

Structuring Policies for Cash Accumulation

The primary purpose of most life insurance sales is death benefit protection. However, there are certainly times when the tax-deferral of life insurance becomes an appealing means of wealth accumulation for certain clients. When cash accumulation is the primary objective, a universal life product is typically recommended because of the ability to withdraw up to basis before the creation of loans (FIFO) and due to the flexibility of premium contributions. This document is intended to help you design an illustration that will be most favorable for cash accumulation sales.

1. Start with the Premium, Not with the Death Benefit (Lowest Non-MEC Death Benefit)

The first step in properly structuring a life insurance policy for cash accumulation is to identify (1) how much premium is intended to be contributed, (2) for how long and (3) when distributions from the policy will need to begin. This information is used to determine the lowest possible death benefit, without the policy becoming a Modified Endowment Contract (MEC), which would significantly affect the tax advantaged distributions. This is commonly referred to as “solving for the minimum death benefit, non-MEC.” Cash accumulation policies should also have an Overloan Protection Rider, which allows the policy owner to take withdrawals and loans without fear of the policy lapsing.

2. Choose a Method of Cash Value Growth

Traditional Universal Life (UL)

- Advantage – Lower expenses than the alternatives, simple for consumers to understand.
- Disadvantage – Less upside potential than other policy types.

Variable Universal Life (VUL)

- Advantage – Subaccounts provide greater cash value growth potential. Participation in equities.
- Disadvantage – Illustrations are commonly run with unrealistic hypothetical rates, leaving consumers with a high potential of disappointment. VULs also have high internal expenses and require the advisor to possess a securities license.

Indexed Universal Life (IUL)

- Advantage – Indexing option provides an opportunity for greater cash value growth than a traditional UL and provides some downside protection.
- Disadvantage - Illustrations are commonly run with unrealistic hypothetical rates, leaving consumers with a high potential of disappointment. IULs have many non-guaranteed elements that are controlled by the insurance company and have higher expenses than a traditional UL. Index typically does not include dividends and caps, participation rates and spreads can make it difficult to earn illustrated rates.

3. Review Policy Ownership

Policies designed for the purpose of cash accumulation typically should not be owned in an Irrevocable Life Insurance Trust (ILIT) but instead should be personally owned by the insured. It is unlikely a trustee would allow distributions to be made from the policy, thus preventing one from benefiting from the plan, as intended.

4. Readdress Death Benefit Need

Complete a Needs Assessment to identify how much additional coverage may be necessary. A second policy can be layered on top of the cash accumulation policy to achieve the desired amount of coverage. Some cash accumulation policies may offer term riders, but these riders typically inhibit the cash value growth. Everything does not have to be accomplished within a single policy. (We all remember the “El Camino.”)

5. Request an Illustration

Contact Brokerage Unlimited, Inc. with a completed Informal Evaluator, along with information collected in items #1-4. When the illustration is received, visit with a life insurance specialist and make sure you fully understand the product. If you do not understand the product, the client most certainly will not.

Summary – What BUI Needs to Run Your Cash Accumulation Quote

Information Requested:	Please Answer Here:
1. How much premium will be contributed?	
For How Long?	
When are distributions needed?	
2. What type of product? CAUL, VUL, IUL?	
If IUL/VUL, what hypothetical rate?	
If VUL, who is your broker/dealer?	
3. Please attach a completed Informal Evaluator	N/A
(Alternatively, what rate class do you want illustrated?)	
4. Who is the intended...	
Owner?	
Beneficiary?	
5. How much total death benefit is needed?	
For how long?	
General Information	
State	
Client's Name	
Date of Birth	
Gender	