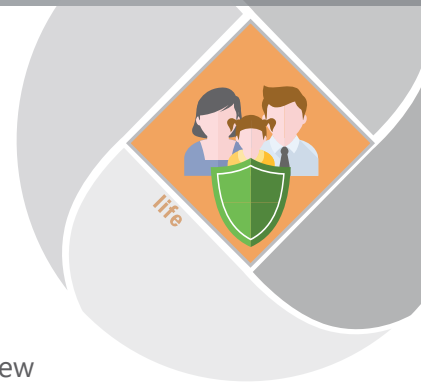


LIFE 101

No-Lapse Guarantee Universal Life



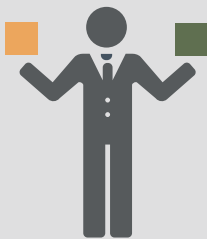
No-lapse guarantee universal life (GUL) insurance came into being in the 1990s and grew in popularity for a few reasons:

- Desire for lifetime death benefit guarantees that were less expensive than whole life (WL)
- Older universal life (UL) or WL policies that under-performed due to lower interest or dividend rates than were assumed, which could be 1035 exchanged into a GUL
- Flight to safety from the volatility of variable products

GULs have a basic goal, which is to offer lifetime death benefit guarantees with little to no cash value. These guarantees are often flexible, allowing clients to “dial-a-guarantee” typically from ages 90-95 through maturity (age 121). When first introduced, GULs appeared to be a straightforward, simple product. Over time, however, they evolved to become much more complex than many realized.

SIMPLE

Early GUL sales grew rapidly based on the premise that the policy stayed in force regardless of cash value, as long as the premiums were paid on time. In effect, clients traded the flexibility inherent in cash value policies for a lower guaranteed premium.



COMPLEX

As investment yields on carriers’ general account assets continued to decline in response to the overall interest rate environment, GUL product design shifted from a cumulative premium test to a “shadow account” design whereby a separate set of interest, mortality, and expense charges were used to determine if the policy’s death benefit guarantee remained in force.



SENSITIVE

Today’s GULs are more sensitive as to how the amount and timing of premium payments can affect the policy’s guarantees. Because the contractual “shadow account” language may not be transparent, the impact of early, late, partial, and skipped premium payments may not be clearly determined from a typical sales illustration. Fortunately, almost all carriers have introduced consumer-friendly features to assure both financial professionals and clients alike.

Who is it for?

GULs are well-suited for those wanting permanent life insurance with built-in guarantees, but who want those guarantees at a lower cost, in general, than whole life. Those who are not interested in accumulating cash value and plan on this being their final permanent policy may also be good candidates. Keep in mind that all guarantees are subject to the claims-paying ability of the issuing carrier.



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