The 16 Skeptical Questions I Asked Before Buying An IUL…and You Should Too!

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By Brett Kitchen

Indexing Strategy

			Market Strategy		Floor and Cap (Index Cap 14.5%)		Index Vs Market
	S&P 500 History	Year	Rate	Balance	Rate	Balance	
				$100,000.00		$ 100,000	
1998	28%	1	28%	$ 128,000	14.5%	$ 114,500	$ (13,500.00)
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2002	-22%	5	-22%	$ 96,742	0.0%	$ 131,103	$ 34,360.73
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2004	11%	7	11%	$ 137,451	11.0%	$ 166,625	$ 29,174.02
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2006	16%	9	16%	$ 167,415	14.5%	$ 200,325	$ 32,909.62
2007	5%	10	5%	$ 175,786	5.0%	$ 210,341	$ 34,555.10
2008	-37%	11	-37%	$ 110,745	0.0%	$ 210,341	$ 99,595.81
2009	26%	12	26%	$ 139,539	14.5%	$ 240,840	$ 101,301.53
2010	15%	13	15%	$ 160,469	14.5%	$ 275,762	$ 115,292.56
2011	2%	14	2%	$ 163,679	2.0%	$ 281,277	$ 117,598.41
2012	16%	15	16%	$ 189,868	14.5%	$ 322,062	$ 132,194.99
2013	32%	16	32%	$ 250,625	14.5%	$ 368,762	$ 118,136.45
2014	13%	17	13%	$ 283,206	13.0%	$ 416,701	$ 133,494.19
				8.1%	8.9%		

https://ycharts.com/indicators/sandp_500_total_return_annual

No Account fees, service charges, commissions or taxes were included in this example

When I started looking into using an IUL as an asset to grow and protect my money, I had a ton of questions.

I did a lot of research and found a ton of conflicting information. There are all kinds of pitfalls to building an IUL correctly. If it's done wrong, you can really end up wasting your money. However, what gets me excited about is that when properly structured, properly sold, and properly used, I have found the IUL to be one of the best financial vehicles in the world.

I'm writing this to help people know what questions they should be asking. What do you need to know before buying an IUL? How do you find a person competent to build it for you?

Lets jump in…

1. **How Much Are The Fees?**
   We always want to minimize fees whatever we do. Unfortunately every financial vehicle has fees, whether it's rental real estate with the taxes, closing costs, and commissions; 401(k)s that are often loaded with as many as 17 different fees; or mutual funds that charge fees for buying and selling funds within the fund.

   What I found was fees in the IUL are driven by two factors. First is the company you use, and second is the structure of the policy.

   You want to find a company who is an IUL specialist. These companies buy options volume and know how to price the product properly. Also you want to avoid a 'stock' company, or publicly traded company if possible. These companies require more profit to keep investors happy; this usually means higher fees to the policyholders.

   When you structure these policies correctly you buy the lowest death benefit allowed, and the death benefit is what drives the fees.

   So the more insurance you buy, the more commission the agent earns, and the higher the insurance costs, and internal policy costs.

   When done properly, the fees usually end up costing around 1.5% per year…but here's the kicker, there are two important things to consider when it comes to fees in these policies.

   First, unlike 401ks, mutual fund fees, and taxes and real estate commissions, your family or estate actually gets your fees for life insurance refunded back to them in the form of a death benefit. What other financial tool can say that?

Second, if you get a policy with a index crediting bonus at year 10, this effectively covers all your insurance costs after that point throughout your life…(so you want a policy with that kind of cash value bonus).

Third, unlike money management fees, where the more you make, the more you pay, you aren't paying a percentage of your cash value in fees…***so you aren't penalized by having your nest egg grow.***

One of the downsides of these policies is that in the first several years the fees are high. It's kind of like a mortgage, where in the first few years you pay more interest. Over time, more and more of your money goes to principal.

The high cost of paying 90% of your first 5 years to interest on a mortgage doesn't stop people from buying homes, does it? They know it's a temporary cost for a long-term benefit. The same goes here.

The word 'fee' usually refers to paying something for nothing, which is basically what you are doing with your managed money investments. You pay a fee every month and no matter if your money goes up or down, you are still getting charged fees. What do you get in return? What product are you receiving?

With life insurance the costs are actually buying you a product. A tax free death benefit…and if you get the right policy you can use the death benefit while you are still alive in the form of critical or chronic illness and when you die you get your death benefit paid to your heirs tax free.

So you are actually getting something for the fees you pay.

2. <u>**Huge Commissions**</u>
   What I'm going to share with you here is going to make a lot of people in the insurance industry mad. They don't want me sharing this with consumers. **But I'm exposing the 'commission grabbers' for what they are and you need to know this.**

   Here's how commissions work: the insurance company pays a one time commission when a policy goes in-force. The big complaint you will see online is that agents make big commissions. For the most part that's true, if you buy a policy from your average agent and they don't build this correctly, then the commissions are big, the fees are big, and the cash value is small.

We recommend you use a Death Benefit Optimizer (DBO) strategy that can reduce the commission by as much as 70%.

As you can understand, many agents don't like using the Death Benefit Optimizer because they are in it for the commission. However, you want this to be a great financial tool and the more of your money going to commission the less there is in the policy to grow.

Let me give you an example of a 44-year-old woman putting in $2400 per year. One option for the policy WITHOUT the death benefit optimizer is to start with a $496,000 death benefit. This would pay the agent $6605.19 in commission.

Year	Age	Outlay	Value
1	44	2,400	0
2	45	2,400	0
3	46	2,400	0
4	47	2,400	0
5	48	2,400	0
6	49	2,400	0
7	50	2,400	0
8	51	2,400	0
9	52	2,400	0
10	53	2,400	1,108

Now I don't have a problem with an agent, or anyone, getting paid for the work they do. (And keep in mind the agent is getting paid one time. They usually don't get paid a commission ever again and they are going to service your policy for the rest of their lives, so they need to get paid. However, there is a much better way.)

In the following example, the exact same person is using a policy with the Death Benefit Optimizer The death benefit amount starts at $208,000 (less than half) and the commission is down to $2883...less than half.

Year	Age	Outlay	Value
1	44	2,400	0
2	45	2,400	0
3	46	2,400	0
4	47	2,400	365
5	48	2,400	2,055
6	49	2,400	3,837
7	50	2,400	6,883
8	51	2,400	10,050
9	52	2,400	13,319
10	53	2,400	16,696

You can see the difference by year ten. Using the DBO the client has close to $17,000 vs. $1108 in their cash value account! It's no wonder why people have such terrible things to say about these policies! Unscrupulous and unethical agents are out there padding their commissions at your expense.

Using the wrong agent to build this for you can be a terrible mistake. **Can you see why agents hate us sharing this stuff with you?**

If you do it right, you can reduce commissions and fees by as much as 50% to 70%, and the rest of your money goes to cash value.

3. **What happens if the market goes down multiple years in a row?**
   If the market goes down 10 years in a row there are risks to the policy. Your cash values will not go down because of the market, but they can go down because of insurance costs in the policy.

   This is another reason why it is CRITICAL to get a policy with the lowest insurance and internal costs possible.

   The likelihood of that happening is low; however, it could happen. What would happen to your 401k and IRA if the market goes down 10 years in a row?

   If you truly believe that the future of the country is in complete ruin, then you probably want to invest in food storage, guns and precious metals.

   What if the market goes down 3 years in row? History is a great teacher, so I went out and researched what the S&P 500 had actually done for the past 18 years, since 1998. In 2000, 2001, and 2002 the S&P 500 had 3 down years in a row, and then another drop of nearly 40% in 2008. In the example below, the index strategy with cap and floor still outperformed the S&P 500, 8.9% compared to 8%...but more importantly, notice how much extra money is in the cash value account.

   We can't spend percentages. In fact percentages are misleading. If you lost 50% one year, and gained 100% the next year you would 'average' 25% return and still have no more cash in your account.

   We can only spend cash.

So, in this scenario, you'd have $133,000 more in the index strategy than the S&P 500 strategy...that's what really sold me on the value of not losing money during market crashes.

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4. **Are these projections realistic?**
   It's easy to put numbers on paper and project how much money you might have 20 or 30 years into the future.

   But I wanted to know are these 'illustrations' or projections actually accurate?

   So to find out what percentage growth was realistic over a long period of time, I did an analysis using a 13% cap. Using the past 20 years, the analysis shows that historically we have a 92% probability of reaching 7% growth, on average, in the IUL. If our money was simply left in the S&P 500 index fund, we would only have a 69% probability of reaching 7% on average during those 20 years.

I was pretty comfortable with a 92% chance. That's pretty good odds. With a higher cap the odds get even better.

The critics I ran into (usually agents pushing whole life or people selling you something else) said projections are unrealistic, and often they are. Some agents will put numbers in front of clients that look really exciting but it's a pipe dream. For example I know of agents illustrating 8.5% or 9% and my analysis shows that the likelihood of getting that is less than 28%. This is crazy in my opinion.

When you see people say it's unrealistic, now you know why.

5. **What happens if I lose my job?**
   Buying one of these policies is a bit of a long-term commitment. And the future is never certain, so another one of my concerns was, "What happens if I lose my job, or can't pay the premiums?"

   What I found is that a benefit of the IUL is that these premium payments in IUL policies are flexible. You aren't locked in to one payment.

   That means if you need to reduce your payment down to the minimum to just keep the policy in force, you can do that. Usually that is about 20% of your normal monthly premium. Then in subsequent years, you can catch up by putting more money back into the policy if you want to.

   This is what people usually do if for some reason money gets tight.

   Another option is using cash value to pay premiums. This is obviously only available if you have enough cash value in your policy to work with. If you do, then you can actually stop paying premiums entirely and use the cash value to pay the premiums for a period of time until you get back on your feet.

   This is not recommended, but it is possible. At retirement the idea is that your cash value could be putting off enough growth to sustain the policy for as long as you live.

6. **Buying virtually**
   At first I was a little nervous buying from someone I'd never met before.

What I realized was that whether I buy from someone over the phone, or face-to-face, I'm still doing business with an insurance company that has been in business for over 100 years.

I have bought car insurance over the phone and Internet, and also done other large financial transactions like a home mortgage, and refinancing, and this is really not much different.

The insurance company is always there; their physical buildings, offices and employees are right there when you need them.

Premiums get paid to them, they are the ones backing your policy, so whether you meet your agent or not, they will still be the ones guaranteeing your policy…and you'll probably never meet them face to face either.

Some people still don't feel comfortable doing business unless they meet face to face. In that case, we welcome people to our office to meet with us. We have clients do that from time to time.

7. **What are the guarantees?**
   I wanted to know what the worst-case scenario was for these policies. What is actually guaranteed?

   We all know very little in life is guaranteed, but in this case there are several guarantees built into the policy. First is a guarantee that your cash values will not go down due to a market loss.

   Second, you can use the fixed account that will guarantee your growth at a specific percentage every year, regardless of what the index does.

   The third guarantee is, in my opinion, almost worthless…it's a small floor, usually about 2%. This guarantee states if your policy hasn't averaged 2% for the life of the policy at the time you die, or surrender the policy, the company will credit your cash value so you would have at least averaged 2% compounded.

   The reason why this is nearly worthless in my opinion is that by the time you die or the policy surrenders, it's too late.

It's highly likely that the policy will far outperform this guarantee anyway, so it's not really too much to get excited about.

I wouldn't buy this product based on that guarantee…and if an agent is really selling you on this, you might want to reconsider who you are doing business with…because it's more than likely a real useful benefit.

There is a way to get guaranteed growth each year regardless of what the market does. You can put some of your money, 15% of your premium, into the guaranteed fixed account. If you do this, you will know that even in years when the market goes down, your cash value will be growing. The negative to that is that in the years the market goes higher, the money in that account will still only get the fixed guaranteed growth.

Another guarantee to look for is a guaranteed participating loan so your interest rate can't go over a certain amount.

8. **Why haven't I heard about this before?**
   This is a question I asked initially…and almost everyone who is looking into an IUL asks as well…

   "Why haven't I heard of this before?"

   Always follow the money, right?

   The answer I found was in looking at the financial advertising we see on TV, radio, magazines, online, etc.

   It's companies like Prudential, Schwab, big banks, Wall Street brokerages, mutual funds, Fidelity, Ameritrade, E-trade…these companies are all part of the Wall Street machine…

   What incentive do they and their brokers have to teach you about these policies?

   We just follow the money…

   ZERO. A dollar put into an insurance policy is a dollar out of their pocket. Several of the biggest players actual own the media companies as well…doesn't seem like a conflict of interest there, does it?

Another reason you may not have heard about it is because of the extremely tight restrictions regulators have put on the advertising of these products. You can't use words like retirement plan, safe, secure, tax free, etc.

And lastly, the other reason so few people know about these policies…they are new! This is a new and improved product that was only innovated in the past 10-15 years. But it's backed by companies using strategies that are 100 years old. Now over 1.5 billion dollars per year are going into these assets and it's growing by double digits each year, because people are becoming more and more aware of it.

9. <u>**Why is there negative stuff online about this?**</u>
   I found quite a bit of negative commentary online about life insurance. It's not a surprise, you can find negative reviews on just about anything you are looking for whether it's pencils or pickup trucks.

   I found there are several reasons for this negative stuff online:

   First: A lot of the negative commentary comes from — somewhat surprisingly –insurance agents.

   These agents are typically trying to sell Whole Life insurance and make commissions. They have a long list of reasons why the IUL is not good…what they don't tell you is that all of those concerns are overcome by structuring the policy properly. (The same arguments can be made about their own products…but of course they don't tell you that.)

   These whole life or term life insurance agents lose sales to other competitors and so they are the source of much of the negativity out there.

   Second, many agents promote policies promising **unrealistic interest credits**… they show illustrations of between 8% to 10% for 40 years in a row…We already covered this.

   It looks very exciting on paper, but reality may be a totally different story. When you structure these policies correctly and understand the benefits, these policies don't need hype or unrealistic promises. That's why you want to look at illustrations with interest credits between 6-7%…this way you can plan for growth that you are likely to get over the long haul… And remember, that could be more like 9-10% after tax growth, depending on your tax bracket…

Third, often you'll find people criticizing the 'huge commissions' that are made on the sale of these policies. The truth is the commission in the first year can be largely dependent on how big the policy is: however, keep in mind the life insurance agent will be servicing his or her client for years down the road with very little to no compensation at all.

The good news is, you aren't paying a percentage of your portfolio to a money manager year after year after year, even when the market goes down, and when the policy is structured properly you can reduce these commissions by 50-70%.

Fourth, Dave Ramsey and Suze Orman hate permanent insurance. They actually are correct when they say that these policies are too expensive and give low rates of return… ***if you aren't careful and if you buy a run of the mill permanent insurance policy, which is not a properly structured IUL.***

They are also right if you buy from a company that doesn't offer the right features, and if you use an insurance agent who builds the policy incorrectly.

Those factors can result in losing both your tax benefits and the growth of your money.

I've worked with thousands of insurance agents, and in my experience the vast majority either do not know how to do this correctly, or they are unwilling to do it. Plus, most agents don't have access to the few companies that offer the features we need for maximum wealth accumulation…

The insurance agent down the street, or your current insurance agent, is probably not qualified to build you an IUL the way you need to, in order to maximize your cash value – no matter how nice they might be.

10. **Is it too good to be true? How Does It Work? How do I get 7-8% average if my money isn't in the market?**
    This is always interesting question because at first it may seem too good to be true. When you understand the mechanism behind how the policy works it becomes clear that it's not some mysterious voodoo.The insurance company never invests your money directly in the stock market. They buy bonds to form the base of their growth, about 5%. They make up the spread between the 5% and the cap, say it's 14.5%, with options in the S&P 500.If the S&P 500 goes up, they exercise the options and credit your policy. If the index doesn't go up, the option expires.

So just for example sake, lets say you pay $100 in premium, and they take $5 to buy options. This comes out of your premium in the form of a fee. If the S&P 500 goes up 16% that year, they exercise the option and credit your cash value the 14.5%.

The costs for the options are already built into the policy so it doesn't cost you 'extra' when this happens.

Contrary to what most people think, in most cases, these companies are not making the spread between the cap and what the market does. They are buying the option to fulfill their obligation to credit your policy up to the cap.

11. **What are the risks of these policies?**

As I researched this there were 3 major risks I could see with these policies.**The first is the cap.**What happens if caps go down? How do you mitigate this risk? The answer is two fold. First, you want a company who doesn't have a history of lowering caps on existing policy holders and leaving caps high for first time buyers.

This is called 'buying business'. They leave caps high for new clients and then lower them on existing clients after you are in the door. Some companies play games like this and others do not.

You only want to use companies who rarely, if ever, have lowered caps. And, if they do lower caps, they lower them for everyone equally. This eliminates this behavior of 'buying business,' and penalizing existing policy holders.

The other part of the answer is caps are interest rate driven. The lower the interest rate, the lower caps will be. This is because the underlying investment insurance companies use is bonds, and the less they make on their bonds, the less they can offer to policyholders.

They make up the spread between the bond and the cap using options as we've already discussed. Since we've been in a near zero interest rate environment for the past 7 years, the companies who specialize in IUL have still kept caps in the 13-15% range.

As interest rates rise, the caps will rise as well, and this means your policy can perform even better. It also means that it's unlikely that caps will ever go much lower than they are today.

The second risk is the risk of rising interest rates. When you are taking money out in retirement using a participating loan, this typically is offered by insurance companies using a variable loan.

Once you have all these loans out, what happens if interest rates go up? Well, you need to make sure you get a policy with several protections.

First you need to get a policy where you can switch between variable and fixed loans throughout the life of your policy, so if rates go too high you can get some relief.

However, the biggest protection here is getting a policy that has a limit or guarantee on the interest rate so it can never go higher than a certain amount. That effectively wipes out any concern over interest rates going too high.

The third risk in these policies is insurance costs. IUL's are written with annually renewable term, so each year the insurance costs can and usually do go up. There are two ways to combat this:

First you want to start with a company with a low fee structure to begin with. We discussed using a company that is not a publicly traded 'stock' company with higher profit margin targets. This doesn't mean that all mutual or employee owned companies have good fee structures, but it's a place to start.

Second, and the most important, is by structuring the policy in such a way that you are minimizing the death benefit, and maximizing the funding for the cash value side of the policy, and using what I call the Death Benefit Optimizer.

This way you are only every paying the bare minimum for insurance costs, and keeping those costs down as low as possible.

12. **Who is my Agent and how much experience do they have?**
    What I have found is there are two important characteristics for getting a good agent.First, you want someone who is exclusively working with cash value maximization IUL policies. They shouldn't just be someone who says, "Oh, I can do that for you." If they didn't bring you the idea, chances are, they have very little training on it (they've heard you can make big commissions by selling it, and they want to make a sale) and they may not have access to the right companies.Second, the training they get is

paramount. Many agents have been in the business for 20, 30, even 40 years, but they have no formal training on how to build these policies correctly.

After figuring out how to do this correctly, and getting contracts with the best insurance companies, my business partner, Ethan Kap, and I have personally trained several professionals that work with us on how to do it correctly. This way we know our clients are getting the best policy possible.

Lastly, you need to be confident in the financials of the insurance company you are buying from, because they are who is backing your policy. If you aren't comfortable with the insurance carrier, you really shouldn't move forward.

13. **What if tax laws change?**
    We all know tax laws can and do change, especially when politicians want more money to spend.As I researched this I found the IRS has changed tax laws twice on these policies, once in 1984, and once in 1988. These two changes were made to stop people from abusing the life insurance policy as a tax shelter.
    There have been no tax law changes to these policies in almost 30 years.
    The life insurance industry has a very powerful lobby, so changes don't happen regularly to these policies.The important thing is, in both of these instances, existing policies were 'grandfathered in' so they got to keep their extremely favorable policies with no changes.

    It's just another reason to get a policy sooner than later.

14. **What if the insurance company goes bankrupt?**
    This is big. The insurance company you use has to be financially sound.Fortunately, that is where the insurance industry shines. Rarely, in the 300-year-old history of life insurance, has anyone ever lost money because of a company going bankrupt.There are two protections on these policies. First is the State Guarantee Association. This basically insures your death benefit and cash values in your policy up to a limit.

    The second protection is the industry itself. Whenever a life insurance company is having financial problems, often other insurance companies will step in and purchase it so they keep the reputation of the life insurance strong.

    Whenever an insurance company is purchased, the policies are all kept exactly as they are, and the contract remains in force along with all your cash values as well.

The best protection is to buy from an insurance company that specializes in IUL and has great financial strength and a long 100+ year track record.

15. **Why use the S&P 500 index?**
    The S&P index represents some of the strongest and best companies in America.The returns are fairly predictable and it has performed well over the long term.Most companies offer multiple options for the index you choose for your policy; however, the S&P 500 is the most common because it gives consistently good returns.
16. **What's better: IUL or whole life?**
    When I researched this I found it interesting how many agents will go online and disparage each other over this issue.People who promote one over the other are missing the entire point and are more than likely only looking to make a sale. They don't really care about what's best for you and me, the clients.The answer is simple.

    The answer is found by determining your goals and your risk tolerance.

    What do you want to use your policy for, and what guarantees do you want?

    The Whole Life product is best for Financing Yourself To Wealth.

    You can pay in large lump sums of money, that can be borrowed against immediately for other investments, and can provide some cash out in retirement, but nowhere near what the IUL can provide.

    Whole life also has the most guarantees. You get a guaranteed growth rate, usually around 4.5% and guaranteed insurance costs (which can be significantly higher than IUL).

    Typically you want a dividend paying Whole Life Policy that can boost your returns even higher...however, be warned! Dividends are NEVER guaranteed, even though whole life agents will often lead you to believe they are.

    The IUL is best for long-term after-tax retirement cash flow.

    It can be paid with monthly contributions or large lump sums if you are working with someone who knows what they are doing.

It can provide cash value for Financing Yourself to Wealth after a couple of years, but typically this isn't available for the first couple years.

Insurance costs are not guaranteed, neither is the growth in the policy. However the cash value growth traditionally has been significantly higher than a whole life policy.

I like them both. I personally own both types of policies. I own more IUL policies than Whole Life because my goal is to build a source of tax free retirement cash flow that will last me the rest of my life. And the IUL, when constructed properly, is the best tool I've found to do that.