



# Indexed Universal Life

## What is Indexed Universal Life

Equity-indexed universal life insurance (EIUL), more commonly referred to today as **indexed universal life (IUL)**, is a form of permanent life insurance that combines lifetime death benefit protection with the potential to accumulate cash value.

Like traditional universal life insurance, IUL offers flexible premiums, adjustable death benefits, and tax-deferred cash value growth. Where it differs is in how interest is credited to the policy's cash value. Rather than crediting interest based solely on an insurer-declared rate, IUL policies allow a portion of the cash value to earn interest linked to the performance of one or more external market indexes.

Importantly, policy cash values are **not directly invested in the market**. As a result, negative index performance does not reduce credited interest below the policy's stated floor, typically zero percent.

**Important:** Policy guarantees are subject to the financial strength and claims-paying ability of the issuing insurance company.

## How Indexed Universal Life Works

IUL policies combine features of traditional universal life and variable life insurance, while remaining distinct from both.

- Like universal life, IUL provides a minimum guaranteed interest rate and flexible premium structure.
- Like variable life, IUL offers the potential for higher interest credits tied to market performance.
- Unlike variable life, IUL does not invest policy values in securities or subaccounts, and policy values are not exposed to direct market losses.

Interest is credited based on positive changes in a referenced index, subject to policy limitations such as caps, participation rates, and crediting methods.



## Equity Index Options

The amount of interest credited to an IUL policy depends on the performance of the selected index over a defined measurement period. If the index increases, interest may be credited. If the index declines or remains flat, interest credited is generally zero rather than negative.

Commonly used indexes include broad market benchmarks such as the S&P 500®. Some policies may offer additional or proprietary indexes designed to manage volatility.

Most policies impose limits on index-linked growth, such as: - **Interest rate caps** (maximum credited rate per period) - **Participation rates** (percentage of index gain used in the calculation) - **Spreads or asset charges** (amount subtracted from index gains)

These limitations help insurers manage risk and provide downside protection.

## Index Measurement Periods

Index-linked interest is calculated over a defined **index term**, most commonly one year, though longer terms may be available.

Each index term includes: - A starting index value - An ending index value

The percentage change over the term determines whether interest is credited, subject to policy limits.

## Participation Rates and Caps

The participation rate determines how much of the index's gain is used to calculate credited interest. A 100% participation rate means the full index gain is considered, subject to any cap.

The cap represents the maximum interest rate that may be credited during an index term. Caps and participation rates may be guaranteed or subject to change based on policy provisions.

Policyholders should understand that caps and participation rates directly affect long-term growth potential.

## Index Crediting Methods

IUL policies use various methods to calculate index performance. Common methods include

### *Annual Point-to-Point*

Compares the index value at the beginning and end of the index term, ignoring interim fluctuations

### *Daily Averaging*

Uses the average of daily index values during the index term compared to the starting index value.

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### *Monthly Averaging*

Uses the average of monthly index values over the index term compared to the starting index value.

Each method responds differently to market volatility and can impact long-term results.

## **Features Similar to Traditional Universal Life**

### *Permanent Coverage*

*IUL provides lifetime insurance protection as long as sufficient policy values exist to cover policy charges.*

### *Flexible Premiums*

Premium payments may be increased, decreased, or skipped (subject to policy minimums), provided cash values are sufficient to cover ongoing costs.

**Caution:** Insufficient cash value may result in policy lapse if premiums are reduced or skipped.

### *Policy Loans*

Policyholders may borrow against available cash value. Loans accrue interest and reduce both cash value growth and death benefit if not repaid.

**Caution:** Outstanding loans at death reduce the net death benefit payable to beneficiaries.

### *Death Benefit Guarantees*

Some IUL policies offer death benefit guarantees for a specified period or for life, provided minimum premium requirements are met. Lifetime guarantees typically reduce cash value growth due to higher policy charges.

## **Potential Disadvantages of Indexed Universal Life**

- Cash value growth may be limited during periods of low or negative market performance
- Caps and participation rates restrict upside potential compared to direct market investments
- Policy performance depends on long-term funding discipline
- Cost of insurance increases with age
- Policy charges and surrender costs can reduce early cash value
- Loan activity may negatively impact long-term performance

IUL policies are complex financial instruments that require careful design, funding, and ongoing management.

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## Is Indexed Universal Life Appropriate?

Indexed universal life may be appropriate if:

- You need permanent life insurance protection
- You value premium and death benefit flexibility
- You seek tax-deferred cash value growth
- You are comfortable with capped upside in exchange for downside protection
- You intend to maintain the policy for the long term (often 10+ years)

IUL is commonly used for estate planning, income supplementation strategies, business planning, and legacy objectives when properly structured.

## Final Considerations

Indexed universal life insurance can be a powerful planning tool when aligned with long-term objectives and funded appropriately. Because product features, caps, participation rates, and guarantees vary by insurer and policy, it is critical to evaluate each policy carefully and work with experienced professionals.

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