CONSUMER LIAISON COMMITTEE –

The Dilemma of Current Assumption Policy Illustrations (Not Just Indexed Universal Life)

Richard M. Weber, Life Insurance Consumer Advocacy Center

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Brief comments will address ...

The consumer challenge of policy illustrations for Current Assumption / Universal Life;
Brief comments will address ...

Regulated policy illustrations cannot reflect long-term likelihood of sustaining to its ultimate use as a needed death benefit with an initial (low) “premium;”
Brief comments will address ...

There are 3 major policy developments that have emerged *since* the 1995 Illustration Model Regulation was adopted - with challenges to address those products with the earlier Model Regulation.
Purpose:

“Protect consumers and foster consumer education.”

Goal:

Ensure that illustrations do not mislead purchasers of life insurance and to make illustrations more understandable …”
U.S. Life Insurance Stats (end of 2021)

Death Benefits in force $21 Trillion
of which Term/Group is $15 Trillion
Lifetime policies* $ 6 Trillion

*Whole Life / Universal Life (UL)
Variable UL / Indexed UL
All Universal Life Designs combine "term" with "cash value"
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Universal Life utilizes *current assumptions* to attract customers – but guarantees are minimal.

Cash accumulation → Will fluctuate; not apparent on Illustration
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- Cash accumulation: Will fluctuate; not apparent on Illustration
- Policy Expenses: Have been increased by some carriers
Universal Life utilizes current assumptions to attract customers – but guarantees are minimal

- Cash accumulation: Will fluctuate; not apparent on Illustration
- Policy Expenses: Have been increased by some carriers
- Policy Illustrations: Are NOT projections – even though used to suggest a specific outcome
How Universal Life credits its Cash Value is the main difference in UL policy “types”

Cash accumulation with a minimum guaranteed crediting rate → “Original” Universal Life (General Account)
How Universal Life credits its Cash Value is the main difference in UL policy “types”

Cash accumulation with a minimum guaranteed crediting rate

A “brokerage account” with market-driven UPS and DOWNS

“Original” Universal Life (General Account)

Variable Universal Life (A Security)
How Universal Life credits its Cash Value is the main difference in UL policy “types”

Cash accumulation with a minimum guaranteed crediting rate

“Original” Universal Life (General Account)

A “brokerage account” with market-driven UPS and DOWNS

Variable Universal Life (a Security)

Cash accumulation based on an external INDEX - with “no negatives” in exchange for a “capped” maximum credit

Indexed Universal Life (General Account)
Variable Universal Life is essentially TERM INSURANCE coupled with mutual fund-like sub-accounts dependent on “the market”
GRAPHIC view of VUL Illustration with 
“what’s the lowest premium?” 
(Notice “constancy”) 

$5,900 annually
55 “Bingo Cubes”

1000 times ... hypothetical illustrations: How many “successes” @ $5,900?
When exposed to randomized historic returns in client’s chosen asset class ...

$5,900 annual “premium”
When exposed to randomized historic returns in client’s chosen asset class ...

DEATH BENEFIT

CASH VALUE
To explain the wide variations in potential outcomes, we change the paradigm from

“who has the best PRICE?”

to ...

What’s your minimum *probability of success*?
What’s your minimum *probability of success*?
What’s your minimum probability of success?

Probability of Success: 8%
Annual Premium: $5,900

Illustration Rate: 10%
What’s your minimum *probability of success*?

- **Probability of Success**: 8%
- **Annual Premium**: $5,900
- **Age First Lapse**: 75
- **Illustration Rate**: 10%
What’s your minimum *probability of success*?

**Probability of Success**: 8%

**Annual Premium**: $5,900

**Age First Lapse**: 75

**Illustration Rate**: 10%

**Age 91**
What’s your minimum *probability of success*?

<table>
<thead>
<tr>
<th></th>
<th>8%</th>
<th>70%</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Probability of Success</strong></td>
<td>$5,900</td>
<td>$9,800</td>
</tr>
<tr>
<td><strong>Annual Premium</strong></td>
<td>75</td>
<td>84</td>
</tr>
<tr>
<td><strong>Avg. Life Expectancy</strong></td>
<td>===⇒</td>
<td>===⇒</td>
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- Premium: What’s YOUR ‘Best’ Premium?
- Annual Premium: $5,900 $9,800
- Age First Lapse: 75 84
What’s your minimum probability of success?

- Probability of Success: 8%, 70%, 80%
- Annual Premium: $5,900, $9,800, $10,900
- Avg. Life Expectancy: 75, 84, 86
- Age First Lapse: 75, 84, 86
What’s your minimum probability of success?

- **Probability of Success**: 8%, 70%, 80%, 90%
  - Annual Premium: $5,900, $9,800, $10,900, $12,250
  - Avg. Life Expectancy: 75, 84, 86, 88
  - Age First Lapse: 75, 84, 86, 88
What’s your minimum *probability of success*?

<table>
<thead>
<tr>
<th>Probability of Success</th>
<th>8%</th>
<th>70%</th>
<th>80%</th>
<th>90%</th>
<th>99%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Annual Premium</td>
<td>$5,900</td>
<td>$9,800</td>
<td>$10,900</td>
<td>$12,250</td>
<td>$16,500</td>
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<tr>
<td>Avg. Life Expectancy</td>
<td>====&gt;</td>
<td>====&gt;</td>
<td>====&gt;</td>
<td>====&gt;</td>
<td>91</td>
</tr>
<tr>
<td>Age First Lapse</td>
<td>75</td>
<td>84</td>
<td>86</td>
<td>88</td>
<td>96</td>
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</table>
What’s your minimum probability of success?

<table>
<thead>
<tr>
<th>Probability of Success</th>
<th>Annual Premium</th>
<th>Implied Constant Illustration Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>8%</td>
<td>$5,900</td>
<td>10%</td>
</tr>
<tr>
<td>70%</td>
<td>$9,800</td>
<td>8%</td>
</tr>
<tr>
<td>80%</td>
<td>$10,900</td>
<td>7.25%</td>
</tr>
<tr>
<td>90%</td>
<td>$12,250</td>
<td>6.45%</td>
</tr>
<tr>
<td>99%</td>
<td>$16,500</td>
<td>4.40%</td>
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Key Points / Action Items

• Current Assumption / Universal Life policies are challenging to explain to consumers;

• The regulated policy illustration is NOT a projection - it can’t possibly reflect the long-term likelihood of sustaining to its ultimate use as a needed death benefit with an initial (low) “premium;”

• No-lapse and Indexed Universal Life weren’t prominent at the time the 1995 Illustration Model Regulation was adopted; Variable products weren’t really addressed;

• We recommend re-opening the Life Insurance Illustration Model Regulation!