IUL BASICS – BLOG CONTENT

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Why index universal life insurance might be right for you

Originally published by: AIG Consumer Life Insurance *[page 1 of 4]*

Do you want your life insurance policy to work for you *and* offer death benefit protection for your loved ones? Index universal life (IUL) insurance is designed not only to provide a death benefit, but also to build cash value and provide an opportunity for tax-free income (based on current tax law) during your retirement. Be sure to consult a qualified tax advisor when considering your own circumstances, but also be sure to look into IUL insurance with your financial professional.

An IUL policy offers potential interest crediting (to one or more types of accounts that you choose) based in part on upward movement of a stock market index or multiple indices. An IUL policy may offer more potential for interest than a traditional life insurance policy, while safeguarding against market downturns.

That’s because some IUL products offer a minimum guaranteed interest rate through the various account options within the insurance policy. This feature is designed to provide more cash value that you can use for any reason, including supplemental income in retirement, and the flexibility to pay lower premiums if needed.

IUL Offers Choices

It’s important to understand that IUL is not an investment; it is a life insurance product that provides growth potential through index interest crediting. You can’t invest directly in an index. However, within the guidelines of an IUL policy, you often have multiple choices, such as:

- the amount of insurance you want,
- the amount of premium(s) to pay (you can increase or decrease them over time),

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- the timing or frequency of planned premiums (monthly, quarterly, annually), and
- how to allocate your premiums among the various interest-crediting accounts.

What’s more, you can choose among different types of IUL insurance solutions. For example, one type is designed for people who want to maximize the potential for cash value growth inside the policy. Another type focuses on providing strong guarantees and also offers the potential for cash value growth based on upward market movement.

IUL in a Nutshell

Here’s how IUL insurance is designed to work:

- You pay premiums – and choose a percentage of them to go to one or more available accounts (from which policy charges are deducted).
- The policy can accumulate cash value – based on the accounts you’ve chosen.
- You (or your beneficiaries after your death) access the money – by leveraging one or more flexible options.

About Interest Crediting

An IUL policy is not a savings account, but if you understand how a savings account at your bank typically works, you may understand more easily how an IUL account works. The bank credits the savings account with interest. The interest rate earned in the account can go up and down, but the balance won’t get smaller from the interest crediting. Bank savings accounts usually do not charge a fee. The bank makes money by investing in money market instruments and pays a fraction of its earnings as interest to the savings account.

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Index interest accounts have a similar interest-crediting strategy, except that crediting is done by a life insurance company, rather than a bank. Instead of tying the account’s interest to money market instruments, the insurer ties the interest account for the IUL policy to an index, such as the S&P 500® Index, a statistical measure of a securities market. Note that the timing of the payment of interest depends on the terms of the policy. Also, if any money is withdrawn or the policy is surrendered, interest may not be credited for that time period.

Riding the Wave
Generally speaking, when the index goes up, the interest rate credited to your IUL policy’s cash value account(s) can go up. If the index goes down, there’s simply no interest credited. Therefore, you either receive interest payments or, in the worst case, you do not.

Like a traditional savings account, the index interest account is not invested directly in the stock market and cannot lose money from the interest crediting strategy. This characteristic sometimes is referred to as “upside potential with downside protection.” It is possible, however, for the policy to lose cash value when interest credited is zero, because charges associated with the policy still apply.

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Again, it's key to understand that an IUL policy and the index interest accounts are not equivalent to a savings account. Savings accounts held at a bank are backed by the Federal Deposit Insurance Corporation and those held at a credit union are backed by the National Credit Union Administration. IUL policies and guarantees associated with them are backed by the claims-paying ability of the issuing insurance company. Therefore, you may want to review IUL policies only from an insurer that has a broad, diverse product portfolio and more than a hundred years of claims-paying history.

Explore the Options
To sum it all up, an IUL insurance product may be a terrific choice if you want a solution that offers not only potential cash value accumulation, but also a financial legacy for your loved ones. IUL products designed for robust accumulation may be best if you're seeking:

- protection security for your beneficiaries,
- growth – the accumulation of tax-deferred funds,
- stability – protection against losses due to market volatility, and
- access – the potential to leverage multiple options for income.

For more information about IUL insurance solutions, *(insert call to action)*.

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