



## C L I E N T   S O L U T I O N

# Universal Life with a No-Lapse Guarantee

## Prospect Profile

**Age:** Suitable for any age client.

**Status:** Client interested in liquidity at death and optimizing the death benefit relative to premiums paid. Excellent for Irrevocable Life Insurance Trust ownership. Also appropriate for clients whose current policies have under-performed due to market volatility, reduced interest or dividend crediting rates.

**Concerns:** Interested in eliminating performance risk and the lowest guaranteed lifetime premium to minimize potential gift taxes. Cash accrual and lifetime access to cash values is not important

## Overview

Universal Life Insurance with a No-Lapse Guarantee (NLG) provision offers the lowest, guaranteed premium of any policy type for an extended period of time.

Term insurance offers lower guaranteed premiums, but even with 30-year level term plans, coverage often ceases before life expectancy.

Whole life offers lifetime guaranteed premiums, but with the added expense of high guaranteed cash value. Whole life premiums can be one and a half to two times that of a NLG premium.

Blending whole life with term can reduce the premium outlay, but only by sacrificing the death benefit or premium guarantee.

## How Does It Work?

The Universal Life Insurance contract includes No-Lapse Guarantee provisions for a guarantee of the death benefit. As long as the client pays the annual NLG premium and the cumulative NLG premium test is met, the policy will not lapse, regardless of market conditions. No-Lapse Guarantees are also called Secondary Guarantees.

The Secondary, No-Lapse Guarantee is an additional test. If a policy satisfies this test, coverage continues, even if the policy would have otherwise lapsed. There are two types of No-Lapse qualifications used, either singly or in combination.

**Premium Requirement** – A policy might have a stated No-Lapse Premium that is specific to the age, amount, and underwriting class. If the policy owner has at any time paid premiums equal to the cumulative required premium, the qualification has been met. Many plans allow a policy to fall behind in required premiums, but include “catch-up” provisions that enable re-qualification.

**Shadow Account** – A policy can use a Shadow Account to determine No-Lapse qualification. The Shadow Account works just like the regular policy cash account; expenses and insurance charges are debited, and interest is credited.

The debits and credits are more favorable than the normal guarantees. The Shadow Account exists only to determine qualification for the No-Lapse Guarantee; the cash is not available to the policy owner. As long as there is a positive balance in this hypothetical account, the guarantee is in effect.

Companies are able to offer these guarantees for several reasons.

- The No-Lapse Guarantee is a death benefit guarantee only and does not affect the cash value guarantee.
- The No-Lapse qualifications ensure premium persistency, which enables better pricing.
- Because of the more predictable cash flows, No-Lapse Guarantee products can support longer-term investment strategies that boost the underlying asset yields.

### Example

A 50-year-old male preferred nonsmoker needs \$1 million of life insurance coverage to complete his estate plan. The policy will be held in an ILIT and it is intended to be held until death. The ILIT will have no need for access to policy values.

Price is important, because other gifting strategies are in place that will exhaust the credit equivalent and annual exclusions. The client and his Trustee want a “lockbox” approach — a policy they can purchase and not have to think about again until death.

A quick look at some alternative policies shows a range of options.

<u>Policy</u>	<u>Premium</u>	<u>Guarantee Period</u>
20-Year Term	\$2,420	Age 70 <i>GECA SureTerm 20</i>
30-Year Term	\$4,530	Age 80 <i>AG LTG Ultra 30</i>
Universal Life	\$8,945	Dependent on Current Rates <i>Travelers MVP</i>
<b><i>NIG UL</i></b>	<b><i>\$10,032</i></b>	<b>Lifetime</b> <b><i>ING's GPUL</i></b>
Whole Life/Term	\$16,205	Guaranteed Death Benefit Reduces in Year 12 <i>Manulife Premier Whole Life</i>
Whole Life	\$22,890	Lifetime <i>Manulife Premier Whole Life</i>

### Benefits

- Guaranteed Death Benefit
- Minimum Outlay
- No Market Risk



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