11 Indexed Life Deal Breakers

Here are 11 Features of Indexed Life policies that if they are missing from an IUL it is an egregious omission and an automatic DEAL BREAKER regardless of how good the rest of the policy may be. If the primary purpose for having an IUL is Retirement Savings and Income the Loan options are the most important after Caps and Expenses. As such, how the money can be taken out of the policy eventually is critical to having it be successful as well as “protecting” the integrity of the policy in a worst case scenario (preventing a Lapse because of loans):

- **Deal Breaker #1: No OverLoan Rider**
  This guarantees the policy will at least stay in force and not create a tax bill if it were to lapse.
  These companies do NOT include it: Americo, Lafayette, NWL, Sagicor, and Union Central.

- **Deal Breaker #2: Fixed (or Variable) Loan Only**
  These companies do NOT have a VLR option. Monies borrowed under the Fixed Loan option do NOT participate in any Index gains. As the policy accumulates loan’s and the balance grows (loan and interest), a very small part of the CV may actually be participating in earning any gains. This is why many fixed rate only IUL’s go broke while those with a VLR option continue “forever” (with the same loan amount).
  Companies: AIG, Americo, Ameritas, AXA, Hartford, ING, Lafayette, Lincoln Benefit, Prudential, TransAmerica, Union Central and WRL.
  Other: NWL [VLR only: no avoiding interest cost during year(s) with no index gains].

- **Deal Breaker #3: Must Payoff Loan with Other Monies 1st to Switch Loan Type**
  Companies: Anico, Columbus, F&G, John Hancock, Nationwide and Phoenix.

- **Deal Breaker #4: Cannot Switch Loan Type**
  Companies: Washington National [must choose which loan type for life on application].

- **Deal Breaker #5: Limited Switch Allowed**
  Company: Aviva [3x over lifetime].

**These are the Loan Options you WANT:**

- **NON-Deal Breaker Loan Options: VLR and Fixed and can Switch Annually**
  Companies: LSW, Midland (VLR after yr 5), Minnesota, National, North American (VLR after yr 5), Pacific (VLR after yr 4), Sagicor (Fixed & Participating - 6% Cap).

- **With Loan Cap**
  After running a lot of loan projections with and without a VLR cap I think the best way is with a cap. These loan rates or loan caps are locked in for life:
  - 5.0%: Lincoln National [6% yrs 1-10]; [F&G: Deal Breaker #3]
  - 5.3%: Allianz
  - 6.0%: Midland, North American, Penn and Sagicor.
  After comparing many projections with and without loan caps (so presumably higher index caps), it looks like the best way is with a loan cap. It’s close, but not having a VLR cap (or lifetime rate) is a borderline Deal Breaker (these companies may have other Deal Breakers or poor features such as low index caps).


• **Deal Breaker #6: Poor Ratings**

This is an aspect where the agent must not go with a poorly rated company because if you do it is the first thing you will have to explain and justify in a lawsuit. The simplest way to evaluate this is a Comdex rating:

Poor (1-12): Americo (65), F&G (55), Washington National (was Conseco - 48), Equitrust (42), Phoenix (41), Sagicor (no Comdex).

• **Deal Breaker #7: Poor Accelerated Death Benefit**

These are especially mediocre and I think could leave you unable to justify why you recommended the Co:

Companies: Equitrust (85% AV).
Lafayette (after 90 continuous days Nursing Home).
Lincoln Benefit (after 1 yr. in a Nursing Home).
Lincoln National (6 months life expectancy).
Nationwide (50% of original insurance amount to $250,000).

OTHER: These are not as critical as the prior issues but still a mediocre practice compared to most other companies:

• **Deal Breaker #8: Poor Sweep Policy**

Sweep Quarterly: Anico, Lincoln National and NWL.
Sweep Annually: Americo

• **Deal Breaker #9: Fixed Requirement**

12 months Expenses: Aviva, ANICO, Lafayette, LSW, Nationwide and National.

This aspect is not critical, but there are better IUL’s available without this restriction so there is no reason to saddle a plan with it (and just so you are aware they have this requirement).

[As far as I’m aware Midland and N. American are the only companies that credit gains on expenses that were deducted monthly throughout policy year (and all payment periods are deducted monthly)].

**Special Mention:** Allianz has a “Fixed Requirement” that all premium that is more than paid into the policy the prior policy year MUST go into a fixed rate bucket for the next policy year. This may never come into play, or as the policy ages the premium becomes a smaller % of the overall policy value so has a much less proportional effect. What may be more “annoying” is the client signs a disclosure with the application that they are aware the policy works this way yet the way it is written not even an attorney would realize this is what it says. This is a border line Deal Breaker to be aware of - I would write your own disclosure in “English” and have the client sign it.

• **Deal Breaker #10: NO Policy Expense Report**

This may seem trivial, but a company should be willing and able to provide this report, otherwise you are not able to evaluate and compare an important part of an IUL. Not providing the report to me is indicative of a bigger and overall problem of trying to “hide” a poor IUL [I have a computer program that can tell me what they are for my comparison analysis]:

**Deal Breaker #11: Bucket Periods More than 1 Year**

Psychologically I think you will find clients do not want to go long periods with no actual gains credited to the policy. It goes against human nature and one of the primary reasons for having an IUL. Some companies have 2, 3 and 5 year buckets. It might be acceptable to have a small % of the policy in one of these buckets. But if the market crashes the day before your client’s 5 year crediting period ends and so have “0” gains, waiting another 5 years to hopefully recover and lock those in - while the co. is deducting expenses every year too - will cause you to have a very anxious and unhappy client. For your own and clients “peace of mind” I would never go with a bucket period longer than 1 year.

Companies (they also have 1 yr buckets): AIG (5 years), Aviva (2 years), ING (5 years), Pacific (5 years). Sagicor (3 years).

**DEAL BREAKERS By Company**

AIG #2, #11
Americo #1, #2, #6, #8, #10
Ameritas #2
ANICO #3, #8, #9
Aviva #5, #9, #11
AXA #2, #10
Columbus #3
Equitrust #6, #7, #10
F&G #3, #6, #10
Hartford #2
John Hancock #3, #10
ING #2, #11
Lafayette #1, #2, #7, #9, #10
Lincoln B. #2, #7, #10
Lincoln N. #7, #8
LSW #9
National #9
Nationwide #3, #7, #10
NWL #1, #8, #10
Pacific #11
Phoenix #3, #6, #10
Prudential #2
Sagicor #1, #6, #10, #11
TransAmerica #2
Union Central #1, #2
Washington N. #4, #6, #10
WRL #2

Not having any Deal Breakers does not mean it is a good IUL, nor does having all the recommended Loan features. But following these guidelines for top index performance and maximum loans (income), as well as overall policy features and benefits, Midland and N. American are the "best“ IUL’s to consider.