing at 6.38%, Columns (41 and (4b) Tax Deductible Retirement Plan / 401-K at 6.38% and then we have a Minnesota Life Indexed Universal Life product growing at 6.38%. We solved for the minimum death benefit possible. Notice we put in $30,000 and our end of year one cash surrender value is $30,000. This is one of the early cash value products I described in my elevator pitch that you are completely liquid. This report is taking into account real world fees, charges and taxes into account as they really occur. So, for example if you buy and hold an equity fund you are going to get 1099's every December whether or not you bought and sold shares of that mutual fund. You are still going to typically incur taxes. Most people do not pull money out of that fund to pay the tax they just cut a check to the IRS. In this example we are pulling money from that equity fund to pay the taxes so that we can compare it to an asset that grows tax free. We're assuming a 1.25% management fee on the Taxable Account / Equity Fund. We're assuming a turnover rate of 20% on the equity funds and a capital gains rate of 20%. The Tax Deferred / Variable Annuity account, assumes a 1.2% guarantee of principal fee and a 70-basis point management fee. The Tax-Deductible Retirement Plan / 401-k assumes a 1.50% management the income tax rate for all the plans is 35%. We start pulling out $110,576 net out of each one of these investment vehicles starting at age 65. You'll see that the variable annuity runs out of money first at age 73. Our equity fund runs out of money at age 74, our 401-k plan runs out of money at age 76 (see page 13. By contrast we are still chugging away in our indexed UL because of our tax-free income. If you are lucky enough to make it to age 99 your family still has $1.2m of cash value and the death benefit so obviously the IUL wins.

If you look at the income totals at the bottom of page 13 its not even close. The IUL generated 3,870,160 of total income while the next best option was the 401-k plan (TDRP) at 1,287,613

Page 14

This shows the rates of return the alternative retirements plans need to achieve to compete with the IUL at 6.38%.

IUL is better unless you can get over:

11.17% in a Taxable Account (Equity Fund)

12.05% in a Tax Deferred Account (Variable Annuity)

9.62% in a Tax-Deductible Retirement Plan (401-k) plan*

*Most people do not have access to a qualified plan they could actually contribute 30k into

Pages 15 - 17

If you are putting $30k after tax into a life insurance plan and you are in a 35% tax bracket it's equivalent to you putting in $46,154 pretax into a hypothetical 401(k) plan which is what this report is illustrating. So, for people that are contributing to a 401(k) plan we often recommend to take advantage of your company match but anything above and beyond that you would be better off with this type of product plus you have the flexibility of accessing your money prior to age 59 ½.

The tax-deductible retirement plan (401k plan) runs out of money at age 76 (page 16)

The reason it runs out of money is you have to pull out 170,117 to net the 110,576 assuming a 35% tax bracket (page 17)

Pages 18-19

Read page 18

Page 19: Historically we are actually in a low tax environment with the top tax bracket at 37%. The average top tax bracket in the country since the tax code started in 1913 is actually 57.31%

In my opinion you would be better off paying your taxes now while we are in a low tax bracket, put the money in an IUL policy and never pay tax on the money again.

Page 20

Right now, there are four things that use up 92% of the tax revenue collected by the U.S. government. Medicare, Medicaid, Social Security and the interest on the U.S. debt. By the year 2025, 100% of the U.S. tax revenue will be used for these same four items.

The only options the government has is to increase taxes or reduce benefits. Which to you think is going to happen? Maybe both.

Page 21 Read page

Pages 22-23

Great charts show what your effective federal and CA state income tax rate and capital gains tax rates are based on how much income you have

Most people don’t realize how much they actually pay in taxes.

Page 24 - 25: Read

Pages 26-27 Fees & Expenses

On the left side of this chart we have a hypothetical equity fund with a 1.25% management fee. It assumes a male age 50 contributes 100k a year for 15 years and he earns a 7% return. We are not taking any taxes out of this account. Initially our management fee is very small (only $1,338) in year one but as time goes on and the account grows so do our management fees. Managed accounts are back end loaded.

Starting at age 65 the client pulls 148,970 out of the equity account each year (this does not take into account taxes). If you go to page 27 you will see this is the amount of money, he can take out each year to zero out the account at age 100. By age 100 the client has pulled out $5,363,014 over his lifetime (all subject to tax) and he spent $1,002,781 in management fees over his lifetime (assuming a 1.25% management).

If we go back to page 26 on the right side of the chart you will the fees, loads and charges of a properly designed IUL policy. Most IUL products are front in loaded. Year one our total fee is $17,055 but as time goes on these fees, loads and charges go down. The cross over point in this example is year 16. This is when the cumulative management fees of a typically equity account exceed the fees, loads and charges of an IUL policy ((262,684 vs 245,375).

With the IUL policy we start pulling out 235,492 tax free vs the 148,970 taxable from the equity fund.

If we go to page 27 you will see the client pulled out 8,477,712 tax free from the IUL policy vs the 5,363,014 taxable from the equity fund. We also still have over 2.5mm in cash value and death benefit in our IUL at age 100.

Our total lifetime costs for the IUL is 946,218 vs the Equity Fund with a 1.25% management fee total costs of 1,002,781.

This means that the long-term costs of a properly designed IUL policy is about 1% to 1.25%*

***Many of the new IUL products in the industry have large bonuses and multipliers and they also have very high fees loads and charges. These products have substantially higher long-term costs than 1% to 1.25%. But there are still quite a few low cost IUL products in the market place. To be conservative you might state the long-term costs of a properly designed IUL is in the range of 1.50%**

Page 28

There are up to 5 ways you can pull money out of an Indexed UL policy. The first is a withdrawal. Simply a tax-free recovery of your cost basis. Most of these policies have what I call a standard loan. Usually within the first 10 years of the policy they are going to charge you 5% on the loan and credit you 4% so you have a net 1% loan charge eating away some of the cash value in the policy. The next option is a preferred loan. This is usually after year 10 where the insurance company charges you 5% on the loan but then also credits you back 5% within the policy so you have a zero-cost loan. These loans are how we are beating the IRS when we're pulling the gains out of the policy and not paying taxes. Some carriers offer loans that can be better than this zero cost (Preferred) loan. The way this loan works is let's assume you put a bunch of money into the policy and down the road you pull out $75,000 participating loan to go buy a new BMW. With the participating loan, the insurance company is going to charge you 5% on the loan but they will credit you whatever you achieved on your index account. So, if your index earns 8% then you are actually earning a positive 3% on your BMW. The downside to this type of loan is if the market tanks that year you are going to have a negative 5% loan charge on that $75,000 BMW loan. This does pose more risk to the client but the question is, risk compared to what? I lost over 35% of my 401(k) plan in 2008. The absolute worst-case scenario with this type of index loan is you'll lose 5% on a percentage of the money you put into the plan.

Page 29 - 30 Read

Page 31

Bob is 65, he has 1mm in his IRA and he needs 100k a year for his lifestyle. If we go back in time and assume S&P 500 returns starting in 1988 this his how Bob's retirement will look.

Bob's in a 28% tax bracket so he is going to have to pull out 138,889 each year to net the 100k he needs for his lifestyle.

Unfortunately, Bob runs out of money at age 89.

Page 32

What if you met Bob 15 years earlier when he was 50 and suggested he put $550 a month into an IUL policy designed for retirement. Bob needed life insurance anyways to protect his family.

Now Bob has an alternative asset class that does not go down when the market goes down. He can use this IUL policy strategically and tap into it when the market goes down. This will allow his equity assets in his IRA to rebound vs selling at the low during bear markets.

On this spreadsheet Bob is taking money out if his IUL policy every time the market goes down. In 1990 when the market dropped, Bob didn't take any money out of his IRA and just pulled the 100k he needed from his IUL.

In the bear market years of 2000-2002 Bob had to take out the requirement minimum distributions from his IRA but he took the extra money he needed for his 100k lifestyle from his IUL policy.

By having this alternative asset class Bob does not run out of money at age 89. Instead he still has 743,184 in his IRA that you as his financial advisor are managing.

Selling your client an IUL policy can increase your assets under management.

Page 33

Shows Bob’s IUL policy cash flow and death benefit.

Page 34 Read

Page 35 Read some of it.

When designing an IUL you want your client to pay monthly or dollar cost average. It will reduce your client's odds of getting a zero return by 65.5%

Page 36

If you pay monthly or DCA and diversify into multiple Index Strategies you can further reduce your odds of getting a zero return.

This particularly mix is assuming Voya's IUL policy which is no longer available. But the concept is still valid.

Page 37

Allianz flyer shows that if you diversified your premium into four of their index strategies your odds of getting a zero return from 2005 to 2016 was less than 2%.

Page 38 Actual IUL returns

Most insurance carriers only show historical IUL returns not actual IUL returns. Allianz did a nice study on the 29,088 policies they sold from 3/1/06 to 12/31/15.

The average annual return for all these IUL policies was 7.09%

Page 39 – 42 Actual IUL returns

Minnesota Life has had an IUL policy for over 11 years. They actually publish on their website the Index Return of every single premium payment that could have gone into this IUL policy., When you buy an IUL policy most insurance carriers buy the index options once a month. So, you might make your premium payment on March 1st but the insurance carrier doesn't actually buy the index option until March 15th.

This spreadsheet shows the actual return of every index option Minn Life has purchased since Nov. 2007.

If you go to the bottom of page 42 you will see the **actual averaged annual return over these 11+ years is 8.32%. The S&P 500 only did 7.33%**

Page 43 Read (IUL Too Good to be True)