Index Universal Life Insurance

What Is It – Why Consider It?

21960

The Need for Life Insurance

50% of U.S. households
(58 million)
say they need more life insurance

30% of U.S. households
report having no life insurance at all

Source: "Facts about Life 2013," Life Insurance Month, LIMRA, September 2013, last accessed 1/29/15

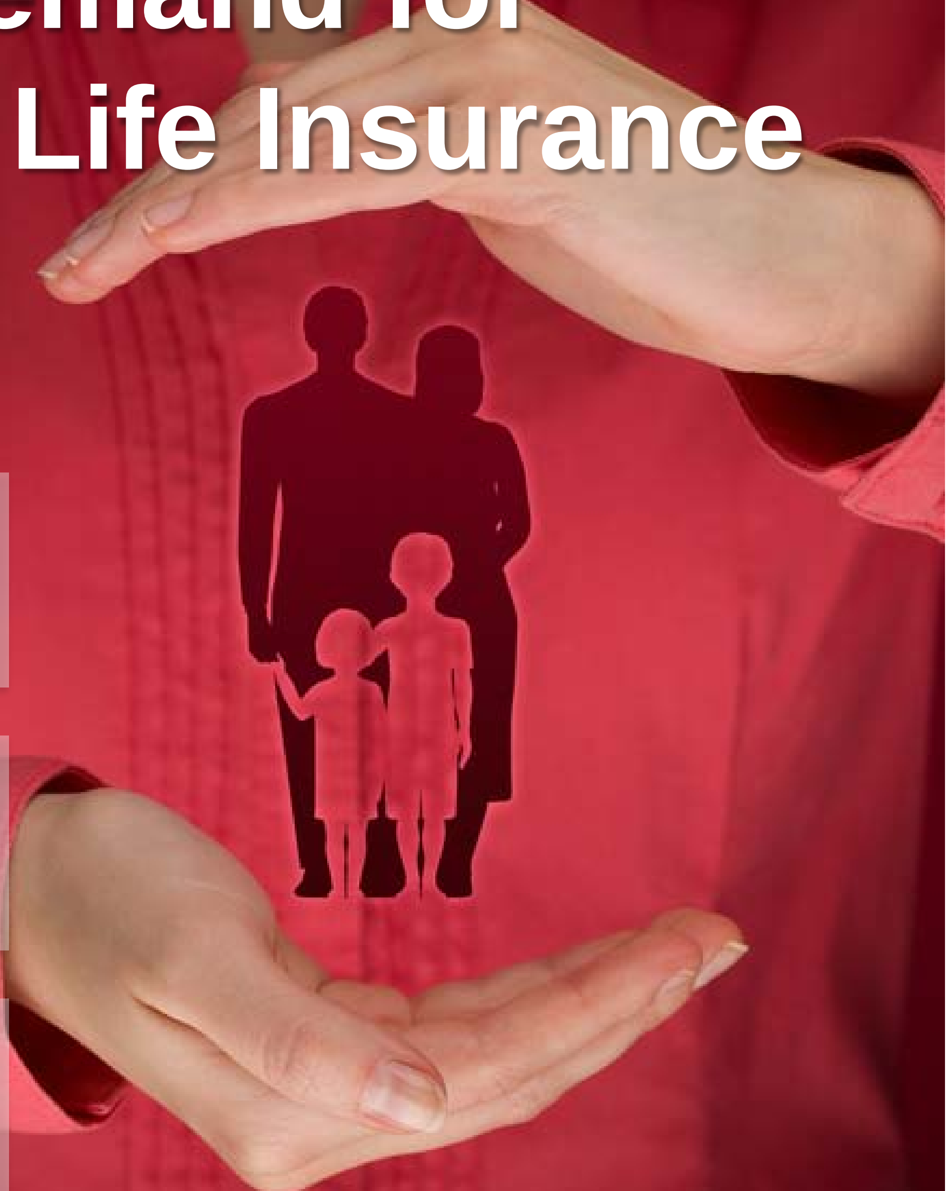
Growing Demand for Index Universal Life Insurance

What if you…

Die unexpectedly or prematurely??

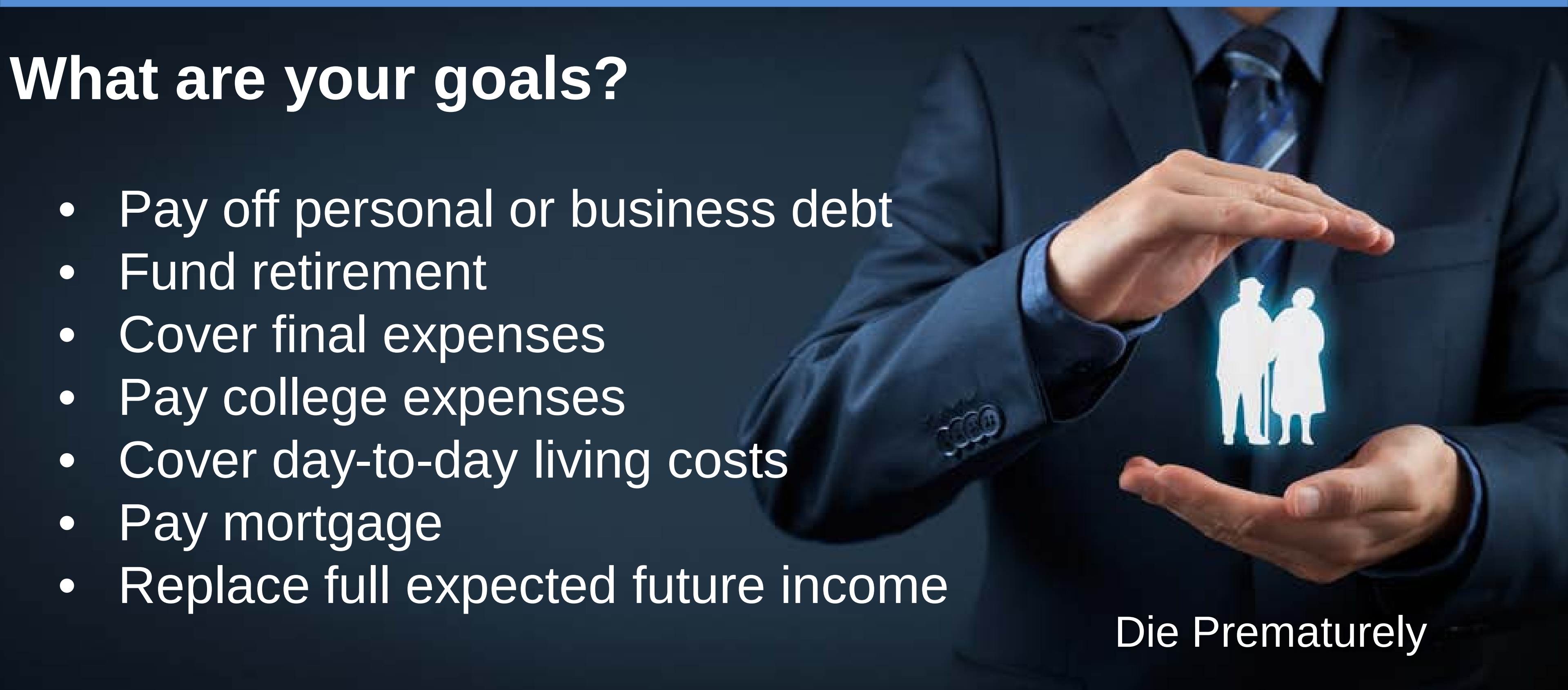
Become ill or need care?

Live a long, healthy life?



Growing Demand for Index Universal Life Insurance

Factors to Consider When Determining Life Insurance Coverage



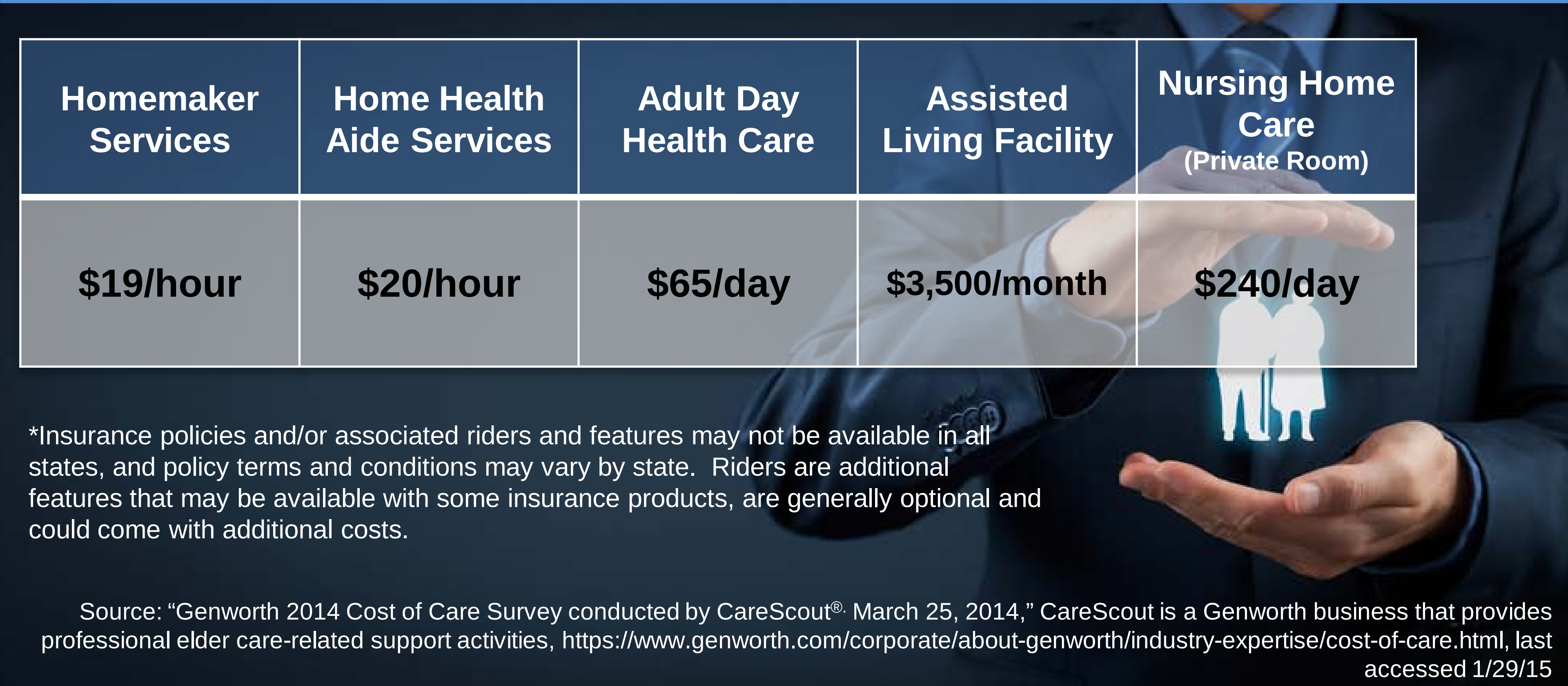
What are your goals?

- Pay off personal or business debt
- Fund retirement
- Cover final expenses
- Pay college expenses
- Cover day-to-day living costs
- Pay mortgage
- Replace full expected future income

Die Prematurely

Growing Demand for Index Universal Life Insurance with Available Long-Term Care Riders

National Medium Cost of Long-Term



Homemaker Services	Home Health Aide Services	Adult Day Health Care	Assisted Living Facility	Nursing Home Care (Private Room)
$19/hour	**$20/hour**	**$65/day**	**$3,500/month**	**$240/day**

*Insurance policies and/or associated riders and features may not be available in all states, and policy terms and conditions may vary by state. Riders are additional features that may be available with some insurance products, are generally optional and could come with additional costs.

Source: “Genworth 2014 Cost of Care Survey conducted by CareScout®. March 25, 2014,” CareScout is a Genworth business that provides professional elder care-related support activities, https://www.genworth.com/corporate/about-genworth/industry-expertise/cost-of-care.html, last accessed 1/29/15

Growing Demand for Index Universal Life Insurance

A male who reaches age 65 is expected to live an additional **20.5** years

A female turning 65 is expected to live an additional **22.7** years

Half of all Americans under age 65 are expected to live into their 90s

Since people are living longer, it is tougher to stretch savings.

Sources: Workers Saving Too Little to Retire, The Wall Street Journal, March 19 2013. http://online.wsj.com/news/articles/SB10001424127887323639604578368823406398606, Last accessed 1/29/1; EBRI 2013 Retirement Confidence Survey, http://www.ebri.org/surveys/rcs/2013/, last accessed 08/10/15

The Retirement Income Challenge

A retired person’s income typically comes from three sources:

1. **Government Programs** (such as Social Security)
2. **Employer Programs** (like a pension plan)
3. **Personal Savings** (such as a 401(k), life insurance, annuities, etc.)

The Future of Retirement: Rising Costs

Expense	Retirees Reporting an Increase
General Cost of Living	77%
Healthcare	41%
Real estate/mortgage	26%
Financial Dependents	18%
Debt	9%

Source: Genworth The Future of Retirement Income Study, April 30, 2014

The Future of Retirement: Consumer Needs

64% Money for a comfortable retirement

55% Paying for medical expenses

52% Paying for long-term care services

47% Paying monthly bills

30% Leaving an inheritance for beneficiaries

26% Paying for a child’s schooling/college

Source: LIMRA 2014 Insurance Barometer Study, January 2014.

Most people don't realize that life insurance benefits are often tax-free and Index Universal Life can accumulate cash value they can borrow.

69% of consumers do not know that life insurance benefits are often tax-free.

55% of consumers do not know that index UL insurance can accumulate cash value which they can borrow.

Source: Life Health Pro. http://www.lifehealthpro.com/2013/06/10/talking-index-products-with-genworths-charlie-gipp. February 9, 2015

Index UL Insurance Helps Provide Financial Flexibility

Provides a generally **income tax-free death benefit** to help protect loved ones

Gain **tax-deferred cash accumulation**

Build a potential source of **supplemental, tax-free income** for later in life

Can provide **tax-free funds for chronic illness and long term care needs** in retirement

Generally death proceeds paid are income-tax-free to the beneficiary. Death proceeds from certain employer-owned life insurance policies may not be income-tax-free unless the requirements of section 101(j) of the Internal Revenue Code (Code) are met. All or part of death proceeds may be taxable in other circumstances as well. The circumstances include, but are not limited to, the following: (a) the policy or an interest in it has been transferred for a valuable consideration and the transfer is not to a person identified in section 101(a) of the Code, (b) the death proceeds are received under the terms of a qualified pension or profit-sharing plan, (c) the proceeds are received as alimony by a divorced spouse.

For important information regarding tax-free income, please refer to the disclosure on the following slide.

Index UL Insurance Helps Provide Financial Flexibility

Death Benefit

Death benefit in effect through the life of the policy

Income Tax-Free

Tax-free withdrawals and loans, which decrease your client's death proceeds, can be taken later in life to supplement income

A withdrawal may be free of federal income tax or "tax free. "If the policy is not a Modified Endowment Contract (MEC), then, except for certain changes in the policy during the first 15 policy years and especially during the first five policy years that cause cash distributions that may be taxable although they do not exceed investment in the contract (Basis), withdrawals are not taxable to the extent that they do not exceed Basis. Policy loans are free of federal income tax when taken except if the policy is or becomes a Modified Endowment Contract (MEC). If the policy is a MEC, a distribution (withdrawal or policy loan, including any increase in the policy loan balance because of unpaid loan interest) is taxable to the extent that policy value exceeds Basis. A 10% penalty tax may apply to distributions from a MEC if the policyholder is under age 59½. Basis is premium paid minus any long term care rider charges and minus nontaxable amounts previously recovered through policy distributions.

Hypothetical Example

Mike, 43 and Cindy, 40 have two children and are interested in life insurance protection for their family and building policy value for future educational expenses and supplemental retirement income.

Mike and Cindy have **$6,000** per year to achieve these goals.

Cindy decides to purchase an index UL insurance policy.

Annual planned premium: **$6,000**

Will receive **$218,555** of death benefit protection which will increase as policy value increases

This example is for illustrative purposes only and is based on a hypothetical annual interest of 7% throughout the life of the policy, current nonguaranteed caps, participation rates and policy charges. Even a slight change in the actual experience from the assumptions used could produce significantly different policy values. It is possible that coverage will expire when either no premiums are paid following the initial premium or subsequent premiums are insufficient to continue coverage. **While the insurer may change future cost of insurance charges based on changes to investment earnings, mortality expenses, and taxes, the no-lapse guarantee's minimum monthly premium will not change because of changes to future cost of insurance charges.**

Hypothetical Example

	Age 40-55	Age 56-59	Age 60-69	Age 70-89
	Pay Premiums **$6,000**/year X **15** years	Take Withdrawals **$10,000**/yr X **4** years	**Policy Continues**	Take Income **$20,744**/yr X **20** years

Cindy's Premiums

$6,000/year 15 years

Total Premiums $90,000

Net Death Benefit	**$218,555 → $347,507**	**→ $307,507**	**→ $307,507**	**→ $32,742**
Premiums	**$90,000**	—	—	—
Loans/Withdrawals	—	**$40,000**	—	**$414,880**

Total Distributions $454,880

It is possible that coverage will expire when either no premiums are paid following the initial premium or subsequent premiums are insufficient to continue coverage. While the insurer may change future cost of insurance charges based on changes to investment earnings, mortality expenses, and taxes, the no-lapse guarantee's minimum monthly premium will not change because of changes to future cost of insurance charges.

Assumes
14% cap rate
7% annual interest rate
100% participation rate
Current nonguaranteed policy charges

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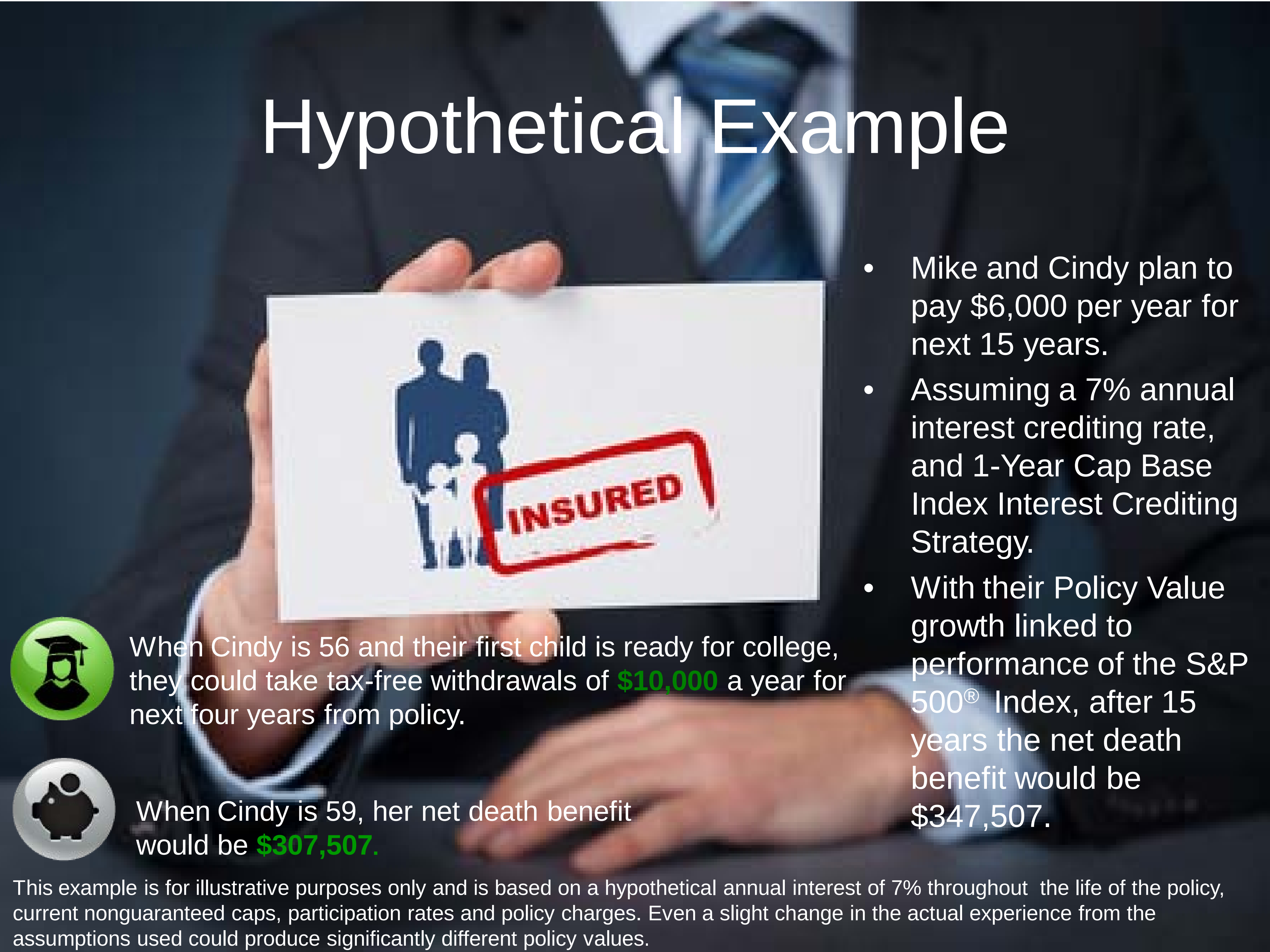
Hypothetical Example



- Mike and Cindy plan to pay $6,000 per year for next 15 years.
- Assuming a 7% annual interest crediting rate, and 1-Year Cap Base Index Interest Crediting Strategy.
- With their Policy Value growth linked to performance of the S&P 500® Index, after 15 years the net death benefit would be $347,507.

When Cindy is 56 and their first child is ready for college, they could take tax-free withdrawals of **$10,000** a year for next four years from policy.

When Cindy is 59, her net death benefit would be **$307,507.**

This example is for illustrative purposes only and is based on a hypothetical annual interest of 7% throughout the life of the policy, current nonguaranteed caps, participation rates and policy charges. Even a slight change in the actual experience from the assumptions used could produce significantly different policy values.

Hypothetical Example

- When Rebecca is 70, they could begin a withdrawal of money to supplement their retirement income.
- For the next 20 years, they could take $20,744 a year,
- tax-free and still have death benefit of $32,742 at age 90.

For $90,000 paid in premiums, John and Rebecca could have taken **$454,880** in tax-free supplemental income when they needed it, and at age 90, still have **$32,742** death benefit for their family.

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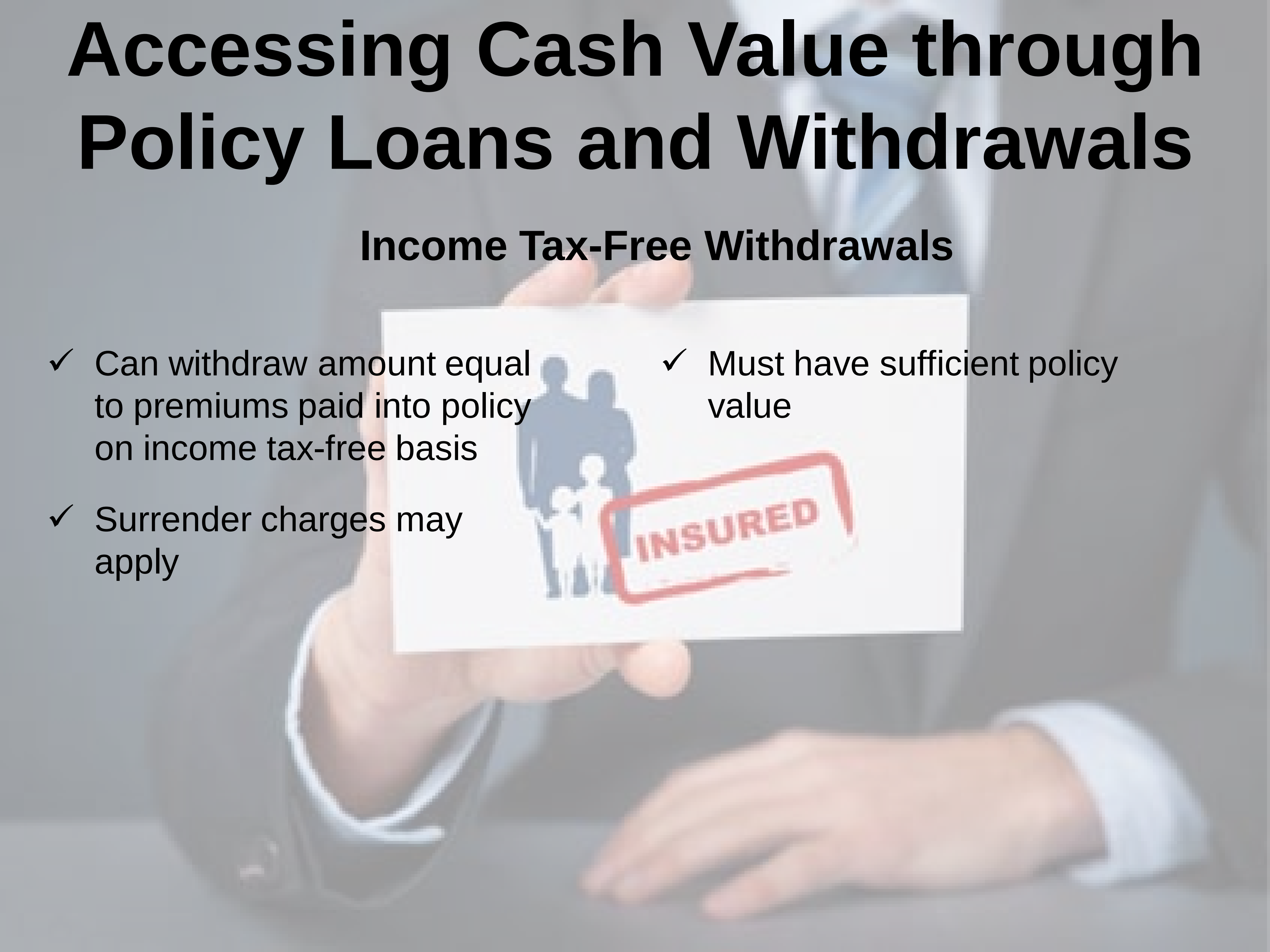
Accessing Cash Value through Policy Loans and Withdrawals

- Policy cash values are accessed through withdrawals and policy loans
- Interest is charged on loans
- Distributions will result in lower death benefit proceeds
- Outstanding loan balance at lapse or surrender may produce adverse tax consequences
- Unpaid loans and withdrawals reduce cash values and policy benefits

Accessing Cash Value through Policy Loans and Withdrawals

Income Tax-Free Withdrawals

- ✓ Can withdraw amount equal to premiums paid into policy on income tax-free basis
- ✓ Surrender charges may apply
- ✓ Must have sufficient policy value



A withdrawal may be free of federal income tax or "tax free" if the policy is not a Modified Endowment Contract (MEC), then, except for certain changes in the policy during the first 15 policy years and especially during the first five policy years that cause cash distributions that may be taxable although they do not exceed investment in the contract (Basis), withdrawals are not taxable to the extent that they do not exceed Basis. Policy loans are free of federal income tax when taken except if the policy is or becomes a Modified Endowment Contract (MEC). If the policy is a MEC, a distribution (withdrawal or policy loan, including any increase in the policy loan balance because of unpaid loan interest) is taxable to the extent that policy value exceeds Basis.

A 10% penalty tax may apply to distributions from a MEC if the policyholder is under age 59½. Basis is premium paid minus nontaxable amounts previously recovered through policy loans taken from a MEC and withdrawals. Assignment or pledge of a MEC as security for a loan would also be a taxable event. If the policy becomes a MEC, then any distribution (withdrawal or policy loan) taken in the policy year in which the policy becomes a MEC and in subsequent policy years is taxable the same as a distribution from a MEC. Any distribution taken within two years prior to the policy becoming a MEC may also be taxable the same as a MEC. Termination, other than by reason of the insured's death, of a life insurance policy with a policy loan balance may be deemed a distribution of the outstanding policy loan balance, resulting in possible adverse tax consequences for a policy that is not a MEC. Consult a tax advisor about possible tax consequences. We are not responsible for any adverse tax consequences.

Accessing Cash Value through Policy Loans and Withdrawals

- **Income Tax-Free Policy Loans**
  - A client can take policy loans up to the policy's loan value without income-tax consequences when the loan is taken unless the policy is a MEC.
  - An outstanding policy loan balance at lapse or surrender may produce adverse tax consequences; policy loans from Modified Endowment Contracts may be taxable
  - Terms for interest and repayment of loan are subject to provisions of policy
  - Clients may typically switch loan types one time per policy year

Policy loans from life insurance policies generally are not subject to income tax, provided the contract is not a Modified Endowment Contract, as defined by Section 7702A of the Internal Revenue Code. A policy loan or withdrawal from a life insurance policy that is a Modified Endowment Contract is taxable upon receipt to the extent cash value of the contract exceeds premium paid. Policy loans and withdrawals will reduce cash value and death benefit. Policy loans are subject to interest charges. Please tell your clients to consult with their attorney or tax advisor in regards to their specific situation.

Income Tax-free Distributions

Withdrawals

A client can withdraw an amount equal to the premiums paid into the policy on an income tax-free basis. Surrender charges may apply.

Policy Loans

- Fixed Loans
- Participating (collateral) Loans

Potential Uses for Policy Cash Value

Access to funds for variety of needs

Supplement Retirement

Fund Education

Help with Emergencies and Unexpected Events

Funds for Health Costs or Long-Term Care

Executive Benefits

Potential Uses for Index UL Insurance Cash Value

- ✓ Money for a comfortable retirement
- ✓ Paying for medical expenses
- ✓ Paying for long-term care services
- ✓ Paying monthly bills
- ✓ Leaving an inheritance for their beneficiaries
- ✓ Paying for a child’s schooling/college

QUESTIONS?

Disclosures

- Pursuant to IRS Circular 230, this is not intended to give tax or legal advice and cannot be used to avoid tax penalties and should not be considered a recommendation of any tax plan or arrangement. Please consult your tax advisor or attorney.

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