

Indexed Universal Life

Permanent coverage with a flexible premium and cash value credited by a formula tied to a market index. The most adjustable of the three, and the one with the most moving parts.

WHAT IT IS

Indexed universal life — IUL — is permanent insurance built on a flexible chassis. Within limits set by the contract, you can vary what you pay and when. Inside the policy, cash value is credited according to a formula that references the movement of a market index the policy names. At the end of each crediting period the insurer measures that movement by the method the contract specifies, then applies the policy's limits to produce a crediting rate.

Your money is not in the index. You own no shares and receive none of the dividends paid by the companies in it. Index crediting is a calculation applied to your cash value — not participation in the market. That distinction sits underneath everything else here.

HOW IT WORKS

- 1 You fund the policy. The charges come out of it.**
Each month the insurer deducts the cost of insurance and policy expenses from the cash value — whether the index rose, fell, or did nothing at all.
- 2 The floor and the cap are one trade, not two features.**
A floor limits how far crediting can fall; a cap or participation rate limits how far it can rise. The higher the floor, the lower the cap — protection is paid for out of the upside. You do not usually set these yourself; they are properties of the indexed account you choose, and insurers can generally adjust caps and participation rates within contractual ranges after issue.
- 3 A smoother ride has a price.**
Volatility-controlled indices dampen large moves up as well as down. Where the policy already carries a floor, some of that smoothing duplicates work the floor was already doing.
- 4 The policy has to stay funded.**
Because the premium is flexible and the charges are not, an underfunded policy can consume its own cash value and lapse. The cost of insurance generally rises with age, so the strain grows.
- 5 Cash value can be reached by loan or withdrawal — and doing so has consequences.**
Both reduce the cash value and the death benefit. Loans may be fixed-rate or participating, and the difference matters — a participating loan can widen a shortfall as easily as it narrows one. Tax treatment depends on how the policy is funded and whether it stays in force; a policy that lapses with a loan outstanding can create a taxable event. Ask your tax adviser.

THE TRADE-OFF

You are trading certainty for flexibility. Whole life fixes the premium and prints the values; indexed universal life lets you move the premium and leaves the values to a formula whose limits the insurer can adjust. That flexibility is real and, in the right situation, genuinely useful — but it means the policy needs watching. An IUL is not a document you file and forget. Every year the question is the same: is it still funded well enough to do the job it was bought to do?

WHAT THIS KIND OF COVERAGE IS USUALLY BROUGHT IN TO ANSWER

The common thread is a long-dated need paired with a circumstance that will not sit still.

- What provides permanent coverage when income is uneven — a strong year followed by a thin one?
- What keeps permanent coverage in place for an obligation with no end date, where a fixed premium is not practical?
- What can be adjusted as circumstances change, rather than surrendered and re-purchased?
- What coordinates with a business that will be sold, transitioned or wound down on a timetable nobody can yet name?
- What supports a long-dated obligation that will need adjusting more than once along the way?

WHAT TO ASK BEFORE YOU BUY

01 Run the illustration at the guaranteed minimum.

Not the illustrated rate, and not a “conservative” assumption chosen for you. The guaranteed column. Then ask the only question that matters: on those assumptions, when does this policy lapse?

02 What is the crediting method — and what are the current cap, participation rate and floor?

Annual point-to-point, monthly sum and monthly average give materially different results from identical index movement. Then ask for the contractual minimums and maximums: the current numbers can be changed, the contractual limits are what actually bind.

03 Is this policy a modified endowment contract, or will my planned funding make it one?

MEC status changes how loans and withdrawals are taxed. It is triggered by funding the policy faster than the rules allow, which is exactly what an accumulation-focused design does.

04 Show me every charge, when each applies, and whether the illustration is gross or net.

Cost of insurance, per-unit charges, premium loads, administrative fees, rider charges and surrender charges — commonly ten years or more, sometimes considerably longer. Ask to see the policy-charge column set beside the crediting column, year by year.

05 What is my real premium obligation?

Ask for the premium required to keep the policy in force to age one hundred and beyond under guaranteed assumptions — not the “target” premium on the front page.

06 If the index does nothing for five straight years, what happens to this policy?

Ask to see it on paper. It is the scenario an illustration is least likely to volunteer.

WORDS YOU WILL SEE

Cap and floor — The maximum and minimum crediting rates for a period. Floors are commonly zero.

MEC — Modified endowment contract — a policy funded fast enough to change how loans and withdrawals are taxed.

Participation rate — The percentage of measured index movement used in the calculation.

Crediting method — How index movement is measured — annual point-to-point, monthly sum, monthly average.

Cost of insurance — The monthly charge for the death benefit. Generally rises with age.

Lapse — Coverage ending when cash value can no longer cover the charges.

Bring the illustration. We'll read it with you.

Most people meet life insurance through a quote, not an explanation. If you have been shown a policy and are not sure what you are looking at, bring it. If you have not been shown anything yet, bring nothing at all — a first conversation is about your situation, not a product.

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