



All indexed universal life
products are **NOT**
created equal

Indexed Universal Life fits ideally in the middle of the risk continuum between traditional fixed UL and variable UL.



With indexed UL, you can offer your clients a product that provides more upside potential than a traditional fixed UL, particularly in low-interest rate environments, while avoiding the market risks associated with a variable UL product because of indexed UL product's strong guarantees.

But not all indexed UL products are created equal. Every product sold in the IUL market brings with it its own "risk/reward" profile, as well as its own set of benefits and limitations. Making a sound recommendation of an IUL product to your clients first requires an assessment of where they fit on the risk spectrum. Once that's determined, you should do a thorough review of ALL the features of particular IUL products. The mechanics and structure of IUL products differ by carrier, and these differences are what determines where an IUL product fits on the risk/reward continuum. Making determinations based only on Cap Rates and Guideline Illustrated Rates could expose your clients to outcomes they may not expect.

We have come up with a simple tool to help you assess the underlying risk profile of an IUL product. Our IUL Checklist is a simple survey that provides you a guide for what we believe is important when comparing IUL products.

A key area of differentiation for IUL products is the cap rate, participation rate and illustrated rate. The question that we want to help answer is: is the product with the highest cap/participation or highest illustrated rate the best fit for your client's needs and risk appetite?

Illustrated rates are typically based on an index strategy's cap rates, participation rates and historical experience of the strategy. The higher the level of the cap and participation rates, the higher the illustrated rate - the theory being that a policy with higher caps will receive more upside over a longer period of time. But what is the cost of having the higher cap rate?

Insurance companies earn interest on the investments backing a product. This interest, along with policy charges, are available to support policy benefits including the index interest cap rate. Generally, the higher the cap rate, the more expensive the assets purchased to back the index feature. If the cost of buying the assets exceeds the interest the carrier earns on the investments, the product may need to rely on additional charges to pay for the extra asset costs.

The Reward: if the higher illustrated rates materialize, the higher interest earned on the policy will generate higher policy cash values despite any higher policy charges.

The Risk: if the market index doesn't perform as illustrated or the cost of the assets increase such that the company cannot provide the same cap in the future, interest credits can fall below illustrated values. The higher policy charges could then start to erode the policy's cash value.

You know what can happen next: Annual statements and in force ledgers show lower levels of cash value than originally projected in the sales illustration. As a result, your client may not reach his or her financial goals or may need to increase premium payments to keep the policy in force.

You may be asking, how do I know which carrier's product is right for my client? We suggest running the illustration using several different illustrated rates to understand the range of possible results. The greater the difference in outcomes – the greater the risk in the product. No one can predict the future, so it is impossible to know how often a policy will credit interest up to a caps. So why not educate your client on how their policy will look under a variety of illustrated rate's and do a thorough review of all the other features and benefits of the policy and help them determine where they land on the risk continuum.

The following table shows how different scenarios result in varying levels of cash value in four leading indexed UL products.

Cash values are figured using the following three scenarios:

1. Current Guideline Illustrated Rate
2. 6.5% Illustrated Rate
3. Guaranteed interest rates and current charges

Competitive Comparison - Cash Value at duration 30 Male, Standard, Nontobacco Age 45

Scenario	Company A	Company B	Company C	Company D
1 Cash Value	\$433,468	\$408,634	\$368,203	\$356,442
2 Cash Value	\$300,940	\$261,792	\$296,436	\$255,284
Percentage of Cash Value retained between Scenario 1 and Scenario 2	69%	64%	81%	72%
3 Cash Value	\$118,269	\$125,896	\$125,257	\$112,548

The point of this table is to demonstrate how different scenarios can impact a product's cash value. The higher the difference in the outcomes under these scenarios, the more potential risk the product carries. While Company A and Company B have higher guideline illustrated rates that produce higher illustrated cash values, those products also lose a greater percentage of their potential cash value when illustrated at 6.5%. A client who bases their premium payments or income stream on the guideline illustrated rate would have more of a gap to bridge at 6.5% with Company A's or Company B's product than they would with Company C's product.

Each client has his or her own comfort zone on the risk continuum. Our new IUL checklist will help you work with your client to look beyond the current illustrated rate and determine which product offers the level of potential risk/reward and other features that best meets their needs.



Products issued by

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We won't let you down.**