Selling Indexed Life In A Down Economy

BY SHERYL MOORE

RIGHT NOW, A LOT of people are "freaking out" in the financial services sector.

Why? One of the largest insurance companies in the world has accepted a loan from the U.S. government as part of a bailout plan. Two other European insurance companies have accepted capital infusions from the Dutch government. Banks are folding right and left. Acquisitions are occurring on the turn of a dime. And consumers are worried; in just the past 24 hours, nearly 10 variable product investors called our offices, concerned about losing their money. Given that we only provide services to the insurance industry, those calls from consumers are sobering.

Is this a good time to look into offering indexed insurance products?

Absolutely. In fact, now is the best time to look into indexed products. In fact, distributors and manufacturers that don't have indexed life in their toolbox are missing a great opportunity.

Here is why.

❶ **During a time when so many are** concerned about losing money, an indexed life product can offer the value of zero. That's right, zero.

Remember when everyone watched their account balances dive at the turn of this century? Well, if indexed life had been the accumulation vehicle rather than investments, the contracts would have been protected by zero interest credited for each year the index declined.

Example: take a hypothetical indexed life policy, "A," issued on October 24, 2007. At policy issue, the S&P 500 index was about 1,516. Today, a year later, the S&P 500 is at about 877 (as this was being written), meaning the index declined by over 42% for the one-year period. However, policy "A" would receive zero interest crediting for the current one-year term.

Most consumers could definitely use zero any day of the week, as opposed to a negative adjustment on their account value.

Clients who need life insurance, but who are not willing to risk principal due to market fluctuations, are the perfect candidates for indexed life

❷ **The minimum guarantee** has strong value during tumultuous markets. Consider: The average minimum guarantee on all indexed life policies today is 1.80%, although minimums range from 0% to 3%. These minimums may not be credited annually, but they are retroactively compounded in the event the minimum has to be paid.

Example: Using policy "A" from the above example, let's assume the contract offers a 2% guaranteed annual return minimum rate. This means that the policy owner would have received at least 2% interest crediting over the past one-year period—even though the index fell to nearly half its previous level.

If a consumer isn't happy enough with zero, then that 2% should make the person feel warm and fuzzy inside. And, the client receives not only valuable life insurance protection, but also a guarantee on the premiums paid into the contract.

❸ **Probably the most attractive reason** to consider indexed life in a down market is the potential indexed interest the policy could credit the following year.

All annual reset index products compare the value of the stated index on the day of policy issue and again a year later. Then, the policies credit interest based on the movement of the index, subject to a limit (such as a cap). Therefore, annual point-to-point crediting methods can seem especially appealing during times when the index dives. That's because, when comparing today's index value to what is possible a year later, the potential for indexed gains is greater than during more stable economic periods.

Example: Assume a client purchased policy "A" on Oct. 24, 2008, and that the S&P 500 has returned to a level of 1500 on Oct. 24, 2009. Here, the index would have experienced an increase of over 71% during that one-year period. Policy "A" would receive the maximum indexed interest available, subject to a cap, participation rate, or asset fee.

That's an awesome value proposition for life insurance consumers.

In sum, clients who need life insurance, but who are not willing to risk principal due to market fluctuations, are the perfect candidates for indexed life. So, if looking for a product offering potentially higher interest than traditional universal life, they should check out an indexed product. There is no better time for advisors to have this arrow in their quiver than in a down market. NU

DOWN MARKET CHECKPOINTS

Why Indexed Life Now

- **During a time** when so many are concerned about losing money, an indexed life product can offer the value of zero.
- **The minimum guarantee** has strong value during tumultuous markets.
- **Indexed life policies** purchased in a down market have potential for gain in credited interest the following year.

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