

# Eight reasons to use index universal life to save for retirement

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The first index universal life product was brought to market a mere nine years ago, yet sales for this product line have grown substantially each year. Sales of index universal life last year exceeded \$550 million of annualized premium.

Advantage Group Associates President Sheryl Moore, who conducts a quarterly sales survey of this product, recently said, "Indexed life sales continue to astound me. This is merely a testament to the fact that this once-niche product is becoming the preferred type of life insurance. Traditional and variable UL better watch out -- I think we can give them both a run for their money!"

A key reason that index universal life has become so popular is that a large number of agents and marketing organizations are promoting it as an excellent product in which to save money now to produce a steady cash flow later in retirement. This article will examine eight advantages of using index universal life to save for retirement.

**1. The safety of no negative returns.** Clients burned by declining values in the equity, bond and real estate markets now understand the value of a guarantee that their annual returns will never be negative. That guarantee is precisely what index universal life provides. If the index used by the product declines over the period measured, the client is completely protected from that risk. There is never a decline in the contract's value due to declining values in the index.

**2. The carrier absorbs the investment risk.** The carrier provides interest credits to the index universal life product by investing in bonds and index options. Some experts expect bond defaults this year to be seven times historical averages. What if one of the bonds defaults? What if the counterparty to the index options defaults, like Lehman Brothers did to many insurers? The answer in both cases is that the insurer bears this risk and protects its contract holders from it.

**3. The possibility of high positive returns.** Safe alternatives without investment risk right now are suffering from very low yields. Many are at historical lows, and that makes them unattractive to many savers. With index universal life, if the index performs well over the period measured, the contract can result in an interest credit that is quite attractive. Some index universal life products even include interest crediting formulas that compare multiple indices and more heavily weight the better performing indices.

**4. The ability to create a tax-free cash flow in retirement.** Many other vehicles that can be used to save for retirement create taxation. IRAs and 401(k)s, for example, delay but do not eliminate taxation. In fact, many advisors point out that they allow clients to save a smaller amount of taxes now in order to pay a much larger amount in taxes later. Index universal life, on the other hand, can create a totally tax-free cash flow in retirement. Through the use of contract loans, the cash flow can be free of federal, state, and local income taxes, as well as free of the alternative minimum tax. And, it can create a tax-free death benefit. This tax-free feature allows the index universal life product to be more attractive than other alternatives, even if those alternatives create a higher pre-tax return.

**5. The death benefit provides self-fulfilling funding of the retirement plan at death.** For a married couple, the ability to save for retirement usually depends upon the ability of one or both of the spouses to continue working and earning an income. As a result, the death of a working spouse can devastate the best-laid plans to fund retirement. The Life and Health Insurance Foundation for Education reports that a man at age 35 has more than a one-in-six chance of dying before retirement, and a man at age 45 has more

than a one-in-seven chance of dying before age 65. Index universal life eliminates this risk by providing a life insurance death benefit.

**6. An ability to take advantage of the design of certain insurance products.** Have you ever noticed that the interest crediting on most index universal life products is higher than the interest crediting on most index annuity products? This is because the carriers have a second source of profit on index universal life - the spread between the carrier's mortality charges versus the expected mortality of the people it insures. In some cases, the carrier is generating most if not all of its profit from the mortality spread. Therefore, a customer who buys a contract and minimizes the insurance coverage relative to the premium paid gets a better deal. You could even go so far as to say that this customer's deal is effectively subsidized by the many other contract holders who will maximize the insurance coverage relative to the premium paid.

**7. Guaranteed return of premium.** With most index universal life products, the agent can use the carrier's illustration software to design a scenario where the client can be assured of being able, at some point in time, to cancel the contract and receive back at least what he paid in at issue. While most carriers do not provide a guaranteed return of premium beyond the free look period, it is not unusual for the agent to be able to devise a scenario where the guaranteed cash value equals the premiums paid after a period of time, for example, 10 years. This provides additional assurance to the client that the index universal life product is safe.

**8. Insurance for a lifetime without paying for a lifetime.** One perhaps unexpected bonus for a client who uses index universal life to save for retirement is that once the client stops paying premiums and starts taking cash flow as contract loans, the insurance coverage does not end. In fact, clients can often continue to be insured for the rest of their lives without ever having to pay additional money into the contract.

Does this make index universal life the perfect place to save money for retirement? "Perfect," as you may suspect, is a very dangerous word. Next month, we will explore eight precautions when using index universal life to save for retirement. In the meantime, if you have never considered using index universal life for this purpose, these eight reasons should give you food for thought.

\*For further information, or to contact this author, please leave a comment and your e-mail address in the forum below.