

Leveraging permanent life in retirement and protection planning

Here's why two plans may be better than one



(Photo: iStock)

According to LIMRA, 2016 marked the first study period when owners of individual life insurance policies were more likely to have term life products than permanent life products.

As a financial professional, you're likely well aware of the role and value proposition of permanent life insurance.

Yet, the most recent LIMRA Ownership Study report, published earlier this year, shared that 2016 marked the first study period when owners of individual life insurance policies were more likely to have term life products than permanent life products. Perhaps consumers simply don't know how permanent life insurance, and universal life products

in particular, can support their retirement planning and protection goals.

Many people may not be aware that a permanent life insurance policy may help them address a critical challenge their retirement portfolio could face: the sequencing (or order) of returns. They may also not be aware that in some situations, owning two types of permanent life insurance policies — one designed for accumulation and the other designed for protection — may be better than having only one. Let's review.

Addressing the sequencing of returns

According to a hit song from the late '60s, "What goes up must come down." Actually, what comes down often goes up again, from gasoline prices to the stock market. However, negative returns in a retirement portfolio during the first few years that it's in the distribution phase can heighten the potential for financial disaster.

The sequence of returns, along with fixed withdrawals, may reduce retirement capital and result in clients outliving their savings or needing to lower their standards of living to stretch their funds. An index universal life (IUL) insurance product with sophisticated

SCENARIO A:

Retirement Account = \$1,000,000 Retirement Age = 65			
Year	Retirement Acc't Withdrawal	% Gain/Loss in the S&P 500	End of Year Acc't Balance
1	\$50,000	12.78%	\$1,071,410
2	\$50,000	23.45%	\$1,260,931
3	\$50,000	-38.49%	\$744,843
4	\$50,000	3.53%	\$719,371
5	\$50,000	13.62%	\$760,540
6	\$50,000	3.00%	\$731,856
7	\$50,000	8.99%	\$743,155
8	\$50,000	26.38%	\$876,009
9	\$50,000	-23.37%	\$632,971
10	\$50,000	-13.04%	\$506,951

SCENARIO B:

REVERSED SEQUENCE OF RETURNS Retirement Account = \$1,000,000 Retirement Age = 65			
Year	Retirement Acc't Withdrawal	% Gain/Loss in the S&P 500	End of Year Acc't Balance
1	\$50,000	-13.04%	\$826,120
2	\$50,000	-23.37%	\$594,741
3	\$50,000	26.38%	\$688,443
4	\$50,000	8.99%	\$695,839
5	\$50,000	3.00%	\$665,215
6	\$50,000	13.62%	\$699,007
7	\$50,000	3.53%	\$671,917
8	\$50,000	-38.49%	\$382,541
9	\$50,000	23.45%	\$410,522
10	\$50,000	12.78%	\$406,597

REVERSE
THE
SEQUENCE
OF
RETURNS

Not an actual case, and is a hypothetical representation for illustrative purposes only. The annual values presented above are based on the values of the S&P 500 without dividends at the end of that year. (Source: AIG)

volatility control features may serve as a smart solution.

Consider the two scenarios below. Keep in mind that these are hypothetical examples, for illustrative purposes only. They are not actual cases and are intended solely to depict how the sequencing of returns in a retirement portfolio might work.

Scenario A

Let's assume you have a client, Mary, who has accumulated a retirement portfolio of \$1,000,000 at her retirement age of 65. She plans to invest this amount in an index fund that mirrors the S&P 500®. Mary's goal with this

asset is to withdraw \$50,000 per year, pre-tax, to help support her post-retirement lifestyle. If she retired and experienced the sequence of returns in Scenario A, her projected account value after 10 years would be \$506,951.

The situation

Clients can't control what the market will do after they retire. However, it's possible to offer clients modern IUL insurance that is designed to dynamically blend equity and fixed income indices to help stabilize returns and hedge against the risk of negative performance by the S&P 500.

SCENARIO A

Starting Balance	Annual Withdrawal	Ending Balance
\$1,000,000	\$50,000	\$506,951

SCENARIO B: REVERSED SEQUENCE OF RETURNS

Starting Balance	Annual Withdrawal	Ending Balance
\$1,000,000	\$50,000	\$406,597

If Mary purchased, at age 50, this type of IUL insurance solution, built for volatility control as well as robust accumulation, her goal would be to fund the policy and use the attributes of IUL — upside potential with no downside risk due to market performance — to amass additional cash value inside the contract.

She then could use the accumulated cash value in the IUL policy as a backup income source for the years following negative performance in her retirement account. Furthermore, her IUL policy could help her with diversification, both from an asset allocation standpoint as well as from a tax perspective (based on current tax law). Be sure to tell clients to consult a qualified tax advisor when considering their own situation.

Two plans vs. one

For a client who has different goals than Mary — for example, one who would like the potential for a supplemental income stream in retirement, but also is focused on long-term guarantees — leveraging an IUL solution together with a guaranteed universal life (GUL) insurance

product may be beneficial. Take a look at the following hypothetical example that demonstrates how index interest is calculated. As with the foregoing examples, this one is for illustrative purposes only. It doesn't reflect current interest crediting rates, cap rates or participation rates,

nor the return of any investment. It's also not a guarantee of future income.

Grant is a 45-year-old pediatrician who is married with three kids. He needs \$500,000 of additional life insurance coverage. His investments suffered in the recent recession, and he wants to ensure his family's protection. He appreciates the long-term guarantees of a GUL insurance policy.

He also likes the potential for supplemental retirement income from IUL insurance, but realizes that IUL offers fewer guarantees than GUL. Grant is willing to contribute \$9,700 per year for 20 years (to age 65) for additional coverage and potential retirement income.

The options

For \$9,700 per year, Grant's financial professional offers him two options:

No. 1: Emphasizes income potential

A \$500,000 IUL policy designed for robust accumulation: It takes advantage of the current markets for growth potential.

- It offers an illustrated \$26,000 per year of tax-free income at retirement lasting 20 years.



(Photo: iStock)

For clients who want the most out of their insurance program, but are concerned about guaranteeing their protection for their families, you may find that an IUL policy plus a GUL policy adds up to one optimal solution.

- It features current (non-guaranteed) coverage that can last Grant's entire life.
- It provides guaranteed coverage that ends at his retirement.

No. 2: Focuses on guarantees

A \$250,000 IUL policy designed for robust accumulation and a \$250,000 GUL policy:

- The IUL policy provides an illustrated \$19,000 of tax-free income at retirement, lasting 20 years.
- The GUL policy provides guaranteed insurance coverage until age 95.
- The combination of the two policies results in a 30-year income stream.
- This GUL policy provides a guaranteed income of \$19K/year (after tax) for 10 years starting at age 86. (This GUL policy includes a Lifestyle Income Solution® Rider that provides income right from the death benefit — guaranteed!)

Note that for purposes of easing the explanation, all numbers have been rounded. The numbers in both solutions were based on illustrations dated Oct. 28, 2016, for a 45-year-old male, preferred non-tobacco class with premiums paid until age 65. The IUL policies showed the increasing death benefit option until age 65, and all distributions were illustrated using tax-free loans.

Outcomes

When you compare these two options, the differences are clear. Option No. 1 is designed to maximize the potential for supplemental annual income. Option No. 2 offers stronger death benefit protection and guarantees. Which option do you think Grant chose?

Ultimately, for clients who want the most out of their insurance program, but are concerned about guaranteeing their protection for their families, you may find that an IUL policy plus a GUL policy adds up to one optimal solution. Furthermore, the market for sales of an IUL policy together with a GUL policy may be heating up.

Industry insights

Bob Kerzner, president and CEO of LIMRA, shared in the organization's First Quarter 2017 Industry Briefing that during the final three months of 2016, premiums rose for both IUL and GUL insurance. He said, "We haven't seen positive growth from *both* products at the same time for the last three years."

He added, "GUL had a surprisingly strong quarter; it was up 23 percent for the quarter,

5 percent for the year. ... We have not seen this kind of growth in GUL since the fourth quarter of 2012.”

Additionally, as a recent article on LifeHealthPro.com shared, IUL sales reached an all-time high in 2016, topping \$1.97 billion, according to the 78th edition of “Wink’s Sales & Market Report.” The report, which aggregates data from 48 manufacturers of IUL products, revealed a 5.9 percent rise in IUL sales year-over-year. IUL premium revenue rose 18 percent during the three months ending Dec. 31, 2016, compared to the prior quarter.

Delve deeper

As you consider IUL and GUL insurance offerings, check online for comprehensive carrier resources, such as webinars, videos, marketing materials, FAQ lists, and more. These types of tools and training opportunities have been developed to help you help clients

address their protection and retirement planning priorities.

The time you invest in reviewing such resources is time well spent. After all, the market may go up or down, but when you can provide the best solutions along with deep insights and education on how they are designed to work, your utility as a financial professional seems destined only to rise.

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