

The 4.5% Illustration Rate Test



The protection-focused IUL product marketplace is booming! According to LifeTrends, the number of products in the field has grown to 27; doubling from just 5 years ago. If you are thinking about a protection-focused IUL for your GUL client, the **4.5% Illustration Rate Test** can help you identify an IUL policy that may work best for your conservative GUL client.

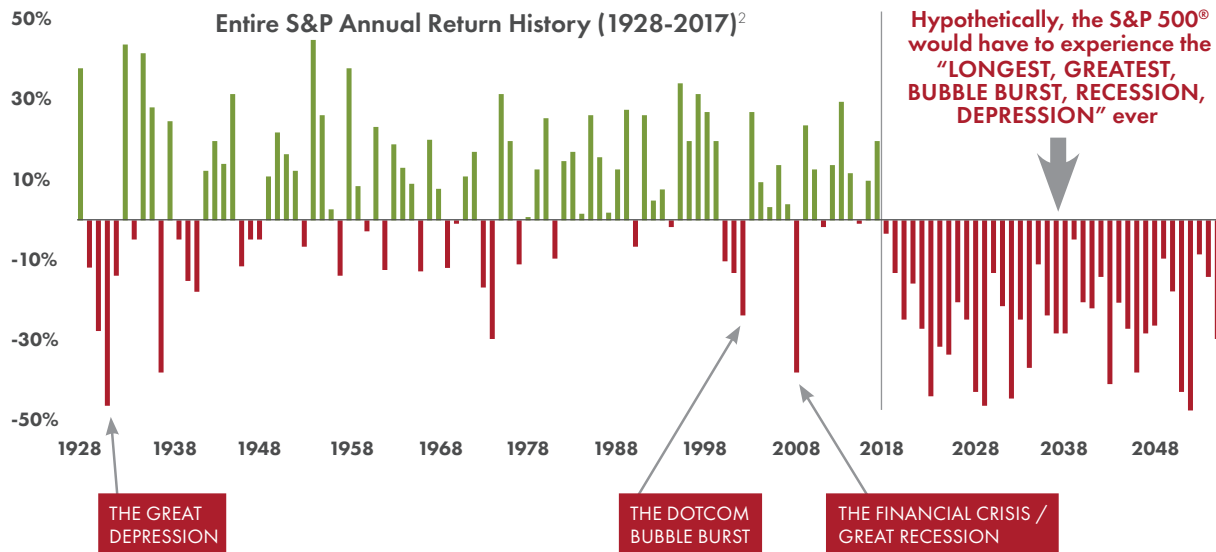
Policies issued by American General Life Insurance Company (AGL), Houston, TX, member of American International Group, Inc. (AIG).

Why 4.5%?

1 The IUL Guarantee-to-Age is Historically Unprecedented

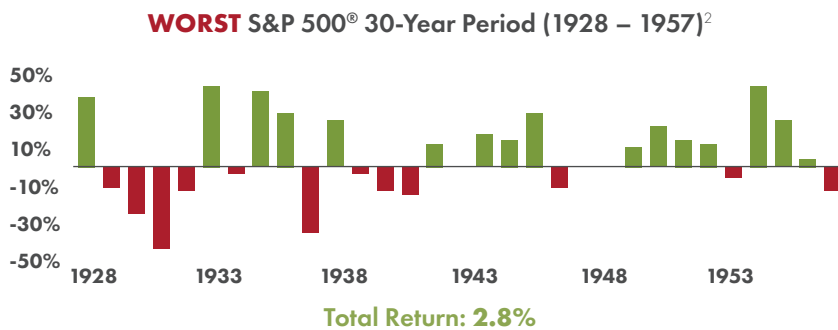
When considering permanent death benefit options, the biggest objection to offering a protection-focused IUL to a GUL client is often the “Guarantee-to-Age” comparison. At the same premium and death benefit, the GUL’s age is typically higher than the IUL’s.

But, the IUL **Guarantee-to-Age** is not the same as in the GUL. The GUL policy **ends** at that age – regardless of the markets. However, in IUL, the underlying index (e.g., S&P 500®) would have to report negative returns from policy issue until the Guarantee-to-Age. Imagine a 50-year-old purchasing an IUL policy with a Guarantee-to-Age of 87. The index would need to spend the next 37 years in negative territory. The S&P 500®, for example, would have to look something like this...



2 The WORST 30-Year Period in S&P 500® History Might Be Conservative Enough

If the Guarantee-to-Age is historically unprecedented, what historically-based rate might make sense to illustrate IUL for your conservative clients? Start with the worst 30-year period in S&P 500® history...



Then, run those annual returns through a hypothetical 9% Cap Rate index interest crediting strategy, with a 0% guaranteed interest rate. The result? **The 4.5% illustration rate** – conservatively representing the worst 30 years of S&P 500® history.

¹ Gammons, K., (2018, July 30). Markets Down Memory Lane. LifeTrends. Retrieved from lifetrends.com.

² This analysis was performed using S&P data from 1927 through 2017. The total return value excludes dividends. Clients cannot invest in an index directly. Past performance is not a predictor of future results.

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How Do Protection-focused IUL Products Stack Up?

If carrier current illustration rates are too risky for your GUL clients and Guarantee-to-Age is historically unprecedented, let's illustrate several protection-focused IUL products at a **4.5%** rate – representing the historical worst-case scenario – to stress-test these options for your client.

How Do They Stack Up in the 4.5% Test?

For a hypothetical, 50-year-old, male, preferred non-tobacco, purchasing a QoL Guarantee Plus GUL II policy for \$1,000,000 – **guaranteed to age 100** – would pay \$14,632/year for 20 years. Let's look at a selection of protection-focused IUL policies for the same death benefit and the same premium flow with a **4.5% illustration rate** to see how they stack up to the GUL option and to each other.

Company	Protection-focused IUL Product	Historically Unprecedented Guarantee-to-Age	Age Policy Runs Out in Worst Case Scenario	Cash Value in Year 20
American General	QoL Value+ Protector	91	121	\$369,367
Nationwide	Indexed UL Protector II w/ NLG	90	121	\$349,456
Global Atlantic	Lifetime Foundation Elite	91	121	\$254,655
Prudential Life	PruLife Founders Plus UL	90	96	\$308,007
Pacific Life	Pacific Discovery Xelerator w/NLG	91	91	\$289,492
Securian Financial	Eclipse Protector IUL w/DBGA Rider	90	90	\$296,246

This is a hypothetical example for illustrative purposes only. All product values are based on an illustrations dated 12/01/2018, are subject to change, and do not contemplate fees and charges for additional features or riders. The QoL Value+ Protector is illustrated using the Cap Rate Account.

The Guarantee-to-Ages assume certain conditions are met, such as paying the full amount of all premiums and paying them on time. Withdrawals, surrenders or loans will reduce cash value and may impact the guarantees. Read the specific policy for details.

The IUL cap rates of products listed above are between 8.00% and 10.50%, as of 12/01/2018. Cap rates are not guaranteed and may change from year to year, meaning results may vary.

As you consider a protection-focused IUL product for your GUL clients, evaluating your options, using the **4.5% Test**, could help you select a product that will help meet their desire for conservative permanent protection while providing the potential for meaningful cash value growth should markets perform better than the worst case!

The **QoL Value+ Protector PASSES the 4.5% TEST**, providing coverage 21 years beyond the GUL option and over \$360K in cash value in year 20 – 45% more than the next competitor!



Contact your American General representative for more information!

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