

## **EQUITY INDEXED UNIVERSAL LIFE**

### **Equity indexed universal life insurance: the best of both worlds?**

Although equity indexed annuities have been around for a number of years, equity indexed universal life (EIUL) insurance is a relative newcomer to the life insurance marketplace. EIUL is a spin on universal life (UL) insurance, a popular policy type because you can increase or decrease your death benefit as your needs change and your premiums can be adjusted accordingly. UL policies also build a cash value against which you could borrow or even use to pay your premiums.

The equity indexed concept is relatively simple: the amount of interest credited to your policy's cash value is tied to the performance of a particular index (the S&P 500 is one of the most popular), so that in years where the index performs well your interest crediting rate will rise, and in years where the index performs poorly, your interest crediting rate will fall.

Most policies guarantee that your interest crediting rate will never fall below zero so that you won't lose money (you just won't make it). They also have a cap as to how high a crediting rate they will pass on to you. This range of possible rates is often described as offering "upside potential with downside protection."

### **How it works**

Typically, the big choice facing life insurance buyers is whether to go with a "safe" universal life policy that offers a minimum guaranteed rate but limited potential for cash accumulation or to go with a more "risky" variable life policy that offers greater potential for earnings but no protection against losses in the market.

EIUL is an attempt to fill the gap between these two approaches. EIUL is universal life insurance in which the cash value is linked to a certain index. If the index is higher at the end of the year, your cash value may go up. If the index stays flat or goes down, your cash value earns the minimum guaranteed interest rate (say, 2 percent). You should note, however, that when your index goes up it doesn't mean that your cash value increase will reflect the full index increase, due to fees, and dividends and capital gains aren't included in the cash value's calculation.

But are these new products the best of both worlds? Let's take a look at both sides of the coin.

### **The pros and cons**

One advantage of EIUL is the potential for higher interest crediting rates than a traditional universal policy. Another advantage is that it offers greater protection from market downturns than a variable life insurance policy.

Stephan Mitchell, product & competition analyst for Pacific Life Insurance Co., based in Newport Beach, Calif., points out that while these products are not a cure all, they can offer “an attractive middle ground for buyers who saw the market downturn of 2001-2002 and are looking for some guarantees.” These products can offer some peace of mind to buyers looking for a mix of guarantees and some potential for cash accumulation.

However, there can be disadvantages to having an equity indexed product. The chief disadvantage of an equity indexed product is that it comes equipped with slightly higher risk than a traditional universal policy. Also, the cap rate — the maximum rate you may earn — limits the upside potential compared to a variable policy and may be changed periodically by the insurance company.

Steven Weisbart, economist for the Insurance Information Institute, also cautions that “the crediting rate system in these products is probably not familiar to would-be buyers and agents.” Since there are so many “moving parts” to one of these products, it is sometimes difficult to figure out what the product actually does at first.

EIUL policies do fill a void between the traditional bookends of the modern insurance marketplace, but it would be an overstatement to term them the best of both worlds. EIUL has neither the appealing guaranteed rates of universal life nor the true market participation of variable life insurance. However, EIUL does offer an attractive third option for buyers and may be ideal for folks whose needs have been overlooked by existing insurance choices.

### **Is it right for me?**

Equity indexed universal life insurance may be right for you if you fit the following criteria:

- The potential cash accumulation of variable life insurance is enticing to you but seems too risky.
- The guarantees of universal life are comforting to you but the potential for cash value accumulation seems too low.

If these conditions describe you, then an equity indexed universal life insurance policy may be an avenue for you to explore. But before deciding on a particular product, be sure to research the insurance company behind it.

After all, the amount of interest you are credited is in the hands of the company and whatever guarantees the product offers are only as solid as the insurer itself. Just as with other types of insurance, always check into the insurer's ratings (A.M. Best, Moody's, Standard & Poor's, etc.) to get a better picture of how strong the company is financially.