Inside COLUMBUS LIFE

Death Benefit Guarantees: Are They Worth the Trade-offs?

Flexibility is a key factor when comparing guaranteed universal life to indexed UL products.

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Insurance planning is not a one-size-fits-all proposition, and the evolution of products should cause one to take a step back and assess what client problem is being solved — and are any others being ignored or created along the way? The COVID-19 pandemic reminds us that life is anything but simple, and crises do arise on a frightfully regular basis.

If we take a peek back over the last 22 years, we are reminded of many, including the dot-com bubble, the 9/11 terrorist attacks, wars in Iraq and Afghanistan, the subprime mortgage crisis, the Great Recession, and other miscellaneous economic, political and socioeconomic challenges.

These events often result in unfortunate personal collateral damage ranging from illness to unemployment and for some significant financial distress. As we assess the current circumstances of clients and prospects, it is important that we keep in mind that there is one constant — change — and our solutions should keep that in mind.

Over the years, guaranteed universal life (GUL) has become commoditized as agents and organizations spreadsheet product offerings seeking the best long-term guarantee at the best guaranteed premium. In short, a policy is issued resulting in a premium payment and, upon death, a payment to a named beneficiary. It is a simple equation. Generally speaking, the good news regarding GUL is the fixed premium and guaranteed death benefit.

However, in periods of financial uncertainty, this may create challenges for the client as the premium must be paid according to the required schedule. Also noteworthy is that GUL products by design usually accumulate less cash surrender value than some alternatives. This report is widely viewed as a valuable addition to both the Indexed Explorer Plus IUL and Expedition SIUL illustrations because of its concise summaries of potential cash value, death benefit, and ADBR advances at different focal points in the policy lifecycle.

In other products, there are more flexible premium payment options depending upon design and crediting. These are typically found in “non-guaranteed” or limited guarantee death benefit products. The watchword here is flexibility.

Comparing GUL to IUL

Let's take a look at a basic example (at right) of Columbus Life's Voyager Universal Life® (GUL) in comparison to the Indexed Explorer *Plus*® (IUL) product. In this example, we are comparing a $1,000,000 death benefit for a female, age 50, standard non-tobacco:

$1,000,000 Face Amount	Voyager UL® To 95	Voyager UL® To 120	Indexed Explorer Plus® Endow at 95	Indexed Explorer Plus® Endow at 95
Annual Premium	$9,969	$11,269	$11,456	$11,456
Illustrated Rate	3.5%	3.5%	3.23%	6.45%
Death Benefit to Age	95	120	87	120
Total Payments @ 83	$328,969	$371,874	$378,059	$378,059
Cash Surrender Value:				
Year 10	$15,923	$30,794	$50,430	$63,319
Year 20	$32,393	$70,265	$147,151	$219,515
Year 33	$0	$0	$148,587	$513,994
Net Premium Cost @ 83	($328,969)	($371,877)	($229,472)	$135,935

Hypothetical example showing values based on 50-year old female in OH, Standard non tobacco. As of 3/18/2021, rates Illustrated are not guaranteed, subject to change and included for illustrative purposes only.

Examining the data, the Voyager policies do what you would expect in that the premiums paid for each example carry the death benefit to ages 95 and 120 respectively. This is the attractive part of a GUL. Looking at the indexed universal life (IUL), using the midpoint interest rate of 3.23% the death benefit carries to age 87 while the 6.45% carries to age 120. Incidentally, according to the U.S. Life Tables, the life expectancy for this 50-year-old is age 83, so all four examples illustrate past that benchmark.

When reviewing surrender values, the products demonstrate features inherent in their design. The trade-off for a GUL's guaranteed death benefit is potentially lower cash value accumulation. The IUL, on the other hand, has the 10-year no-lapse guarantee (using the minimum required premium) but trades the stronger guarantees for potentially greater cash value accumulation. This is clear as, even at the lower 3.23% crediting rate, the IUL has better cash value projections than the GUL while taking into account the premium differences. So what we are seeing is a story of trading off policy guarantees for potentially greater liquidity and flexibility.

Choosing the Right Solution

Let's circle back to real life now. Each client is different with differing circumstances. Selecting the appropriate policy comes down to understanding the pros and cons of each. In our example, it is clear that there is greater flexibility in the IUL and both guaranteed premium and guaranteed death benefit in the GUL. If a client is financially sound "without a concern" regarding paying premiums regardless of economic changes, then flexibility may matter less.

For those less certain, IUL may offer some additional advantages. First, the IUL has greater premium flexibility allowing for reduced or skipped payments subject to there being enough surrender value to cover the charges. This may come in handy during a time of hardship.

Additional surrender value may also be helpful as a source of other cash flow in the event of lost or reduced income. And finally, there is the possible lower net cost of the IUL in the examples above due to the higher surrender values.

The original question still stands: Are the guarantees worth the trade-offs? Answer: It all depends on your client's planning needs while knowing both products have advantages and disadvantages. When making product selections to present to your client — guarantees, flexibility and liquidity are all product features that are worth ranking in the planning process. Striking the unique balance for each client will make for a more personalized and possibly sounder long-term risk management solution.

For more information, contact your regional Vice President or the Sales Desk at 800.677.9696, Option 4.

IUL is a Universal Life policy. It has insurance related costs. Premiums paid must produce sufficient cash value to pay insurance charges. Indexed returns do not protect against lapse if premiums and returns do not provide sufficient cash value to cover loan interest and insurance costs. Your clients must understand that loan risk means loans may well not be zero cost. Such loan risk and interest costs will reduce account value and will contribute to a risk of policy lapse if account value becomes insufficient to cover charges.

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