

Design Matters: When Zero is Not Your Hero

With sales that account for 65% of all UL premium and 24% of all individual life premium,¹ the boom that the insurance industry has seen with indexed universal life insurance is undeniable. Producers are seeing new and enticing features on IUL launches left and right. A popular one is the multiplier.

While the above statistics can be easily understood, are multipliers as simple? Multipliers have a few different versions. How they differ lies in how a carrier charges a client; after all, these features could carry any additional charge. Generally, they fit into three categories: Fixed, Asset Based and Percentage of Gain.

Fixed Multiplier: This multiplier is, as you would suspect, a fixed cost to the client. A carrier can charge a monthly or annual fee for the feature, regardless of how the index performs. If a client allocates their premium into an indexed account that includes a multiplier, part of that allocation will be responsible for paying for it; therefore those funds are not going to be viewed as account value that is eligible to receive an index interest credit.

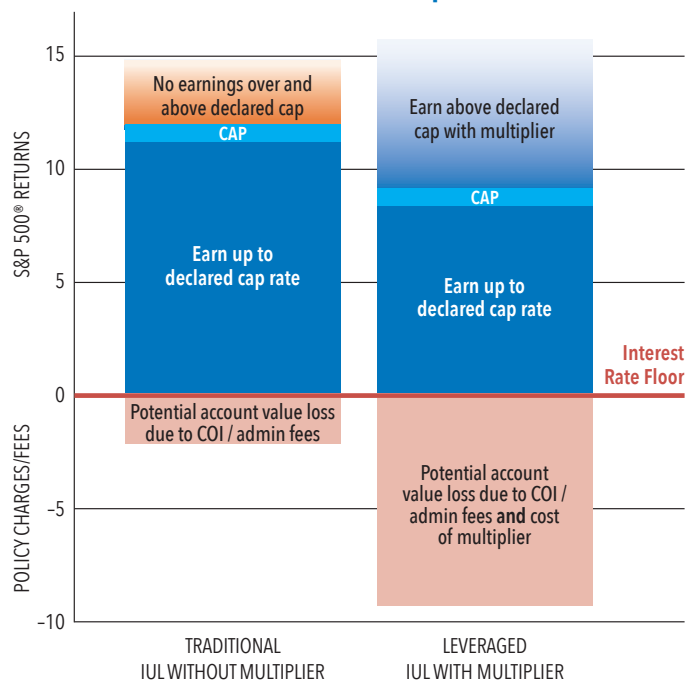
Asset Based Multiplier: The cost for this bonus is taken as a percentage from the account value and will be deducted at the beginning of each 12-month segment.

Percentage of Gain Multiplier: With this multiplier, the cost is applied to the gain in the policy. A client who allocates his or her funds to an indexed account with this type of bonus can expect a small charge in the early years and a larger fee as account value grows.

Let's backpedal a bit and remember what IUL was designed to do. This product was distinctly crafted to appeal to those clients who desired a death benefit and the security that a fixed universal life policy could provide with higher interest earning capabilities — upside

potential and downside protection due to market losses. But with this specific multiplier feature, are clients getting the downside protection that we are assuring them? The upside potential is certainly there, as is their interest rate floor, but the loss potential that a client could experience (due to the fee that is collected for the multiplier) may be larger than we think. CONTINUED ON PAGE 2 | 2

What Could Happen to the Account Value With Multipliers?



All IULs include COI and administrative fees. These examples reflect a 2% fee.

If the index has a less than favorable year and the client is expected to receive no indexed interest credit, with a traditional IUL they can also be sure that they won't see a loss (other than standard COI and admin charges) thanks to the guaranteed minimum interest rate. In that same scenario, while they still have an MGIR, when a multiplier is involved a client could actually see a loss in account value over and above COI and admin charges due to the additional fee that is necessary to pay for the feature.

There are sure to be more variations of multipliers and index bonuses that launch in the coming year. There will be no shortage of competing illustrations on your desk. If your client sees a loss like this, is this the design that you want to explain? These features that may provide upside potential but at a risk of your client's downside protection due to fees that could impact your account value, possibly increasing your client's possibility of lapse.

If you and your clients are looking for an IUL that is straightforward, competitive and provides upside potential while keeping their downside protection intact, look no further than Columbus Life's Indexed Explorer *Plus*[®] IUL. Your clients can

S&P[®] 500 Close 2506.85
Net Loss 2018

Columbus Life
Indexed Explorer Plus:
0% Loss
(No Multiplier)

Lincoln Financial
Wealth Accumulate IUL:
6% Loss due to asset-based charge
(56% Guaranteed Index Credit Enhancement on the Perform Plus Indexed Account²)

Net loss accounts for charge for multiplier but not for COI and Administrative fees. All IULs have COI and Administrative fees associated with them.

experience flexibility with the many account features our IUL provides and they are able to better plan for their financial future knowing that their product was designed with them in mind!

Want to learn more about Indexed Explorer Plus? Contact your Regional Vice President or call the Sales Desk at 800.677.9696, option 4.

1 LIMRA Third Quarter 2018 IS Individual Life Insurance Sales Survey.

2 Lincoln Financials Wealth Accumulate 2019 includes varying account options. The Perform Plus offers a 56% Index Credit Enhancement (ICE) at a 6% fee. The Perform option offer a 56% ICE with a 4% fee. The Balance option offers a 28% ICE with a 2% fee and the Conserve option offers a 0.35% Account Value Enhancement (ACE) with no fee.

IUL is a Universal Life policy. It has insurance related costs. Premiums paid must produce sufficient cash value to pay insurance charges. Indexed returns do not protect against lapse if premiums and returns do not provide sufficient cash value to cover loan interest and insurance costs. Your clients must understand that loan risk means loans may well not be zero cost. Such loan risk and interest costs will reduce account value and will contribute to a risk of policy lapse if account value becomes insufficient to cover charges.

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