Equity Indexed Life Insurance
and
Crediting 140% of the S&P 500

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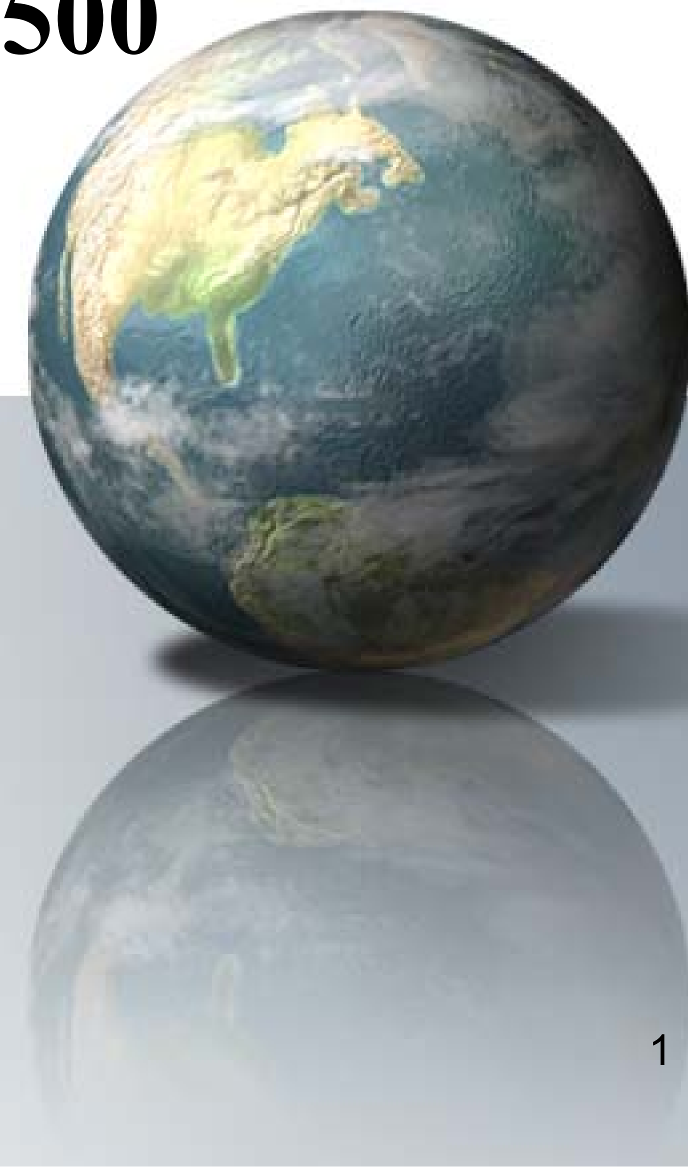
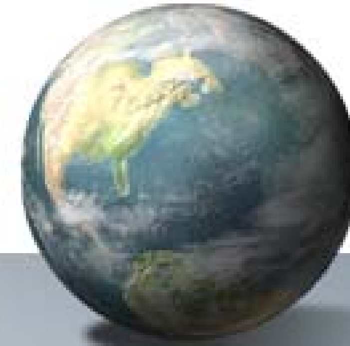


The Wealth Preservation Institute
378 River Run Dr.
St. Joseph, MI 49085
269-408-1841
www.thewpi.org

Equity Indexed UL

- As many owners of VUL policies have found out, cash values in a variable policy not only go up with the market but they fall with the market as well (see 2000-2003 returns).
- This prompted creation of a “new” universal life policy, the equity indexed life policy (EIUL).
- An EIUL policy is a UL policy that has an **<u>annual minimum return guarantee every year</u>** but still allows the cash value in the policy to grow at **market rates** every year if the stock market performs well.
- For example, from 1994-2004, the S&P 500 still averaged 12.1% (even though the stock market had a “crash from 2000-2003).

Nothing is for free

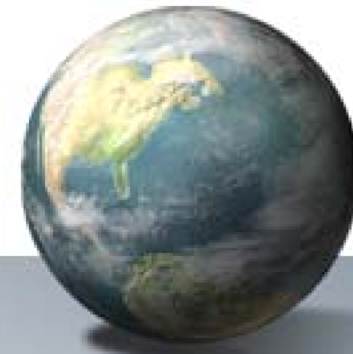


- Because of the contractual guarantees, EIUL policies take away some of the upside potential of the policies with caps on the growth.
- If your clients want to stretch for return in excess of 14% a year, then they would not want an EIUL.
- For clients who want protection from down turns in the market and growth pegged to the best stock index, then the EIUL is the way to go.

EIUL Continued

- The portion of the premiums paid into the product which are not allocated to insurance costs (M&E costs) are used to purchase options in a stock index (typically the S&P 500 index). (Which out performs over 80% of the mutual funds).

Why EIUL?

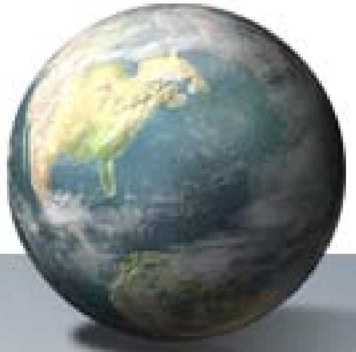


EIA Sales are exploding!

- Up 67% last year – 23.4 Billion $$$$
- Why? Consumers are looking for “safe money places” with the potential to receive higher interest than with traditional fixed annuities but without subjecting retirement savings to market risk.

National Underwriter, April 2005, article Index Annuities Sales in 2004.

Why EIUL?



- Flexible premiums, adjustable benefits
- Interest Crediting Strategies
  – Potential to accumulate Cash Value faster than Fixed UL over the long-term
- Appeals to a growing segment of the market

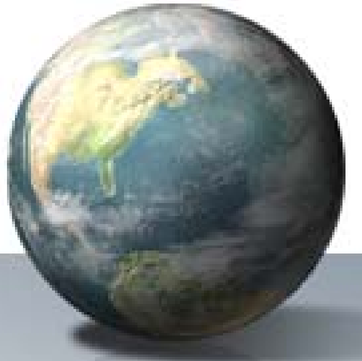
Why EIUL?

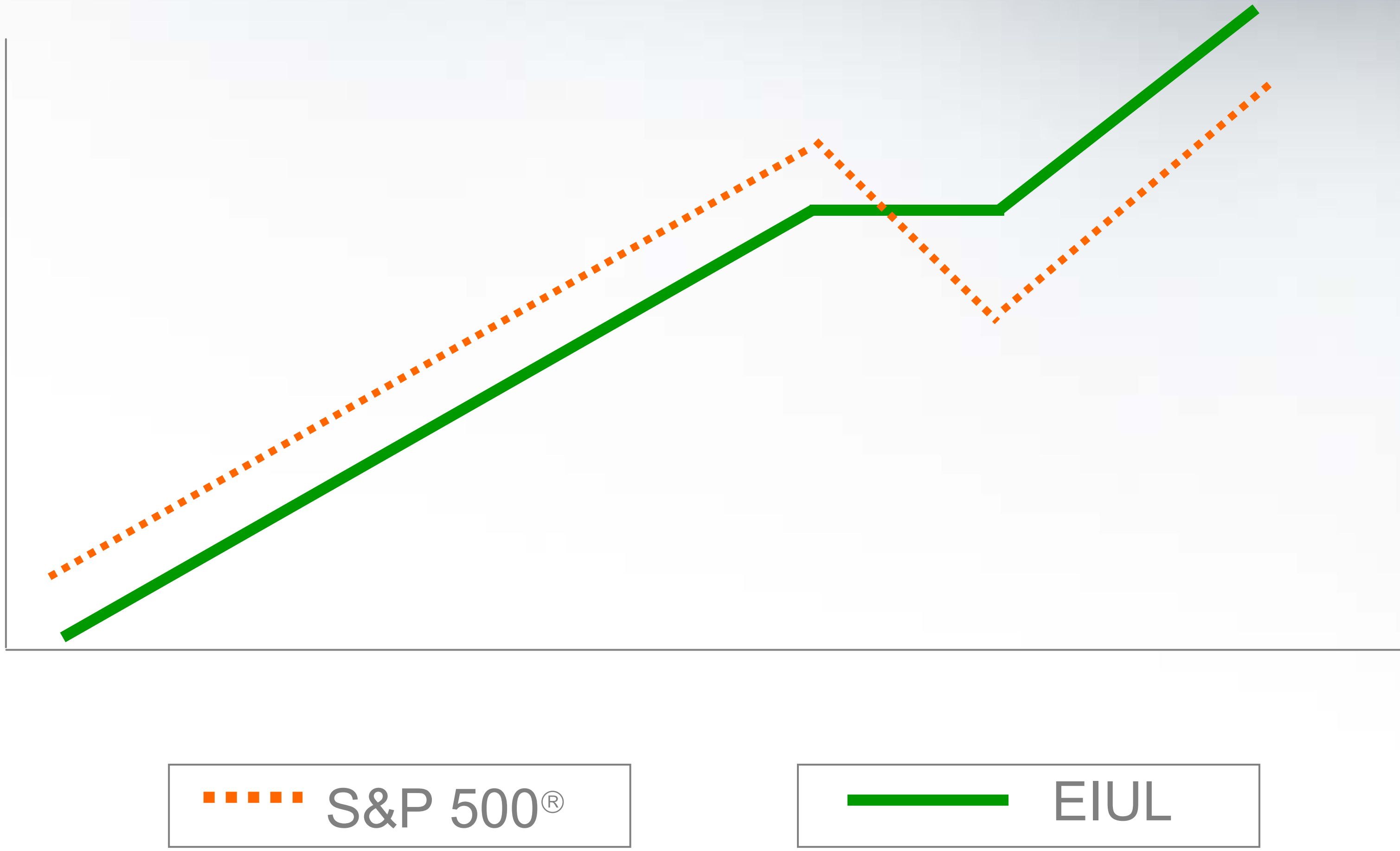
- Whole Life
  - Ins. Co. assumes all the risk
  - Higher guarantees than UL
  - Dividends at the discretion of the Ins. Co.
- Universal Life
  - Risk shared by Policyholder and company
  - Minimum guarantees (4%)
  - Potential for excess interest based on company investment experience
- EIUL
  - Risk shared by Policyholder and company
  - Minimum guarantees (1-3% depending on the company)
  - Potential for excess interest based on changes in value of a market index

S&P 500® Index

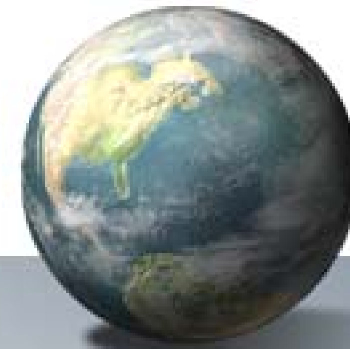
- Indexed life products try to mirror what the S&P 500 returns each year (excluding dividends).
- The life insurance company takes the premium (after expenses) and invests in Government Bonds, Corporate Bonds and Mortgages *(providing for the guarantees)*
- A small portion is directed to purchase options on the S&P 500 (which generates the larger returns).

Benefits of a Floor and Annual Reset



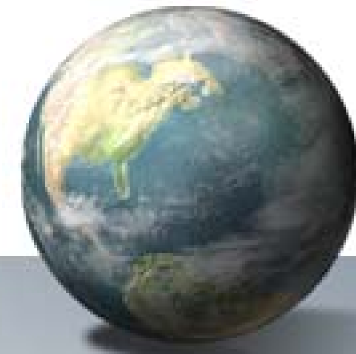


The Basics of Equity-Indexed Crediting



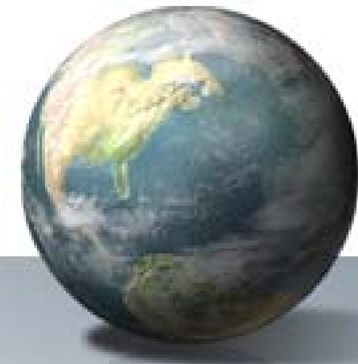
- **Fixed-Interest Strategy** – uses an interest rate declared by the Company
- **Point-to-Point Strategy – compares the Ending Index Value to the Starting Index Value**
- **Point-to-Daily Average Strategy** – compares the Average Index Value to the Starting Index Value

The Basics of Equity-Indexed Crediting



- **Starting Index Value** – The value of the Index on the first day of the index period
- **Ending Index Value** – The value of the Index on the last day of the index period
- **Average Index Value** – The average daily value of the Index over the 12 month index crediting period
- **Annual Reset** – at the end of a Policy Year, the Starting Index Value is equal to the prior year's Ending Index Value

The Basics of Equity-Indexed Crediting



- **Participation Rate** – with indexed life products this rate is usually 100%.
  - For example, if in a life policy there was $100,000 invested and the S&P 500 index went up 5%, the client's account value the following year would be $105,000.
  - If the participation rate was 70%, the client would have $103,500 in the policy.
    - Usually with the lower participation rate products the caps are higher.

140% Participation

- Recently one company came out with a new participation rate that has not been done with EIULI.
- How would your clients like to have a return on their invested dollars of 140% of what the S&P returns
- In the previous example, when the S&P 500 retuned only 5%, the client actually was credited with 7%.
- If the S&P 500 returns 7%, the client would be credited with 9.8%.
- If the S&P 500 returned 3%, the client would be credited with 4.2%.

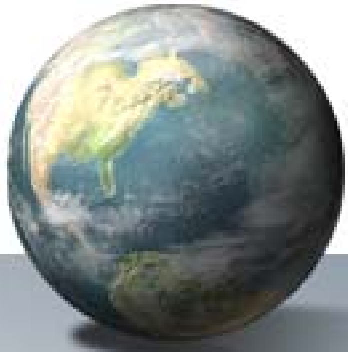
Caps

- There is no free lunch.
- The insurance companies never lose.
- The way this is guaranteed in an indexed life product with through the use of Caps.
- Companies vary, but caps can run anywhere from 12-17%.
- That means if we had a product that had a cap of say 14% when the S&P 500 really returned 20%, the client is only credited with 14% growth.
- Remember, the client had a guaranteed growth rate in the policy so the cap is needed to protect the insurance company

Back to the 140% policy

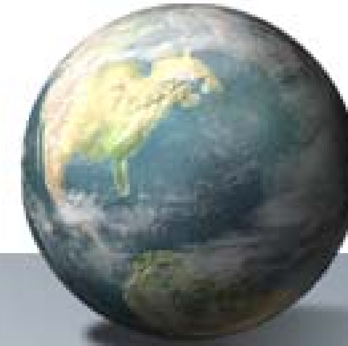
- I'm sure you all like the concept behind the 140% product.
- To protect the company, the cap on the product is **10%** (instead of 12-17%).
- Understand that there is only so much money to buy options on the S&P 500 and by the way this product is designed, the 10% cap is needed to protect the life insurance company.

Who would use the 140% product?



- Those that think over the next 10 years that the S&P 500 will be <u>relatively flat</u>.
- Who's that? People like Warren Buffet they say.
- Many well known mutual fund managers.
- Many hedge funding managers.

Think about it



- If you asked 100% of your client what they thought the market would do the next 10 years how many would say the returns will modest (years of 3%, 5%, 7%?).
- How many of your clients?
  – 5%, 10%, 25% 50%?
- Let’s say 25%.
- Don’t you want to have a policy that will give them what they need and want?
- What’s that?
- The best opportunity to have maximum growth in their life policies based on what they think the market will do over the next 10 years.

Options for Clients

- CWPP™ advisors pride themselves on being able to provide the **<u>most and best options</u>** for clients.
- Wouldn't it be nice to offer our clients a product where they could use the 140% participation rate product **<u>OR</u>** the traditional 100% participation rate product with the higher annual cap?
- Wouldn't it be nice if they had the option to change investment buckets?
- Absolutely.

Continued

- With the new 140% product that’s the options a client will have.
- Client can have their cake and eat it to.

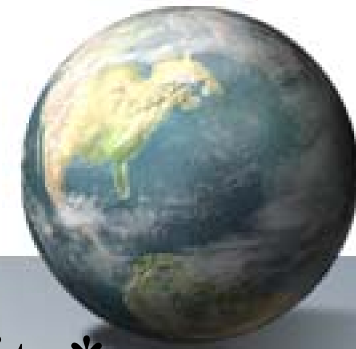
Dynamic Policy Loan Options

- Variable loan Interest rate subject to change on anniversary
- Basically what is happening is that when the client borrows from the policy he/she can choose to have this variable loan option.
- The interest charged is the typical fixed interest charged as is the case with any UL.
- However, instead of a conventional wash loan, the client can let the cash in his/her policy grow at market rates (what the S&P 500 returns).
- The theory is that the S&P 500 over time has earned nearly 2% more each year than fixed interest rates have returned.
- Why is this good?
- The client is actually making money in their policy when they borrow from it.
- The downside is that if the S&P 500 goes flat, this won't work out so well.
- I do not recommend defaulting to a spread when you do your illustrations like the Amerus/Indy Life software does.
- I think you could get sued unless you have full disclosure to the client about why the policy when borrowing looked so darn good.
- Illustrate both wash loans and variable loans and give full disclosure to the client.

Riders

- Many policies have all sorts of different riders you can put on them.
- The following is a list with LSW’s EIULI policy.
- The one that I think is the most intriguing is the LTC rider.
- They have a free rider and one with a small charge.
- This could be a way to get your clients into a policy where they have cash accumulation, a nice DB AND a LTCI benefit (which most clients are too cheap to purchase on their own).

Policy Riders with LSW



- Accelerated Benefits*
  - Terminal Illness
  - Chronic Illness
  - Critical Illness
- Accidental Death Benefit
- Children's Term
- Disability Income
  - 2-year
  - 5-year
- Extension of Benefits*
- Guaranteed Insurability
- Long-Term Care*
- Other Insured
- Unemployment
- Waiver of Target Premium

* Riders are optional, may require an additional premium and may not be available in all states. Use of living benefits riders reduce the Policy's Cash Value and Death Benefit and may result in a taxable event.

Disability Income Rider

- Two-year payout period
- Available to both Primary Insured and Primary Other Insured
- 3-month waiting period
  - Benefits paid retroactively
- Own occupation
- Min. monthly benefit = $300
- Max. monthly benefit = $2,000
- Premiums remain level
- Issue ages 18-55
  - Some occupations are ineligible

Policy form series no. 8054(0798)

Disability Income Rider

- Five-year payout period
- 6-month waiting period
  - No retroactive benefits
- Own occupation first 2 years ~ any occupation suited for thereafter
- Min. monthly benefit = $300
- Max. monthly benefit = $2,000
- Premiums remain level

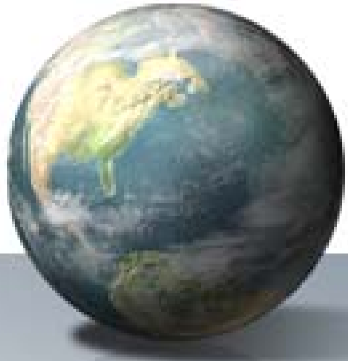
Policy form series no. 8065(0798)

Waiver of Target Premium Rider (WTP)

- Waives the policy premium when the insured is totally disabled
- 6-month elimination period
- Premiums remain level
- Issue ages 15 - 55

Policy form series no. 8053(0798)

Long-Term Care Rider

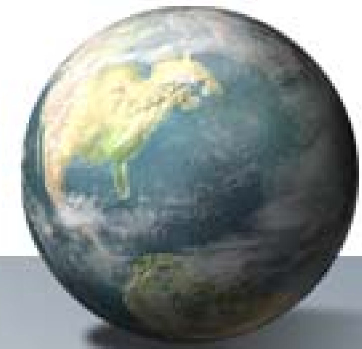


- Chronically ill
  - Unable to perform two of six ADLs or cognitive impairment
- 90-day waiting period
- Max. monthly benefit of 2% of Death Benefit for nursing home or home health care or 1% for adult day care
- Monies must be used for **long-term care costs**
- Premium remains level
- Policy premiums or monthly charges are waived while LTC benefits are being paid
- Issue ages 0 - 70

May not be available in all states. Rider name may vary by state.

Policy form series no. 8096(0899)

Extension of Benefits Rider



- Provides LTC benefits after ABR2 or LTC Rider benefits have been exhausted
- Max. monthly benefit of 1% of initial face amount for nursing home or home health care or .5% for adult day care
- Monies must be used for long-term care costs
- Benefits are paid for life
- Premiums remain level
- Inflation protection available
  - 5% annual compounded increase
  - Starting at policy issue
- Issue ages 0-70

May not be available in all states. Rider name may vary by state.

Policy form series no. 8097(0899)

Extension of Benefits Rider

with 5% inflation protection

Type Of Care	Maximum Monthly Benefit At Policy Issue	Maximum Monthly Benefit At 10 Years	Maximum Monthly Benefit At 20 Years	Maximum Monthly Benefit At 30 Years
Nursing Home Care	$2,250	$3,665	$5,970	$9,724
Home Health Care	$2,250	$3,665	$5,970	$9,724
Adult Day Care	$1,125	$1,833	$2,985	$4,862

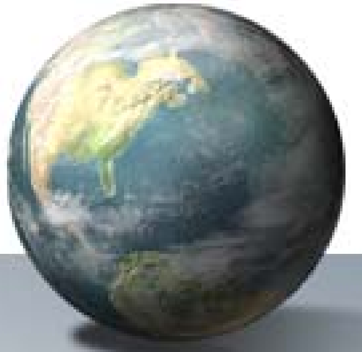
Based upon a policy with an initial death benefit of $225,000

May not be available in all states. Rider name may vary by state.

Summary

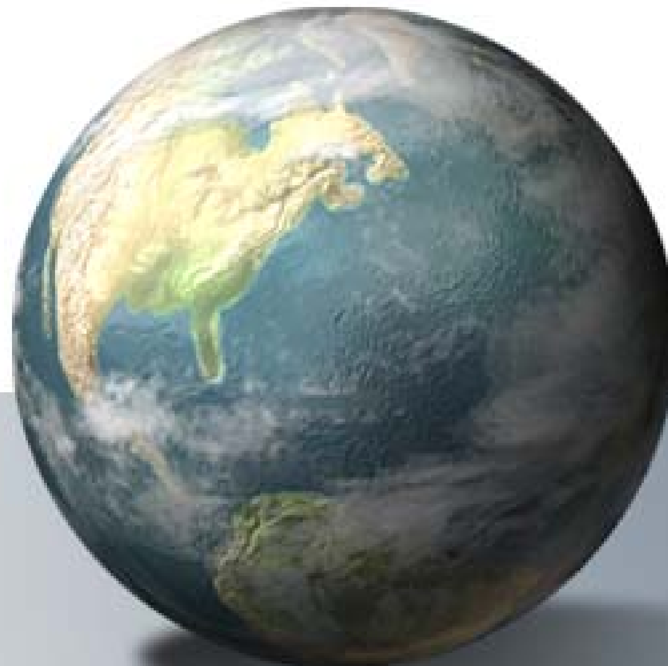
- Should you be selling or offering to your clients EIULI?
- You should if:
- If you drink from the cup of Whole life and would like to get into the 21st century.
- If you have clients that think the S&P 500 over time will out perform the bond markets.
- If you have clients who have variable life and would like to be able to sleep at night because they have a policy with good upside growth and minimum guarantees.
- If you would like to give your clients who think the market is going to be relatively flat the opportunity to earn 140% of what the S&P 500 returns.

More information



- For more information on the 140% crediting method EIULI policy, please contact:
- Mike Duncan at **lsw403b@verizon.net**
- 951-378-7943
- Or Call the WPI at 269-408-1841 or **info@thewpi.org**

Raising Money to Fund LI: The 1% CFA Mortgage



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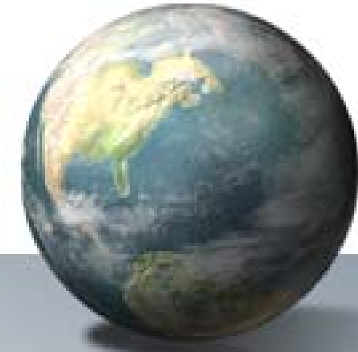
How to raise money to fund LI

- 1% option arm mortgage.
- If your clients could borrow money at 1% and invest it into life insurance which should earn 5-8% would they do it?
- Would your clients be interested in a 1% home mortgage?
- Would you be interested in a 1% home mortgage.

How does it work?



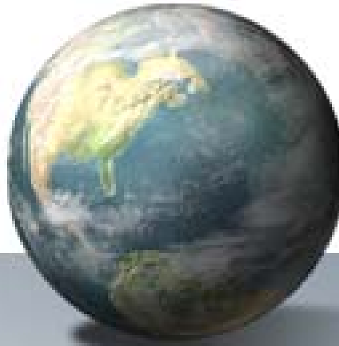
- The 1% option arm mortgage program is designed for clients who would like to **minimize their current monthly home mortgage payments** while at the same time **invest** the saved money for future retirement savings.
- This program is **not** designed for home owners who are looking to reduce their monthly mortgage payments with an eye on paying off their home mortgage in the standard time frames 15-30 years.
- The whole point of the 1% arm is to minimize current costs which frees up money for investing.

Continued

- The 1% option arm is a <u>five year</u> <u>arm</u> where the **<u>payments</u>** of the arm increase at the rate of 7.5% a year (see the following chart for an example).
- At the end of the 3rd-5th year the client can re-finance the loan back into a 1% arm (or the client can keep the going interest rate on the loan or completely re-finance with any other loan program).

Option Arm Cash Flow Analysis	**30 Year @ 6.000%**	**Option Arm @ 1.000%**	**Option Arm Cash Flow Over Other**
Year 1	$28,778	$12,137	$16,641
Year 2	$28,778	$13,047	$15,731
Year 3	$28,778	$14,026	$14,753
Year 4	$28,778	$15,078	$13,701
Year 5	$28,778	$16,209	$12,570
5 Year Totals	**$143,892**	**$70,497**	**$73,395**

Continued



- If the client took the money saved from the first five years and invested it into an equity indexed life insurance policy earning 7.9% a year, the client could take out of his life insurance policy $22,000 a year income tax free from age 63-82.

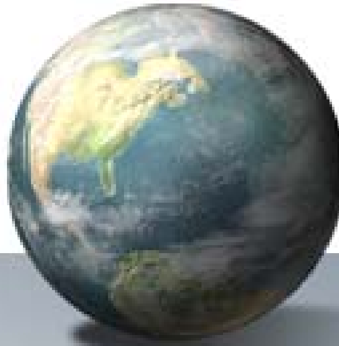
Equity Harvesting

- Would a client refinance a property if they could have payments on a 1% loan and invest the borrowed money in a tax favorable environment? Many would say YES.
- Example: assume a client has a $1,000,000 home with no debt or very little debt. Assume the client decides to sell the home and buy a new home. In that process, assume that he removed $600,000 of equity from the sale of the home and invest it for retirement income later. Assume the client used the 1% option arm and is in the 40% tax bracket.

Out of Pocket Interest

Option Arm Cash Flow Analysis	Option Arm @ 1.000%	Cost Out of Pocket After Tax
Year 1	$18,206	$10,923
Year 2	$19,571	$11,743
Year 3	$21,039	$12,623
Year 4	$22,617	$13,570
Year 5	$24,313	$14,588
5 Year Totals	**$105,745**	**$63,447**

Returns



- If the client invested the $600,000 into an equity indexed life insurance policy earning 7.9%, the client could take out of the life insurance policy $191,000 **income tax free** for 20 years starting at age 63.

Conclusion on 1% Arm

- For brevity sake the entire program is not discussed.
- As you can see from what has been discussed the 1% option arm is a nice way to raise capital for clients to invest in vehicles such as life insurance.
- For more information on the 1% arm, please e-mail **info@thewpi.org**.

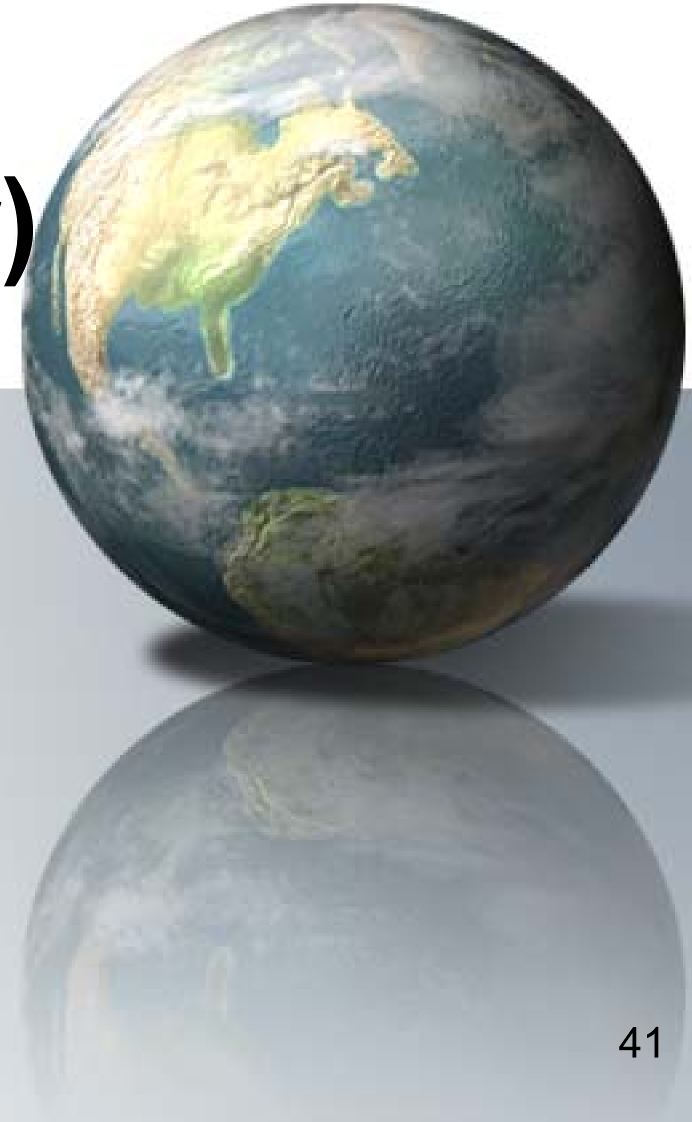
Questions?

www.thewpi.org

info@thewpi.org

269-408-1841

Overview for the Professional Designation: CWPP™ (Certified Wealth Preservation Planner)



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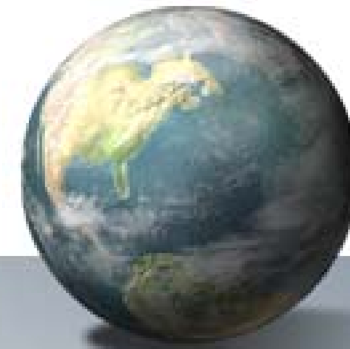
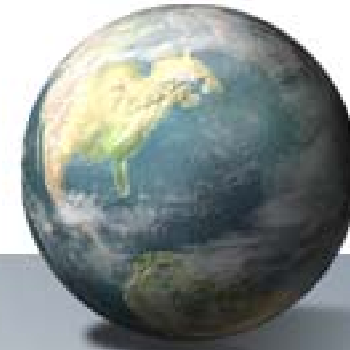
What do Advisors want?



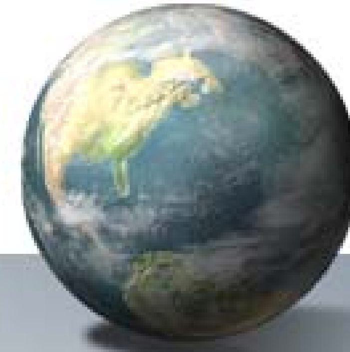
- To earn more money?
- To have more knowledge than other advisors?
- To provide better advice to clients on multiple topics?
- To be more credible than other advisors?
- A team of advisors for support and back office when dealing with “advanced” planning.
- The ability to market to CPA, Attorneys and physicians through continuing education credit.
- Are these of interest to you?
  - If so you are a candidate to become an CAPP™ or CWPP™

The WPI and CWPP™/CAPP™



- What is the Wealth Preservation Institute (WPI)?
  - The **only** educational entity in the country devoted to provide education on **“advanced” planning (**asset protection, tax and estate planning)
  - The **only** entity in the country focusing on topics that apply mainly to the **high income/net worth client**.
  - Certifying entity for the CWPP™ designation.
- The CWPP™ course is a 24 hour certification program which can be taken all online or in person.
- The Certified Asset Protection Planner designation is for those simply want to deal with AP (18 hours).

Are you should learn “Asset Protection”



- Why learn asset protection?
  - 99% of your current and future clients are not asset protected.
  - Most clients with wealth, once made aware of this fact, will want help.
  - Once you learn the topic you can help.
  - You are **not** talking “product” with a client and therefore will not be seen as pitching product.
  - Of all the topics you would deal with, asset protection is best **client gathering tool**.

Topics

- What topics are covered in the CWPP™ course?
- **Asset protection (3 hours)**

  -Domestic

  -Offshore
- **Deferred Compensation (4 hours)**

  -WealthBuilder® Annuity; Traditional NQDC and the Leveraged Bonus Plan®

  -Qualified plans/412(i) plans ("carve-out" planning)

  -ESOPs

  -IRAs
- **Business Planning (6 hours)**

  -Account Receivables (A/R) Leveraging (done the right way)

  -VEBAs and 419A(f)(6) Plans

  -Section 79 Plans

  -Closely Held Insurance Companies

  -Corporate Structure

Continued

- **Estate Planning (8 hours)**
  -Basic
  -“Advanced”
  -Private Annuities Trusts (capital gains deferral)
  - Life Insurance
  -Qualified Pension Insurance Partnership®
    (Mitigating the 75% Tax Trap)
  -Charitable planning
  -Long Term Care Insurance
- **Personal Finance (4 hours)**
  -Annuities
  -Life Settlements
  -1% CFA Mortgages (Equity Harvesting the “right” way)
  -Reverse Mortgages
  -Private Annuity Trust

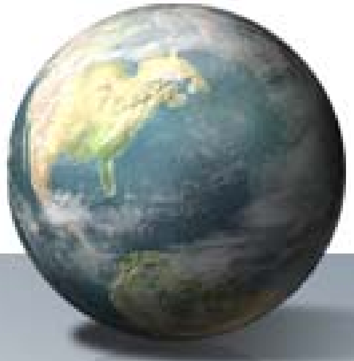
Marketing

- The WPI helps is certified advisors market in several very unique ways.
- 1) The ability to become an instant author through a 340+ page "**ghost book**."
- The WPI will allow CWPP™ advisors to give CPE continuing education courses on a local level to CPAs and accountants.
- Ability to give CME seminars to physicians.

Continued

- The WPI has a number of **articles** that CWPP™ advisors can use to place in local medical, accounting, legal and other business journals.
- The WPI also has dozens of PowerPoint presentations CWPP™ or CAPP™ advisors can use to present topics to either client or other advisors. (what a time saver).

Marketing continued



- **<u>Ghost Web-Site</u>** for those who want a web-site which tells your clients about your special knowledge.
- www.thewpi.org/template
- **<u>E-newsletters</u>** The WPI creates for you to send out to your clients.
- **<u>E-newsletter blasting system</u>** so you can drip on your client’s with Educational newsletters.
  - This system is setup to track who opens your newsletters and how many times they open them.
  - Can you imagine calling a client and telling them that you noticed they opened the last e-newsletter 5 times and you wondered if you could answer any questions for them.

Should you become a CWPP™?

- YES. IF you are looking to learn several new topics which:
  - can help high income/net worth clients;
  - can help position you as the client's trusted advisor and team leader;
  - are very insurance and annuity friendly.
- If you are looking to become better educated on topics you currently deal with.
- If you would like keep updated on law changes, new concepts and have access to PowerPoint presentations, articles and the ability to have your own "Ghost" book and ghost web-site and e-mail blasting system.

How to sign up.

- If you would like to sign up to become a CWPP™ and/or CAPP™ advisor, you can do so by clicking on the appropriate tabs on the left front bottom part of the web-site under Product Categories
- You can take the course entirely online or in person.
- You can <u>**get started with a $500 deposit**</u> which will get you access to over 640 pages of CWPP™ course material and the tests.

Questions

Please contact The WPI at 269-408-1841 or e-mail at info@thewpi.org