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What Fiduciaries Need to Know about Life Insurance Illustrations in Relationship to their Fiduciary Duties

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A Member Firm of M Financial Group

### NEW YORK'S CLIENTS BEST INTEREST RULE FOR LIFE INSURANCE FOUND CONSTITUTIONAL

Debevoise & Plimpton



"On October 20, 2022, the New York State Court of Appeals constitutionally affirmed the nation's first client's best interest regulation for life insurance and annuities."

The regulation requires the use of "care, skill, prudence, and diligence that a prudent person"... would use to justify costs relative to benefits, to evaluate the reasonableness of performance requirements, and to assess risks of under-performance relative to the client's risk tolerance... AKA fiduciary language.

### THE OLD STANDARD OF CARE

- ASSUMPTIONS:
- Male age 50, Preferred health, NS, NY resident, \$10,000,000 face amount, endow at age 120
- 5.5% conservative annual return expectation, not guaranteed, permanent coverage
- Ratings among the top 10% of all life insurers

#### **INSURER A**

\$10,000,000 face amount Annual Premium \$114,081 DB IRR at age 85 4.64% Cash @ age 85 \$5,865,793 Cash IRR at age 85 1.64%

### INSURER **B**

\$10,000,000 face amount Annual Premium \$124,000 IRR at age 85 4.24% Cash value age 85 \$6,453,547 Cash IRR at age 85 2.10%

Based on these facts which policy would you choose if the clients goal was death benefit?



## THE NEW STANDARD OF CARE

### LET'S ADD ADDITIONAL FACTS AS REQUIRED BY FINRA 2210/2011, UPIA, REG 187, CFP BOARD:

#### INSURER A \$10,000,000 face amount Annual premium \$114,081 TOTAL INTERNAL COST TO AGE 100 \$8,530,402

### **INSURER B**

\$10,000,000 face amount Annual Premium \$124,000 **TOTAL COSTS TO AGE 100 \$5,400,000** 

Premium Charges Distributions Policy Values														
		Prem	nium			<u>Ct</u>	arges			Distribu	tions	P	olicy Values	
Yr	Age	Premium Outlay	Percent Of Premium Charge	Admin & Per 1000	Sub-	alue	Rider	Index Segment	Base COI	Total Loan Balance	Withdrawal	Investment Gain/Loss	EOY CV	Deal Bend
1	91	114,081	6,845	120		0	0	0	331,176	0	0	288,194	6,115,423	10,000,0
2	92	114,081	6,845	120		0	0	0	366,642	0	0	290,380	6,146,277	10,000,
3	93	114,081	6,845	120		0	0	0	419,216	0	0	290,532	6,124,710	10,000,
4	94	114,081	6,845	120		0	0	0	465,745	0	0	288,316	6,054,397	10,000,
5	95	114,081	6,845	120	/	0	0		474,947	0	0	284,695	5,971,261	10,000,
5	96	114,081	6,845	120	/	0	0	0	485,828	0	0	280,414	5,872,964	10,000,
7	97	114,081	6,845	120		0	0	0	461,119	0	0	276,302	5,795,263	10,000,
8	98	114,081	6,845	120		0	0	0	432,893	0	0	273,272	5,742,758	10,000,
9	99	114,081	6,845	120		0	0	0	401,302	0	0	271,544	5,720,116	10,000,
0	100	114,081	6,845	120		0	0	0	366,639	0	0	271,335	5,731,928	10,000,
Inte		5,704,050	342 243	347 532		0	0	0	7 189 136			7 906 790		

- Disclose costs, Investigate Costs, Justify costs
- This comparison is designed to explain why illustrations and illustration comparisons are considered "misleading", "fundamentally inappropriate" by FINRA, OCC, SOA. Hypothetical example, not a solicitation

## SITUATION





Life insurance is often integral to planning...

#### Income Tax-Free Death Benefit

 IRC Section 101(a)(1) states in general that "gross income does not include amounts received under a life insurance contract, if such amounts are paid by reason of the death of the insured."

#### Tax-Deferred Growth of Cash Value

 Cash value increases in a life insurance policy are not taxed to the policyholder as long as the policy remains inforce. Theodore H Cohen v. Comm., 39 TC 1056 (1963); Abram Nesbitt, II v. Comm., 43 TC 629 (1965); IRC Reg. Sec. 1.446-1(c)(1)(ii).

#### Non-Taxable Withdrawals

 Withdrawals from life insurance contracts that are not modified endowments, are treated as a withdrawal of basis first, and are taxed only to the extent that they exceed basis. IRC Sec. 7702(f)(7)(B)(iii).

#### Non-Taxable Loans

 Loans from inforce insurance policies that are not modified endowments, are received income tax free. IRC Sec. 72(e)(5)(A)(i).

### SITUATION



- Life Insurance is often integral to planning, but is often the last, largest, most-neglected asset
- Charges can be challenging to understand, and costs can vary as much as 80%
  - Easy to understand with the correct data
- Actual performance can be difficult to ascertain
  - Easy to understand with the correct data
- Relative to client expectations, it can be a poor-performing asset-type





### Tips for Pros: What Fiduciaries Need to Know About "Questionable Practices" Regarding Life Insurance Illustrations

Help Your Clients Achieve Better Outcomes

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Page 8

## LIFE INSURANCE ILLUSTRATIONS: WHAT ARE THEY?

A "depiction of non-guaranteed elements of a life insurance policy over a period of years" comprised of:

- 50 +/- pages each
- Thousands of numbers
  - (i.e. 70 years X 10 columns for a 50 year old)
  - At different rates of return/dividends
- Dozens of disclaimers & footnotes
- Client attestation of understanding

Nor- Gammbed Prince 1         Nor- Gammbed Summer         Nor- Gammer         Nor- Gammbed Summer         Nor- Gammbed Summer	Karata Kara Vale	Cast Sane de Value	Polos								Pay		
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LIFE INSURANCE ILLUSTRATIONS: WHAT ARE THEY?

#### Flexible Premium Indexed Adjustable Life Insurance Form Series ICC15 P15IUL or P15IUL based on state of policy issue Non-Guaranteed Policy Values: Ledger (2) 331.811 224.001 349 563 345.553 361.672 377.066 392.777 392.777 AIM MIL 408,904 225 202 424 202 441,955 441,955 459,163 459,163 476 885 471,885 345.112 495 114 501.00 501905 535,915 649,399 548.388 065.551 565.551 582 316 582,350 599 144 599 164 615,998 615,998 632.925 632,925 649,795 649,795 666.610 655,610 683.340 683,340 629.918 028.918 716.276 716 27/ 732.371 732 371 748,163 748,163 763 378 763.978 777 833 777 833 791,597 791,597 884,696 304,999

A "depiction of non-guaranteed elements of a life insurance policy over a period of years" based on:

- Cost of Insurance charges (COIs) for death benefits claims;
- Policy expenses (E) for actuarial design, marketing, distribution, underwriting & administration; and
- Interest/Earnings (i%) on premiums in excess of #1 and #2.

**SUMMARY:** COIs + E - i% = Premium

This report is not complete and cannot be presented without the Basic Illustration. Please refer to the Basic Illustration for guaranteed elements and other important information. Non-guaranteed elements are not guaranteed

\*A zero in the Premium Outlay column does not mean the policy is paid up. Charges will continue to be deducted from the Accumulated Value as long as the policy remains in-force. The actual premium amounts and number of years of premium payments that are needed to maintain the illustrated non-guaranteed policy benefits will depend on the policy's non-guaranteed elements and on your actual use of the policy's options

	For, Valued Client
ISD/C. Run, 8/11/2017 10:12 AM	Page, 2 of 11





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## LIFE INSURANCE ILLUSTRATIONS:

### **LEGITIMATE PRACTICES**

 How the policy works?
 How lower/higher interest/investment performance will impact the policy?
 "What if ..." Analysis cash flow Modeling/Planning

### QUESTIONABLE PRACTICES

NOT useful for understanding:

- Cost Competitiveness
   Performance Reasonableness
- 3. Risk Appropriateness

In other words, the illustration is **NOT** a representation, **NOT** a forecast, **NOT** a prediction.





### What Fiduciaries need to Know About Life Insurance Guidance from: FINRA, the UPIA, NYS DFS, etc.

Help Your Clients Achieve Better Outcomes

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## NY DFS Best Interest Rule (Reg 187)

### **Redefines "Clients' Best Interest" for product recommendations for...**

- Residents of New York (even if advisors are in another State)
- Former residents of New York but with ILIT(s) domiciled in New York
- ILIT Trustees in New York (even if ILIT is domiciled elsewhere)
- Financial Advisors in New York or with clients in New York





## **BEST INTEREST RULES** – BENEFICIAL IN EVERY STATE

## Redefine "Clients' Best Interest" for product recommendations similar to other fiduciary rules

Considering only the interests of the consumer in making recommendations

Reflecting the care, skill, prudence, and diligence [of] a prudent person

Prominently disclos[ing] in writing limit[ations in] the range of policies recommended. NEW YORK STATE DEPARTMENT OF FINANCIAL SERVICI FIRST AMENDMENT TO 11 NYCRR 22. (INSURANCE REGULATION 187) SUITABILITY AND BEST INTERESTS IN LIFE INSURANCE AND ANNUITY TRANSACTIONS 1, Maria T. Vullo, Superintendent of Financial Services, pursuant to the authority granted by Sections 202 and 302 of the Financial Services Law and Sections 301, 308, 309, 2103, 2104, 2110, 2123, 2208, 3209, 4224, 4225, and Articles 24 and 42 of the Insurance Law, do hereby promulgate the following First Amendment to Part 224 of Title 11 of the Official Compilation of Codes, Rules and Regulations of the State of New York (Insurance Regulation 187), to take effect August 1, 2019, and to read as follows: (New Matter Underscored; Matter In Brackets Deleted) The title of Part 224 is amended to read: SUITABILITY <u>AND BEST INTERESTS</u> IN <u>LIFE INSURANCE AND</u> ANNUITY TRANSACTIONS

#### Section 224.0 Purpose.

(a) [The purpose of this Part is to require insurers to set forth] <u>Insurance Law article 24 permits the</u> superintendent to regulate trade practices in the business of insurance to prevent acts or practices that are unfair or deceptive. The Insurance Law, including sections 2103, 2104, 2110, 2123 and 2208, establishes standards of conduct for insurance producers, including that producers must act in a competent and trustworthy manner. The Insurance Law, including Article 42, also establishes standards of conduct for insurers, including fraternal benefit societies.

(b) This Part clarifies the duties and obligations of insurers, including fraternal benefit societies, by requiring them to establish standards and procedures for recommendations to consumers with respect to [annuity contracts] policies delivered or issued for delivery in this state so that any transaction with respect to base policies is in the best interest of the consumer and appropriately addresses the insurance needs and financial objectives of [consumers] the consumer at the time of the transaction of Insurance needs and financial objectives of procedures are substantially similar to the National Association of Insurance Commissioners' Suitability in Annuity Transactions Model Regulation ("NAIC Model") for annuities, and the Financial Industry Regulatory Authority's current National Association of Securities Dealers ("NASD") Rule 2310 has applied nationwide for nearly 20 years. Accordingly, this Part intends to bring these national standards for annuity contract sales to New York]. This Part also clarifies the nature and extent of supervisory controls that an insurer must maintain to achieve

(c) This Part further clarifies the duties and obligations of producers when making recommendations to consumers with respect to policies delivered or issued for delivery in this state to help ensure that a transaction is in the best interest of the consumer and appropriately addresses the insurance needs and financial objectives of the consumer at the time of the transaction. The best interest standard set forth in this Part requires a producer, or insure where no producer is involved, to adhere to a standard of conduct to be enforced by the superintendent, but does not guarantee or warrant an outcome.

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## **BEST INTEREST RULES** – BENEFICIAL IN EVERY STATE

Redefine "Clients' Best Interest" for product recommendations based on the evaluation of...

- All Products, Services & Transactions Available
- Relevant Suitability Information
- Justifiable Costs, Reasonable Performance & Appropriate Risk

Ethically, these rules apply in every state



## NAIC ILLUSTRATIONS MODEL REGULATION

Define(d) "Clients' Best Interest" for product recommendations since 1995, but...

- Lack uniform practice (NAIC)
- NO disclosure of costs, performance, or risk

1995 - "The goals ... are to ensure that illustrations do not mislead purchasers of insurance and to make illustrations more understandable."

2015 - Adopted and updated to address "...lack of uniform practice [resulting in] ... illustrations that use an [apparently] identical crediting approach yet illustrate differing rates."

LIFE I	INSURANCE	ILLUSTRATIONS	MODEL REGULATION
		10000110110110	MODEL ILLOCETTION

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Section 1. Purpose

Section 14

Effective Date

The purpose of this regulation is to provide rules for life insurance policy illustrations that will protect consumers and foster consumer education. The regulation provides illustration formats, prescribes standards to be followed when illustrations are used, and specifies the disclosures that are required in connection with illustrations. The goals of this regulation are to ensure that illustrations do not mislead purchasers of life insurance and to make illustrations more understandable. Insurers will, as far as possible, eliminate the use of foomotes and caveats and define terms used in the illustration in language that would be understood by a typical person within the segment of the public to which the illustration is directed.

Section 2. Authority

This regulation is issued based upon the authority granted the commissioner under Section [cite any enabling legislation and state law corresponding to Section 4 of the NAIC Unfair Trade Practices Act].

Drafting Note: Insert the title of the chief insurance regulatory official whenever the term "commissioner" appears.

Section 3. Applicability and Scope

This regulation applies to all group and individual life insurance policies and certificates except:

- A. Variable life insurance;
- B. Individual and group annuity contracts;



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## FINRA RULE 2210(d), FINRA RULE 2210-2(c)

### FINRA Rule 2210(d): "Any comparison... must disclose all material differences...including investment objectives, costs and expenses, [etc]...[because] omission... would cause the communications to be misleading."

FINRA Rule 2210-2(c): "It is inappropriate to compare a ... life insurance policy with another product based on hypothetical performance..."

#### (9) Filing Exemptions

(A) Pursuant to the Rule 9600 Series, FINRA may exempt a member from the pre-use filing requirements of paragraph (c)(1)(A) for good cause shown.

(B) Pursuant to the Rule 9600 Series, FINRA may conditionally or unconditionally grant an exemption from paragraph (c)(3) for good cause shown after taking into consideration all relevant the extent such exemption is consistent with the purposes of the Rule, the protection of investors, and the public invesse.

(d) Content Standards

(1) General Standards

(A) All member communications must be based on principles of the feating angle of bith, must be bits and balanced, and reus provide a weard base for evaluating the facts is negarid to any particular security or type of security, industry, or service. No member may emit any material fact or qualification of the emission, in light of the context of the material presented, would cause the communications to be writedading.

(B) No member may make my hike, congenerated, insummated, pounisory or mideleding attenents to chain in any communication. No member may publish, circulate or distribute any communication that the member knows or his research to how contaits any untrue statement of a material fact or no otherwise factor or miledange.

(C) Information may be placed in a legend or footnote only in the event that such placement would not inhibit an investor's understanding of the communication.

(1) Members must ensure that statements are clear and nor micloaling within the context in which days are made, and that they provide balanced memory of risks and potential benefits. Communications must be consistent with the risks of fluctuating prices and the uncertainty of dividende, miss of return and yield inherent to investments.

(E) Monshers must consider the nature of the audience to which the communication will be directed and must provide details and explorations appropriate to the sudience.

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Print
IM-2210-2. Communications with the Public About Variable Life Insurance and Variable Annuities

The standards governing commutations with the public are set from by <u>Bulk 2120</u>, the settion to flow the standards governing commutations are applicable to advertise the standard without the numerics and variable structures and variable structures. The structure structure structure structure structure structure structure structure structures and variable structures.

#### (a) General Considerations (1) Product Identification

FINCA

(i) Fround identification

In order to saure that intestor understand exactly tails scorely to being discusses, all communications mut carely escribe the product series variable (the instance score) or a variable annual, sub adjustice. Here from many use propriety ments in addition to decorption, in cases where the propriety many notices a decorption of the type of annual peng offend, there is no light to the score of the score of

#### (2) Liquidity

Considering that unable its insurance and insides emultes requesity must excluderate indexes and the separates for early inside or ease of excess in instement water must be baseded by one inside excluder the regard in the regard inside of early regarding or ease of excess in instement water must be baseded by one inside exclude the regard inside of early regarding or early excess in the regard inside and the regarding excludes and the regarding exclusions of loans and withdhawate must exclude the regarding excluses and ease here the regarding exclusions of loans and withdhawate must exclude and ease the regarding excluses and ease here the regarding exclusions of loans and withdhawate must excluse and ease here the regarding exclusions of loans and withdhawate must excluse and ease here the regarding excluses and the regarding exclusions of loans and withdhawate must excluse and ease here the regarding excluses and the regarding exclusions of loans and withdhawates must excluse and ease here the regarding exclusions of loans and withdhawates must excluse and ease here the regarding excluses and ease here the regarding exclusions of loans and withdhawates must excluse and ease here the regarding exclusions of loans and withdhawates must excluse and ease here the regarding exclusions of loans and withdhawates must excluse and ease here the regarding exclusions of loans and withdhawates must excluse and ease here the regarding exclusions of loans and withdhawates must exclusions of loans and exclusions of loans and withdhawates must exclusions and ease here the regarding exclusions of loans and withdhawates must exclusions and exclusions and ease here the regarding exclusions and ease here the regarding exclusions and exclusions and ease here the regarding exclusions and ease here the reginder exclusions and ease here the regarding exclus

#### (3) Claims About Guarantees

Insurance companies issuing variable (IP insurance and variable annulles provide a number of specific guarantees. For example an insurance company may guarantee a minimum death benefit for a variable (IP insurance policy or the company) may guarantee steadule of againet as a variable and/up company. The realistic active scale and againet and as done of the of methodes account which a guarantee by the struance company. The realistic active scale and againet must not representation of ministra in the struance company. The realistic active scale and and again the scale account instrument and a scale active active scale active scale active scale active scale active scale active representation of ministra in the squarate company is france and active active active scale account. Diminary, it must not be represented or implied that an insurance company is france and raining apply to the separate account.

#### (b) Specific Considerations

(1) Fund Performance Predating Inclusion in the Variable Produc

In order to how how an existing fund would have performed had to een an investment option within a variable life issuance of our variable analy, communications may contain the fund's hadronic performance take interests is in sculato in the solar or annuity. Duck performance may only as used provides than a significant changes accured to the fund at the fund or their It became and of the variable possible. Haveiver, communications may not inclusive the performance of a straining burgots and and the strained possible. Haveiver, communications may not inclusive the performance of a straining hard the publicate and the strained possible. The strain of the strain of the strain of the strained possible and presentation of historical performance must confirm to applicable HADD and GBC straineds. Particular attention must be given to including al elements of them and executing applicable expresses.

#### (2) Product Comparisons

A comparison of investment products may be used provided the comparison compiles with applicable requirements set forth under <u>Rule 2210</u>, Particular attention must be paid to the specific standards regarding "comparisons" set forth in <u>Rule 2210</u>(d)(2)(B).

(3) Use of Rankings

A packing which reflects the reliative performance of the separate account or the underlying investment option may be included in advertisements and sales illerature provided its use is consistent with the standards contained in <u>III-22(0-3</u>). (4) Discussions Reparation locarumane and investment Features of Variable Life insurance

-) Dresserving Regarding insurance and investment Features of Variable Life Insurance

Communications on behalf of single premium variable life insurance may emphasize the Investment Relatives of the product provided an adequate explanation of the life insurance features is given. Dates material for other types of variable life insurance must provide a balanced discussion of these features.

(6) Hypothetical Illustrations of Rates of Return in Variable Life Insurance Sales Literature and Personalized Illustrations



## SOCIETY OF ACTUARIES

TRANSACTIONS OF SOCIETY OF ACTUARIES 1991-92 REPORTS



FINAL REPORT\* OF THE TASK FO..... FOR RESEARCH ON LIFE INSURANCE SALES ILLUSTRATIONS UNDER THE AUSPICES OF THE COMMITTEE FOR RESEARCH ON SOCIAL CONCERNS

EXECUTIVE SUMMARY

Purpose

The Task Force for Research on Life Insurance Sales Illustrations reports to the Society's Committee for Research on Social Concerns. The Task Force was formed in recognition of the declining level of consumer confidence in the life insurance industry and, in particular, to investigate how sales illustration practices can add to, or detract from, consumer confidence.

In developing this report, the Task Force surveyed life insurance company illustration practices, reviewed available literature and regulatory requirements, held open forums at Society of Actuaries (SOA) and Canadian Institute of Actuaries (CIA) meetings, and considered the methodology applied to other financial products.

#### Situation Analysis

Sales illustrations have been developed to meet a variety of needs from a variety of consumers, all placing different requirements on an illustration. There are two major uses of illustrations:

- Type A Usage is intended to show the consumer the mechanics of the policy being purchased and how policy values or premium payments change over time. The emphasis is a matter of how and what rather than how much.
- Type B Usage tries to project likely or best estimates of future performance and compare cost or performance of different policies. It attempts to show how much on the premise that the hows and whats are comparable enough for this to be meaningful.

Illustrations handle Type A requirements well, especially if several illustrations are used to show different scenarios. Illustrations inherently do not

\*Opinions expressed herein are those of the Task Force for Research on Life Insurance Sales Illustrations and of the Committee for Research on Social Concerns. This report does not purport to represent the views of the Society of Actuarise or of its Board of Governors.

†ludy A. Faucett (Chairperson), Benjamin J. Bock, Bruce E. Booker, John W. Keller, John R. Skar, Linden N. Cole, Staff Liaison, W. Steven Prince, CIA Liaison, and Michael J. Roscoe, AAA Liaison.

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Final report of the task force for research on life insurance sales illustrations: "Illustrations should not be used for comparative policy performance purposes because doing so is fundamentally inappropriate."



## **DEPARTMENT OF THE TREASURY- OCC**







- Prudent Process includes...
- Duty to monitor- health status, default risk, etc.

**Duty to Monitor,** Subsections (a) through (d) apply to both investing and managing trust assets. "Managing" embraces monitoring, that is, the trustee's continuing responsibility for oversight of the suitability of investments already made as well as the trustee's decisions respecting new investments.

the interests of participants and beneficiaries in their retirement income to unrelated objectives."

SECTION 6. IMPARTIALITY. If a trust has two or more beneficiaries, the trustee shall act impartially in investing and managing the trust assets, taking into account any differing interests of the beneficiaries.

#### Comment

The duty of impartiality derives from the duty of loyalty. When the trustee owes duties to more than one beneficiary, loyalty requires the trustee to respect the interests of all the beneficiaries. Prudence in investing and administration requires the trustee to take account of the interests of all the beneficiaries for whom the trustee is acting, especially the conflicts between the interests of beneficiaries interested in income and those interests in principal.

The language of Section 6 derives from Restatement of Trusts 2d § 183 (1959); see also id., § 232. Multiple beneficiaries may be beneficiaries in succession (such as life and remainder interests) or beneficiaries with simultaneous interests (as when the income interest in a trust is being divided among several beneficiaries).

The rustee's dury of impariality commonly affects the conduct of investment and management functions in the sphere of principal and income allocations. This Act prescribes no regime for allocating receipts and expenses. The details of such allocations are commonly handled under specialized legislation, such as the Revised Uniform Principal and Income Act (1962) (which is presently under study by the Uniform Law Commission with a view toward further revision).

SECTION 7. INVESTMENT COSTS. In investing and managing trust assets, a trustee may only incur costs that are appropriate and reasonable in relation to the assets, the purposes of the trust, and the skills of the trustee.

#### Comment

Wasting beneficiaries' money is imprudent. In devising and implementing strategies for the investment and management of trust assets, trustees are obliged to minimize costs.

The language of Section 7 derives from Restatement of Trusts 2d § 188 (1959). The Restatement of Trusts 3d says: "Concerns over compensation and





- Prudent Process includes...
- Investigate policy costs

**Duty to investigate:** Subsection (d) carries forward the traditional responsibility of the fiduciary investor to examine information likely to bear importantly on the value or the security of an investment. Trustees held liable for losses in Estate of Collins 72 Cal. App. 3d 663, 139 Cal. Rprt. 644 (1977)

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- Prudent Process includes...
- Investigate policy costs
- Duty to diversify

SECTION 7. INVESTMENT COSTS: "a

trustee may only incur costs that are appropriate and reasonable in relation to the assets, the purposes of the trust, and the skills of the trustee." the interests of participants and beneficiaries in their retirement income to unrelated objectives."

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- Prudent Process includes...
- Investigate policy costs
- Duty to diversify

SECTION 3. DIVERSIFICATION. A trustee shall diversify the investments of the trust unless the trustee reasonably determines that, because of special circumstances, the purposes of the trust are better served without diversifying the interests of participants and beneficiaries in their retirement income to unrelated objectives."

SECTION 6. IMPARTIALITY. If a trust has two or more beneficiaries, the trustee shall act impartially in investing and managing the trust assets, taking into account any differing interests of the beneficiaries.

#### Comment

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### THE CENTER FOR ECONOMIC JUSTICE



"The current illustration regime permits insurers to 'illustrate' investments in ways not permitted for any other type of investment." ... a faulty infrastructure that consistently produces misleading information to consumers."





# WHAT DOES MORNINGSTAR HAVE TO SAY ABOUT COSTS/EXPENSES?

"The Predictive Power of Fees" Russ Kinnel- Director of Manager Research Are Internal Costs and Expenses Important?

"How often did it pay to heed expense ratios? Every time." "The expense ratio is the most proven predictor of future fund returns." "If there's anything in the whole world ...... that you can take to the bank, it's that expense ratios help you make a better decision. In every single time period and data point tested, low-cost funds beat high-cost funds."

#### ḾRNINGSTAR

#### Predictive Power of Fees Why Mutual Fund Fees Are So Important

and If you've been following Momingstar's research for long, you know how important we think expense ratios are to the fund selection equation. The expense notici site most provem predictor future few reterms. I field that is a dependable prediction whene we run the data. That's also what academics, fund companies, and, of course, Jack Bogle, find when they run the data.

> But it's been a couple of years since I provided the proof statement, so we have updated my data to show just how strong and dependable fees are as a predictor of future success. That's not to say investors should use them in isolation. There are many other things to consider, but investors should make expense ratios their first or second screen.

#### How We Ran the Test

To begin any text of predictive poore, we can kinatical data to that we are using the data that interacts would have advacents at at the intra includes funds that to longer exist. In fact, that's a large and of the story because higher card funds are much more likely to fail and be merged and any life value of the text here. It is also that the story of the story because the the story at these that survival examples are more likely to have produced better performance while no many failers there been cardiad.

We looked as a low offleter measures to test have appress noise worked, total return over the energing profils. Nate objected reters, students of worked deviation, network returns, and subappear Morningstraffs. Taking in additiona, we calculated a access ratio for all we above measures. The soccess ratio is an ower offletation of multial measures of the low offletation of the test measures of the student of the student state were need as any or liquidated oner the messing imported. The other figures only include data on funct that anviewed the walves time orabing of the student state. What presents of includes were and under-demond their category append? Only functs that did both court toward the success ratio, is it is hard to argue that finds that on longer and condependent one successful.

For our tests, we began by grouping funds into quin-tiles within their peer group and then rolled that up into an asset class. That means we ordered each Moningstar Category, such as large growth, high-yield muni, and so on, into quintiles. Then we grouped all the cheapest-quintile funds in an asset class, then the second-cheapest-quintile funds, and so on.

We also ran all of the above tests against a universe in which only one share class per fund was included. Some readers of past studies wondered whether fees were as strong for selecting between funds rather than among share classes of the same fund. So, to eliminate comparisons of multiple



Do you think costs/expenses are equally important in life insurance?



Seeking the Courts Advice: Guidance From the First Adjudicated TOLI Lawsuit Can Help Fiduciaries.

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## LITIGATION REGARDING LIFE INSURANCE

- Cochran v. Keybank
- French v. Wachovia
- Larry King v. Agent
- Micale v. ILIT Trustee
- Schneider v. Attorney
- Vagelos v. Stockbroker
- Nacchio v. Goldman Sachs

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## ETHICAL ALTERNATIVES TO ILLUSTRATION COMPARISONS

- NO illustration comparisons in trust/client file.
- Insist on Detailed Expense Pages see examples provided
  - Insurer, Excel, Independent Research
- At a MINIMUM, compare costs & performance SEPARATELY see examples provided
- Benchmarking is well-established & common in the financial services industry.
  - S&P 500 Index, DJIA, MSCI, Life Insurance Industry Benchmarks- Veralytic Research
- Illustration comparisons are inconsistent with the duty to exercise care, skill, prudence, and diligence.
- Benchmarking costs SEPARATE from performance is...
  - Well-established, common & proven
  - Consistent with NY DFS Reg 187 and CFP Fiduciary Standard
  - FINRA Reviewed





### Why Fiduciaries Need Patented Independent Research for Life Insurance? Learn How To Recognize Misleading Illustrations

Help Your Clients Achieve Better Outcomes

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- Life Insurance illustrations comingle costs and performance
- Reg 187, UPIA, FINRA require justifiable "costs", "reasonable performance" & appropriate "risk"
- This is not a solicitation, for discussion purposes only



A LIFE INSURANCE POLICY ILLUSTRATION A Flexible Premium Universal Life Insurance Policy

Guaranteed and Nonguaranteed Values

Illustration Assumptions James Farber

Age: 60

Male - Super Preferred NonSmoker



Initial Death Benefit \$8,000,000 Face Amount \$8,000,000 Initial Planned Premium: \$181,047.00 / Billing Mode: Annual Death Benefit Option 1; Cash Value Accumulation Test State: South Dakota

			End of 2.00% N	Year Guarant Iinimum Rate	teed Assumpt Maximum C	ions harges	End of 1 4.95 <u>%  </u>	ear Non-Gua	End of Year Non-Guaranteed Assum 4.95% Initial Current Rate, Current C on Net Net		
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1	61	181,047	112,725	0	8,181,047	4,418.74%	120,361	0	8,181,047	4,418.74%	
2	62	181,047	224,563	12,350	8,362,094	531.45%	239,709	27,497	8,362,094	531.45%	
3	63	181,047	335,522	119,358	8,543,141	222.55%	361,918	145,755	8,543,141	222.55%	
4	64	181,047	425,303	206,025	8,724,188	130.63%	466,567	247,288	8,724,188	130.63%	
5	65	181,047	508,004	313,800	8,905,235	89.09%	567,575	373,371	8,905,235	89.09%	
6	66	181,047	541,539	378,328	9,086,282	66.05%	670,857	507,646	9,086,282	66.05%	
7	67	181,047	565,292	436,613	9,267,329	51.63%	773,899	645,220	9,267,329	51.63%	
8	68	181,047	578,114	487,506	9,448,376	41.86%	876,199	785,591	9,448,376	41.86%	
9	69	181,047	578,398	529,369	9,629,423	34.85%	977,128	928,098	9,629,423	34.85%	
10	70	181,047	585,709	585,709	9,810,470	29.61%	1,075,252	1,075,252	9,810,470	29.61%	
Totals:		1,810,470									
11	71	181,047	667,743	667,743	9,991,517	25.57%	1,172,156	1,172,156	9,991,517	25.57%	
12	72	181,047	747,111	747,111	10,172,564	22.37%	1,264,846	1,264,846	10,172,564	22.37%	
13	73	0	731,101	731,101	10,172,564	19.82%	1,201,494	1,201,494	10,172,564	19.82%	
14	74	0	707,201	707,201	10,172,564	17.76%	1,151,697	1,151,697	10,172,564	17.76%	
15	75	0	687,207	687,207	8,000,000	13.57%	1,215,725	1,215,725	8,000,000	13.57%	
16	76	0	657,788	657,788	8,000,000	12.36%	1,279,898	1,279,898	8,000,000	12.36%	
17	77	0	555,575	555,575	8,000,000	11.34%	1,345,667	1,345,667	8,000,000	11.34%	
18	78	0	391,321	391,321	8,000,000	10.47%	1,412,892	1,412,892	8,000,000	10.47%	
19	79	0	199,622	199,622	8,000,000	9.72%	1,481,478	1,481,478	8,000,000	9.72%	
20	80	0	0	0	8,000,000	9.07%	1,545,179	1,545,179	8,000,000	9.07%	
Totals:		2,172,564									
21	81	0	0	0	8,000,000	8.50%	1,604,587	1,604,587	8,000,000	8.50%	
22	82	0	0	0	8,000,000	7.99%	1,663,210	1,663,210	8,000,000	7.99%	
23	83	0	0	0	8,000,000	7.54%	1,720,755	1,720,755	8,000,000	7.54%	
24	84	0	0	0	8,000,000	7.14%	1,776,414	1,776,414	8,000,000	7.14%	
25	85	0	0	0	8,000,000	6.77%	1,828,608	1,828,608	8,000,000	6.77%	
26	86	0	0	0	8,000,000	6.45%	1,876,508	1,876,508	8,000,000	6.45%	
27	87	0	0	0	8,000,000	6.15%	1,921,342	1,921,342	8,000,000	6.15%	
28	88	0	##	##	##	##	1,962,855	1,962,855	8,000,000	5.87%	
29	89	0					1,999,674	1,999,674	8,000,000	5.62%	
30	90	0					2,030,916	2,030,916	8,000,000	5.39%	
Totals:		2,172,564		1. \$1,82 2. \$1,82 3. \$90,5	8,608-\$ 8,608X 16-\$51,	1,776,6 0495=\$ 994=\$3	/ 14= \$51 90,516 8,582 e	,934 ac expecte xpected	tual gair d gain costs	1	
Th ou ##	he IRR on utside the # Indicates	death benefit is policy to arrive s that the policy	s equivarent to at the net dea has lapsed u	ath benefit of under the illust	the policy.	tion. Addition	netical i	uld be require	on no coura nave	policy benefits	

This is your Basic Illustration and is valid only if all illustration pages are included.



- Life Insurance illustrations comingle costs and performance
- Reg 187, UPIA, FINRA require justifiable "costs", "reasonable performance" & appropriate "risk"
- This is not a solicitation, for discussion purposes only

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		22 23	82 83	0	0	0	8,000,000	7.99% 7.54%	1,663,210	1,663,210	8,000,000	7.99% 7.54%	
Policy Year	EOY Age	Plan Prem	ned	Policy Value	Surrend Val	ler ue B	Net Death Senefit	Death Benefit	Pol Va	icy Sur lue	render Value	Death Benefit	Dea Bene
		Totals: 11 12 13 14 15 16 17 18	71 72 73 74 75 76 77 78	1,810,470 181,047 181,047 0 0 0 0 0 0 0 0	667,743 747,111 731,101 707,201 687,207 657,788 555,575 391,321	667,743 747,111 731,101 707,201 687,207 657,788 555,575 391,321	9,991,517 10,172,564 10,172,564 10,172,564 8,000,000 8,000,000 8,000,000 8,000,000	25.57% 22.37% 19.82% 17.76% 13.57% 12.36% 11.34% 10.47%	1,172,156 1,264,846 1,201,494 1,151,697 1,215,725 1,279,888 1,345,667 1,412,892	1,172,156 1,264,846 1,201,494 1,151,697 1,215,725 1,279,898 1,345,667 1,412,892	9,991,517 10,172,564 10,172,564 10,172,564 8,000,000 8,000,000 8,000,000	25.57% 22.37% 19.82% 17.76% 13.57% 12.36% 11.34% 10.47%	
		1 2 3 4 5 6 7 8 9 10	61 62 63 64 65 66 67 68 69 70	181,047 181,047 181,047 181,047 181,047 181,047 181,047 181,047 181,047	224,563 335,522 425,303 508,004 541,539 565,292 578,114 578,398 585,709	12,350 119,358 206,025 313,800 378,328 436,613 487,506 529,369 585,709	8,181,047 8,662,094 8,543,141 8,724,188 8,905,235 9,086,282 9,267,329 9,448,376 9,629,423 9,810,470	4,418,74% 531,45% 222,55% 130,63% 89,09% 66,05% 51,63% 41,86% 34,85% 29,61%	120,361 239,709 361,918 466,567 567,575 670,857 773,899 876,199 977,128 1,075,252	27,497 145,755 247,288 373,371 507,646 645,220 785,591 928,098 1,075,252	6,161,047 8,362,094 8,543,141 8,724,188 8,905,235 9,066,282 9,267,329 9,448,376 9,629,423 9,810,470	4,416.74% 531.45% 222.55% 130.63% 89.09% 66.05% 51.63% 41.86% 34.85% 29.61%	
		Policy Year	EOY Age	Planned Premium	2.00% M Policy Value	ent Cha inimum Rate Net Surrender Value	Maximum Cl Net Death Benefit	nd an li arges IRR on Death Benefit	<b>nitial C</b> 4.95% Ir Policy Value	nitial Current Net Surrender Value	Rate of Rate. Current Net Death Benefit	4.95% Charges IRR on Death Benefit	
		Ja M	lustrati ames Fa lale - Su ge: 60	on Assumption arber uper Preferred N	s onSmoker	eu values		Initial Plan	ned Premiur	Initial n: \$181,047	Death Bene Face Amou 7.00 / Billing	fit \$8,000,000 nt \$8,000,000 Mode: Annual	
		A	LIFE Flexible	INSURANCE e Premium University	POLICY ersal Life In	ILLUSTR/ surance Pol	ATION licy				UL	_	



Annual account summaries and detailed expense pages-Do NOT comingle cost and performance

\$348,731 X 19.07%= \$1,828,608



Life Insurance Company (U.S.A.)

#### A LIFE INSURANCE POLICY ILLUSTRATION A Flexible Premium Universal Life Insurance Policy

Annual Account Summary

Policy Year

Totals

11 12 13

14 15 16

17 18 19

Illus	stration Assu	mptions						
Jam Mal Age	nes Farber e - Super Pref :: 60	erred NonSmoke	r	Ini	tial Planned Pre	Initia emium: \$181,04	I Death Benefi Face Amoun 7.00 / Billing N	t \$8,000,000 t \$8,000,000 lode: Annual
					Death Benef	it Option 1; Cas	h Value Accur	nulation Test
				Deeee	l an Current Ch	arrea and an lu	State: S	South Dakota
				Based	on Current Ch	larges and an ir	nitial Current R	ate of 4.95%
			Admin/					Not
cv	Planned	Premium	Contract	Insurance	Amount	Policy	Surrender	Surrender
ar	Premium	Charge	Charges	Charges	Credited	Value	Charge	Value
1	181,047	32,588	33,274	1,253	6,430	120,361	207,414	0
2	181,047	32,588	33,274	8,044	12,207	239,709	212,212	27,497
3	181,047	32,588	33,274	11,011	18,036	361,918	216,164	145,755
4	181,047	32,588	53,475	13,808	23,473	466,567	219,279	247,288
5	181,047	32,588	58,907	16,969	28,425	567,575	194,204	373,371
6	181,047	32,588	60,731	19,867	35,421	670,857	163,211	507,646
7	181,047	32,588	62,555	23,564	40,703	773,899	128,679	645,220
в	181,047	32,588	64,379	27,738	45,959	876,199	90,608	785,591
9	181,047	32,588	66,204	32,486	51,159	977,128	49,029	928,098
0	181,047	32,588	68,028	38,557	56,250	1,075,252	0	1,075,252
als:	1,810,470	325,885	534,099	193,297	318,063			
1	181,047	32,588	69,852	42,944	61,241	1,172,156	0	1,172,156
2	181,047	32,588	71,676	50,179	66,087	1,264,846	0	1,264,846
3	0	0	68,069	58,307	63,024	1,201,494	0	1,201,494
4	0	0	64,462	67,402	82,067	1,151,697	0	1,151,697
5	0	0	60,855	59,211	184,094	1,215,725	0	1,215,725
6	0	0	57,247	70,337	191,757	1,279,898	0	1,279,898
7	0	0	53,640	79,345	198,754	1,345,667	0	1,345,667
8	0	0	50,033	89,586	206,844	1,412,892	0	1,412,892
9	0	0	49,786	101,095	219,466	1,481,478	0	1,481,478

20	0	0	49,786	126,066	239,553	1,545,179	0	1,545,179
Totals:	2,172,564	391,062	1,129,504	937,769	1,830,950			
21	0	0	49,786	150,978	260,171	1,604,587	0	1,604,587
22	0	0	49,786	170,244	278,653	1,663,210	0	1,663,210
23	0	0	49,786	191,970	299,300	1,720,755	0	1,720,755
24	0	0	49,786	216,563	322,008	1,776,414	0	1,776,414
25	0	0	49,786	246,751	348,731	1,828,608	0	1,828,608
26	0	0	49,786	281,308	378,993	1,876,508	0	1,876,508
27	0	0	49,786	317,371	411,990	1,921,342	0	1,921,342
28	0	0	49,786	361,362	452,660	1,962,855	0	1,962,855
29	0	0	49,786	424,709	511,313	1,999,674	0	1,999,674
30	0	0	49,786	498,992	580,020	2,030,916	0	2,030,916
Totals:	2 172 564	391.062	1 627 360	3 798 016	5 674 790			

The prospect/client believes that this conservative general account product requires earnings of \$90,516 to function as illustrated on page 8, the product actually requires earnings over 3x greater. Lesson Learned: Separate Cost From Performance

## Indicates that the policy has lapsed under the illustrated assumption. Additional premium would be required to maintain policy benefits

This is your Basic Illustration and is valid only if all illustration pages are included.

 Annual account summaries and detailed expense pages-Do NOT comingle cost and performance

\$348,731 X 19.07%= \$1,828,608



FINANCIAL A ONEDIGITAL COMPANY

## LIFE INSURANCE ILLUSTRATIONS: Questionable Practices

#### Non-Guaranteed Policy Values: Ledger

This illustratior	s illustration assumes non-guaranteed policy charges and non-guaranteed crediting rates										
				Non-Guaranteed V	alues (EOT) @ 0.00%						
Yr	Age	Premium Outlay* (1)	Accumulated Value (2)	Cash Surrender Value (3)	Death Benefit (4)						
1	45	12 925	4 941	0	1 000 000						
2	46	12 925	10.881	5 952	1 000 000						
3	47	12.925	17.891	13.454	1.000.000						
4	48	12.925	25.997	22.053	1.000.000						
5	49	12,925	35,367	31,916	1,000,000						
6	50	12,925	45,762	42,804	1,000,000						
7	51	12,925	57,259	54,794	1,000,000						
8	52	12,925	69,941	67,968	1,000,000						
9	53	12,925	83,893	82,907	1,000,000						
10	54	12,925	98,793	98,793	1,000,000						
Total		129,250									
11	55	12,925	116,776	116.776	1,000,000						
12	56	12,925	135,554	135,554	1,000,000						
13	57	12,925	155,167	155,167	1,000,000						
14	58	12,925	175,641	175,641	1,000,000						
15	59	12,925	196,979	196,979	1,000,000						
16	60	12,925	219,059	219,059	1,000,000						
17	61	12,925	242,107	242,107	1,000,000						
18	62	12,925	266,141	266,141	1,000,000						
19	63	12,925	291,215	291,215	1,000,000						
20	64	12,925	317,403	317,403	1,000,000						
Total		258,500									

#### **Policy Charges**

All assumptions are based on non-guaranteed values unless otherwise stated.

			What You Pay			What We Deduct			What Is Added		What Your Poli	cy Values Are	
	Yr	Age	Premium Outlay*	Non- Guaranteed Premium Loads	Admin and Rider Charges	Non- Guaranteed Coverage Charge	Non- Guaranteed Cost of Insurance	Total Charges	Interest Credit <sup>1</sup>	Accumulated	Policy Surrender Charge	Cash Surrender Value	Alternate Accum Value
	11	55	12,925	-763	-90	-8,748	-896	-10,496	15,554	116,776	0	116,776	93,934
	12	56	12,925	-763	-90	-8,748	-1,102	-10,703	16.556	135,554	0	135,554	107,013
	13	57	12,925	-763	-90	-8,748	-1,332	-10,933	17,620	155,167	0	155,167	120,121
	14	58	12,925	-763	-90	-8,748	-1,560	-11,160	18,710	175,641	0	175,641	133,262
	15	59	12,925	-763	-90	-8,748	-1,848	-11,449	19,862	196,979	0	196,979	146,374
	16	60	12,925	-763	-90	-8,748	-2,280	-11,881	21,036	219,059	0	219,059	159,311
	17	61	12,925	-763	-90	-8,748	-2,562	-12,162	22,285	242,107	0	242,107	172,223
	18	62	12,925	-763	-90	-8,748	-2,863	-12,463	23,572	266,141	0	266,141	185,089
	19	63	12,925	-763	-90	-8,748	-3,177	-12,778	24,926	291,215	0	291,215	197,894
	20	64	12,925	-763	-90	-8,748	-3,478	-13,079	26,342	317,403	0	317,403	210,651
Tot	al		258,500	-15,252	-1,800	-162,711	-32,225	-211,987	270,890				

Illustrated Rate of Return = 5.0%
 Conservative Risk Profile

 Rate of Return REQUIRED \$116,776 \* 14% = \$16,556 AGGRESSIVE Risk Profile

This report is not complete and cannot be presented without the Basic Illustration. Please refer to the Basic Illustration for guaranteed elements and other important information. Non-guaranteed elements are not guaranteed.



### The Dos and Don'ts of Life Insurance. The Need for <u>Independent</u> Life Insurance Research for Fiduciaries

Help Your Clients Achieve Better Outcomes

A Member Firm of M Financial Group

#### A PRUDENT PROCESS FOR LIFE INSURANCE PROTECTS YOUR CLIENTS FROM HIGH COSTS, UNDISCLOSED BONUSES AND UNREASONABLE RETURN ASSUMPTIONS.

FINRA RULES > 2000. DUTIES AND CONFLICTS
 2200. COMMUNICATIONS AND DISCLOSURES



2211. Communications with the Public About Variable Life Insurance and Variable Annuities (ii) An illustration may use any combination of assumed investment returns up to and including a gross rate of 12%, provided that one of the returns is a 0% gross rate. Although the maximum assumed rate of 12% may be acceptable, members are urged to assure that the maximum rate illustrated is reasonable considering market conditions and the available investment options.

		Is 14% a reasonable return?									
Policy/Benchmark	Est Yr 1 Cash Value / Premium Ratio	Surrender Charge	Yrs Applied	Average Decrease %/Yr	Death Benefit @ Endowment/Maturity	Creditin Rate %	g Bonus Rate %	Ultimate Rate %	Research Courtesy o		
Policy Under Evaluation	0.00%	100.00%	9	11.11%	\$6,668,822	14.33	0.00	14.33	Voralyti		
Benchmark for Institutionally-Priced Policies	80.00%	0.00%	N/A	N/A	\$106,514,900	14.33	0.00	14.33	veraryu		
Benchmark of All Policies	0.00%	88.00%	11	8.00%	\$104,169,600	14.33	0.00	14.33	U.S. Patent #7,698,158		
								1	U.S. Patent #6,456,979		
Policy/Benchmark	Est Yr 1 Cash Value / Premium Ratio	Surrender Charge	Yrs Applied	Average Decrease %/Yr	Death Benefit @ Endowment/Maturity	Creditir Rate %	g Bonus Rate %	Ultimate Rate %			
Policy Under Evaluation	0.00%	100.00%	9	11.11%	\$8,000,000	4.95	4.56	9.51			
Benchmark for Institutionally-Priced Policies	80.00%	0.00%	N/A	N/A	\$8,000,000	4.95	4.56	9.51			
Benchmark of All Policies	0.00%	88.00%	11	8.00%	Lapse @ Y29	4.95	4.56	9.51			
						-	-				

Is a 4.56% undisclosed bonus misleading?



### SAMPLE MORNINGSTAR FUND REPORT FOR VARIABLE LIFE

JI 2000 Value TR USD									
stment Strategy from underlying investment's prospectus	Morningstar Susta	inability							
vestment seeks long-term capital appreciation. e fund, using a market capitalization weighted	Merningster Sesteinsbilt	y Rating as of 11-30-22	Global Categ Out of 1,65 investment	ery 4 US Equity Small Cap s analyzed	Historica Score at 26 base	Historical Corporate Sustainabili Score as of 11-30-22 26 based on 97% of AUM			
table securities of U.S. small and mid cap companies are Advisor determines to be value stocks with higher	Average		Historical Co Category	rporate % Rank in Global	Sustainability Mandata				
owny. As a non-runcamental policy, it will invest at 80% of its net assets in securities of U.S. companies. Ind may purchase or sell futures contracts and options	The Morningstar Susta	inability Score is based	48 on company-leve	I analysis from Sustainal	No lytics. See disc	losure for detai	is.		
ares contracts for U.S. equity securities and indices, to ise or decrease equity market exposure based on	Performance		-		<b>1 1 1</b>				
or expected cash inflows to or outflows from the	Partfolio Return %		4.21 -4	21 11.64	7.48	11.05	Since		
F0.	Benchmark Return %	-14	4.48 -14	48 4.70	4.13	8.48			
gatar Category: Small Value value portfolios invest in small U.S. companies with	Category Average %	-10	0.16 -10	.16 7.06	4.77	8.67			
ions and growth rates below other small-cap peers.	Morninostar Ratino 14	31	kar	5 Year	10 Year	Overall Bat	ing		
a in the bottom 10% of the capitalization of the U.S. market are defined as small cap. Value is defined	# of Funds in Category	45	3	426	322	453			
r Data Type Exp. Date %	page for more informat Portfolio Analysis	tion.							
ations	Composition as of 11-30-22	2 II C Staala	% Assets	Morningstar Equity St	yle Box <sup>**</sup> as of 11	-30-22	3		
to Inception Date: 10-03-95		<ul> <li>Non-U.S. Stocks</li> </ul>	2.4		g Large				
ste Acct Start Date: 09401+14		<ul> <li>Bonds</li> <li>Carb</li> </ul>	0.0		E Mediu	m			
is Manager(s) andall Since 2012		Other	0.0		Small				
ichneider. Since 2015. Leblond. Since 2020.		0.00	R. Auror	Value Blend Growth	Micro				
gement Company Dimensional Fund Advisors LP	Reliance Steel & Alumi	num Co	0.77	Cyclical					
visor —	First Solar Inc		0.68	🔺 Basic Materials					
	Arrow Electronics Inc		0.56	Consumer Cycli	ical ar				
	BorgWarner Inc		0.55	Real Estate					
	HF Sinclair Corp		0.54	🛩 Sensitive					
	Amkar Technology Inc		0.52	Communication	Services				
	PDC Energy Inc		0.47	Industrials					
	PulteGroup Inc		U.47	Technology					
	Total Number of Stock Total Number of Bood I	Holdings Holdings	1283	- Defensive					
	Annual Turnover Ratio	8	23.00	Consumer Defe	nsive				
	Total Fund Assets (\$mil	1)	518.90	Utilities					
s de evivers al life (VUL) insurance effers the policyowner the 1 wover also bus the ability to allocate these premium paper en products are easied by Fach Life threatence Company 1	HF Sinchia Corp Murphy Oil Corp Ankor Technology Inc PIOE Energy Inc PIOE Energy Inc Total Number of Stock Total Number of Stock Total Fund Assets (Smil exibility to structure the ets among a vasiety of in all states except New Y	Holdings Solid () desired death benefit, a wetment options. Pacific Tork, and in New York by	0.54 0.52 0.48 0.47 1283 0 23.00 518.90 s well as the pre c Life's VUL insur (Pache Life & Ar	Sensitive     Communication     Genzy     Industrials     Technology     Defensive     Consumer Defe     Healthcare     Utilities	nsive ing to ind ide varie t availabil	s ividual ty of v	s ividual needs and obj ty of variable investrr ity and heatures may		


## SAMPLE EBIX LIFE INSURANCE COMPANY RESEARCH



**FINANCIAL** 

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## Pain Statements From Fiduciaries Regarding Life Insurance

Fiduciaries have told us that they are:

- uncomfortable with the lack of transparency in the life insurance industry and confused by complicated illustrations
- frustrated with the inability to determine which policy or illustration leads to a better outcome for their clients
- worried about the fiduciary risk of referring business to non-fiduciaries or individuals who do not act under a clients' best interest definition

Which one resonates with you?





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## MALE AGE 55 : GENERAL ACCOUNT BENCHMARKS



# **THE Five Benchmarks for Life Insurance Suitability**

#### 1. Financial Strength & Claims-Paying Ability: (1 star)

The insurer's financial strength and claims-paying ability ranks in the top decile (i.e., among the top 10%) of all rated insurers. While high ratings for financial strength and claims-paying ability do not necessarily, in and of themselves, render a policy appropriate, high ratings *and* low cost is considered more appropriate than otherwise. (Carrier Strength is reported in "Carrier Due Care" located in the lower left corner of page 2 of the CPE Report. This section reports the insurer's ratings and rankings by the four leading ratings services and the insurer's percentile ranking using a composite index. Ratings methods and the significance of these rankings are discussed in detail on pages 2 and 3 of Section 4, *CPE User Guide*, of this report.)

#### 2. Cost Competitiveness: (1 star)

#### \*

The policy under evaluation illustrates an overall cost structure and premium that is more competitive than the relevant benchmark representative of an average, but competitively priced product. While a low overall cost structure and low illustrated premiums do not necessarily, in and of themselves, render the policy appropriate, low premiums that are the result of a low cost structure attributable to some demonstrable operating, underwriting and/or marketing advantage are considered more appropriate than otherwise. To evaluate Cost Competitiveness, the CPE system considers Funding Strategy and Pricing Style (reported in "Product Profile" located at the top left corner of page 1 of the CPE Report), as well as Premium Cost Competitiveness (reported in "Premium Comparison" located at the upper right corner of page 1 of the CPE Report). (The significance of Cost Competitiveness is discussed in detail on pages 3-5 of Section 4, *CPE User Guide*, of this report.)

#### 3. Pricing Stability: (1 star)

#### 7

Pricing of all life insurance policies are a function of three (3) variables: 1) cost of insurance (COI) charges, 2) policy expenses, and 3) the illustrated/actual earnings rate on policy cash values. Pricing for the policy under evaluation is adequate and reasonable to the extent that cost of insurance (COI) charges and policy expenses appear to be based on actual claims and operating experience according to disclosures included in the illustration of the policy under evaluation. The insurer's retention capacity allows the insurer to exercise substantial control over pricing for the policy under evaluation, and, therefore, pricing for this policy is least vulnerable to changes in the reinsurance market. In addition, the pricing of the policy under evaluation is based on interest assumptions which are in line with historical returns for the asset classes corresponding to the asset types in which policy cash values are invested. While the CPE has no way of predicting whether a policy will perform as illustrated, the CPE does consider whether the values illustrated are consistent with the insurer's historical experience, whether this experience has been fully disclosed, and how potential changes in experience might impact future policy performance. (The significance of Pricing Stability is discussed in detail on pages 5 and 6 of Section 4, *CPE User Guide*, of this report.)



## **THE Five Benchmarks for Life Insurance Suitability**

#### 4. Relative Policy Value: (1 star)

×

Cash value liquidity for this policy is greater than the representative benchmarks. While liquidity can be less relevant in certain plan designs, policies with higher cash values and greater liquidity than relevant benchmarks are generally considered more appropriate than policies with lower cash values and more limited access to policy cash values. (Relative Cash Value comparisons are summarized in "Hypothetical Policy Cash Value Account Growth" located near the bottom of page 1 of the CPE Report. The significance of Relative Cash Value is discussed on pages 6 and 7 of Section 4, *CPE User Guide*, of this report.)

#### 5. Historical Performance: (1/2 star)

,

The cash value allocation options for the product under evaluation are considered acceptable in that the historical net yield on the insurer's General Account Portfolio supporting illustrated policy cash values is roughly the same as the average historical net yield for all insurers (to the extent that allocating *all* policy cash values to non-equity, fixed-income-type assets is consistent with the risk/return profile of the policy owner). Insurers are required by law to invest cash values for permanent products (other than variable) predominantly in declared-rate investments such as bonds and mortgages. While the illustrated policy crediting rate may be higher or lower that the insurer's net portfolio yield at a given point in time, over time the actual policy crediting rate must correlate with the yield on the insurer's General Account Portfolio. Thus, permanent products (other than variable) whose cash values are invested in a General Account with *higher* historical net yields are generally considered more appropriate than policies whose cash values are invested in a General Account with *lower* historical net yields. (The CPE compares the illustrated net portfolio yield with average net portfolio yields for all insurers and summarizes comparisons in "Product Profile" located in the upper left corner of page 1 of the CPE Report. The significance of Cash Value Allocation Options is discussed on pages 7 and 8 of Section 4, *CPE User Guide*, of this report).



### SAMPLE INDEPENDENT PRICING AND PERFORMANCE RESEARCH SNAPSHOT



#### Research Courtesy of

**Veralytic** U.S. Patent #6,456,979 U.S. Patent #7,698,158



THE ETHICAL EDGE, INC 🟯



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### SAMPLE INDEPENDENT PRICING AND PERFORMANCE RESEARCH SNAPSHOT

New York Life Whole Life TheInsuranceAdvisor.com Category Institutiona Product Profile Policy Expense Breakdown Premium Comparison - Face Amt: \$1,085,979 (3 1/2 stars out of 5 stars) Product Rating: \*\*\*\* 0.35 450,000 Product Type: W 400,000 Premium Type: Fixed 0.30 Min. Face Amount \$10,000 350,000 Optimal Funding Strategy: Mixed 0.25 300.000 Pricing Style: Policy pricing is a function of 3 factors: Cost of insurance Charges (COIs), Expense: & Earnings. Product suitability is therefore categorized by the structure of and the underlying experience for these pricing components. (See The Pricing Advisor 0.20 -250,000 200,000 0.15 Max. Mixed Min. Accum Mixed Prem 150,000 0.10 -Retai 100,000 0.05 50,000 Institution 0.00 Experience COI POLICY PREMIUM 1. Policy Under Evaluation Rated 2. Institutional Pricing Benchmark 3. Benchmark for All Policies 1. Policy Under Evaluation 2. Institutionally Priced Policies Policy Under Premium Comparison calculates the minimum level for All 3. Retail Policies annual premium required over 1 years to endow the Evaluation Policies policy, assuming a 6.79% average net policy earnings rate 5.76% 5-yr Avg. Net Portfolio Yield\* 5.72% Policy Expense Breakdown measures the present value and current expense assumptions for a policy issued to a 55 year old male Non-Smoker Preferred risk. Source: VitalSigns<sup>2</sup> cost per \$ of Death Benefit and the individual cost components, assuming identical funding amounts and funding patterns for a policy issued to a 55 year old male Non-Smoker Preferred risk. Cost of Insurance (COI) Charges Policy Expenses Premium Loads Institutional Benchmark Institutional Benchmark Institutional Benchmark Policy Policy Policy Under Pricing for All Inder Pricing for All Under Pricing for All Evaluation Benchmark Policies % of Cash Valu Evaluation Benchmark Policies % of Premium Evaluation Benchmark Policies Weighted-Average \$125,161 \$115,674 \$116,736 M&F Risk % 0.00 0.00 0.00 State Tax % 0.00 235 2 35 Annual COI 0.00 0.00 0.00 Fed DAC Tax % 0.00 1.50 1.50 Other % 0.00 0.00 Carrier % Load(s): 0.00 Total % 0.00 0.00 0.00 0.92 1.00 2.00 Sales/Service % Loan Spread % 0.00 3.65 3.65 Load(s); Fixed Charges Per Policy Yr Total % 0.00 7.50 7.50 \$1,283 \$1,283 Hypothetical Policy Cash Value Account Growth Planned Annual Premium: \$379,827 Policy Under Evaluation 9,000,000 nstitutional Pricing Benchmark 8.000,000 Benchmark for All Policies 7,000,000 6.000.000 The purpose of this graph is to show how different policy charges could effect policy value and death benefit. This graph is 5.000,000 hypothetical and may not be used to predict or project actual policy performance or tax 4,000,000 3.000,000 2.000.000 1.000,000 0 0 0. 20 00 0 Average Est Yr 1 Cash Value Surrender Yrs Death Benefit @ Crediting Bonus Ultimate Decrease Policy/Benchmark / Premium Ratio Charge Rate % Rate % Rate % Policy Under Evaluation 104.37% 0.00% N/A N/A \$2,042,788 6.79 0.00 6.79 Benchmark for Institutionally-Priced Policies 80.00% 0.00% N/A N/A \$2,042,788 6.79 0.00 6.79 0.00 Benchmark for All Policies 0.00% 88.00% 11 8.0000% \$2,042,788 6.79 6.79

Research Courtesy of

Veralytic

U.S. Patent #7,698,158 U.S. Patent #6,456,979



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The ethical edge, INC 着



## MALE AGE 35: GENERAL ACCOUNT BENCHMARK AND VARIABLE BENCHMARK



**INFORCE POLICY: INDEPENDENT EVALUATION, AGE 35M** 

- Client is insured with MassMutual Whole Life
- Internal costs of \$0.16 per dollar of death benefit on a present value basis.
- Best available rates and terms are 40% less than the Veralytic benchmark.<sup>1</sup>
- 60% X \$0.14= \$0.084
  - Potential Savings: \$0.08 X \$10,000,000 = \$800,000 PV adjusted



Research Courtesy of





## WHERE CAN THE OWNER APPLY THE SAVINGS?

- Independent research says there is \$800,000 adjusted for time value of money @6.5%.
- How can the policy owner benefit from this savings?
  - Increase cash value
  - Increase policy duration
  - Reduce premium or buy more death benefit
- Knowing what to do with the research findings, this is what we found.



# HOW TO UTILIZE THE COST SAVINGS

#### Buy \$15,700,000 more coverage. Guaranteed.

Research Courtesy of



- Current plan: Pay \$180,000 for 19 years for \$10M, annually increasing face amount @\$0.16 per dollar of death benefit on a PV basis
- Proposed plan: Pay \$180,000 for 19 years for \$25.7M @\$0.08 per dollar of death benefit on a PV basis
- This was a trust owned policy with no prudent process for the initial policy selected



Whole life is a conservative product, GVUL is a conservative or aggressive product depending upon investment choice.



**INFORCE POLICY VS MARKETPLACE ALTERNATIVES** 

			Policy end Scale					
			<u>Mass Mutual</u> Policy Number 2 Whole Life Legacy 20 Pay Whole Life					
Unde Rate 1035 DB Gu Face	rwriting: Assump: Exch Jarantee Amount		Select Preferred NT 2020 Dividend Scale Not Applicable Lifetime (\$10M) \$10,000,000					
			Net Cash		IRR			
	EOY	New	Surrender	Death	on			
Yr	Age	Premium	Value	Benefit	DB			
2	37	\$182,500	\$91,827	\$10,162,588	4296%			
з	38	182,500	257,643	10,255,679	527.7%			
4	39	182,500	431,494	10,357,952	223.9%			
5	40	182,500	613,846	10,469,512	132.6%			
6	41	182,500	805,198	10,590,937	91.0%			
7	42	182,500	1,008,261	10,731,495	67.8%			
8	43	182,500	1,223,364	10,887,898	53.3%			
9	44	182,500	1,451,444	11,057,765	43.4%			
10	45	182,500	1,693,120	11,241,644	36.3%			
11	46	182,500	1,949,776	11,440,903	31.0%			
12	47	182,500	2,221,714	11,653,279	26.9%			
13	48	182,500	2,509,311	11,877,037	23.7%			
14	49	182,500	2,813,618	12,112,521	21.1%			
15	50	182,500	3,135,503	12,358,822	18.9%			
16	51	182,500	3,475,118	12,615,335	17.1%			
17	52	182,500	3,833,231	12,881,873	15.6%			
18	53	182,500	4,211,079	13,160,045	14.3%			
19	54	182,500	4,609,581	13,449,352	13.2%			
20	55	0	5,029,535	13,749,413	12.3%			
25	60	0	6,552,033	15,271,380	9.5%			
30	65	0	8,499,280	17,039,113	7.8%			
35	70	0	10,952,811	19,090,533	6.8%			
40	75	0	13,985,038	21,455,368	6.1%			
45	80	0	17,594,824	24,152,458	5.6%			
50	85	0	21,772,130	27,167,958	5.2%			
55	90	0	26,360,316	30,625,179	4.9%			
60	95	0 31,228,693 34,463,430 4.7%						
65	100	0	38,041,248	38,041,248	4.4%			
70	105	0	50,171,249	50,171,249	4.5%			

#### Summary:

- Paying \$182,500 annually for 18 years.
- DB grows from \$10M to \$24M at LE based on non-guaranteed dividend

Notes:

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5) Premiums and face amounts will be subject to final underwriting, carrier selection, state of issue and retention limits. The guaranteed period assumes that the premiums are paid on time and no loans or withdrawals are taken from the policy. The illustrations for new insurance assume a 1035 exchange from your existing policy based on the account value as of 06/16/21. The actual amount of the 1035 transfer could be more or less than what is shown and any variation in the 1035 amount could materially change the above projections.



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**INFORCE POLICY VS MARKETPLACE ALTERNATIVES** 

			Altern	native Policy						
		V	OL WITH WAX	imum Lifetin	ne GDB					
			Pr	udential						
			Not	Applicable						
			VUL	Protector						
			Variable Univ	versal Life with	NLG					
Underwriting Preferred Best										
Rate	Assump:		7.00% Gr	oss / 6.44% Ne	t					
1035	Exch		ç	\$48,700						
DB G	Jarantee		Lifeti	me (\$25.7M)						
Face	Amount		\$2	5,700,000						
	e Amount \$25,700,000 Net Cash Proj Guar IRR on									
	ΕΟΥ	New	Surrender	Death	Death	Proi				
Yr	Age	Premium	Value	Benefit	Benefit	DB				
2	37	\$182,500	\$0	\$25,700,000	\$25.7M	11016%				
з	38	182,500	70,551	25,700,000	\$25.7M	915.6%				
4	39	182,500	252,348	25,700,000	\$25.7M	350.7%				
5	40	182,500	444,779	25,700,000	\$25.7M	199.5%				
6	41	182,500	648,536	25,700,000	\$25.7M	134.5%				
7	42	182,500	876,412	25,700,000	\$25.7M	99.4%				
8	43	182,500	1,125,172	25,700,000	\$25.7M	77.7%				
9	44	182,500	1,350,902	25,700,000	\$25.7M	63.2%				
10	45	182,500	1,595,544	25,700,000	\$25.7 IVI \$25.7 IVI	52.8%				
12	40	182,500	2 186 698	25,700,000	\$25.7M	39.1%				
12	47	182,500	2,486.384	25,700,000	\$25.7M	34.4%				
14	48	182,500	2,785,970	25,700,000	\$25.7M	30.5%				
15	50	182,500	3,112,418	25,700,000	\$25.7M	27.4%				
16	51	182,500	3,478,342	25,700,000	\$25.7M	24.7%				
17	52	182,500	3,835,331	25,700,000	\$25.7M	22.5%				
18	53	182,500	4,209,214	25,700,000	\$25.7M	20.5%				
19	54	182,500	4,604,469	25,700,000	\$25.7M	18.9%				
20	55	0	5,022,313	25,700,000	\$25.7M	17.5%				
25	60	0	6,569,791	25,700,000	\$25.7M	12.6%				
30	65	0	8,559,039	25,700,000	\$25.7M	9.8%				
35	70	0	10,992,998	25,700,000	\$25.7M	8.0%				
40	75	0	14,413,740	25,700,000	\$25.7M	6.7%				
45	80	0	19,110,247	25,700,000	\$25.7M	5.8%				
50	85	0	25.657.547	29.506.179	\$25.7M	5.4%				
55	90	0	34.446.351	37.890.986	\$25.7M	5.4%				
60	95	0	46,436,854	49,687,434	\$25.7M	5.4%				
65	100	0	62,969,857	64,858,953	\$25.7M	5.4%				
70	105	0	86.155.551	87.017.107	\$25.7M	5.5%				
	100	-		,	· · · · · · · · · · · · · · · · · · ·					

#### Summary:

- Paying \$182,500 annually for 18 years.
- DB \$25.7M
- Why? Because internal costs were reduced from \$0.16 to \$0.08 per \$1 of death benefit on a PV basis

3) The information shown is based on illustrations issued by Massachsetts Mutual Life Insurance Company (Boston, MA) and Pruco Life Insurance Company (Newark, NJ).

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<sup>2)</sup> The shaded row highlights estimated life expectancy based on the IRS Table 2000CM. It is based on age only and does not adjust for gender or consider insured specific medical underwriting.

### FEMALE AGE 52 GENERAL ACCOUNT BENCHMARK & VARIABLE BENCHMARK



## **INFORCE POLICY: INDEPENDENT EVALUATION, AGE 52F**

- Client is insured with NorthwestMutual whole life.
- Internal costs of \$0.26 per dollar of death benefit on a present value basis.
- Best available rates and terms are as low as 40% less than the Veralytic benchmark.<sup>1</sup>





## WHERE THE POLICYOWNER CAN APPLY SAVINGS?

- How could the policyowner use the cost savings?
  - Increase cash value
  - Increase policy duration
  - Reduce premium or buy more death benefit
- Knowing what to do with the research findings, this is what we found.



# HOW TO UTILIZE THE COST SAVINGS



- Current plan: Pay \$19,648 for life year for \$3.8M, annually increasing face amount @\$0.26 per \$1 of death benefit on a PV basis
- Option 1: Pay less premium buy \$3.8M for lower premium
- Option 2: Buy more death benefit buy \$7M Guaranteed for \$19,648 premium for life plus IRC 1035 of \$947,000 @\$0.17 per dollar of death benefit on a PV basis

Whole life is a conservative product, GVUL is a conservative or aggressive product depending upon investment choice.

### Research Courtesy of

### Veralytic

**INFORCE POLICY VS MARKETPLACE ALTERNATIVES** 

- Summary:
- Paying \$19,648 annually
- DB grows from \$3.8M to \$6.7M at LE based on non-guaranteed dividend

		Ex	isting Poli	icy - NWMI	L All Pa	у					
		Northwestern Mutual Policy Number 1000 (101 Estate CompLife (Single Life) Whole Life									
Unde Rate 1035 DB 0 Deat	erwriting: Assump: Exch / LS Guarantee h Benefit		Current \$ \$3	Premier Dividend Sca 947,000 Lifetime 8,000,000	ale						
			Net Cash	Proj	Guar	IRR on					
	EOY	New	Surr	Death	Death	Proj					
Yr	Age	Prem	Value	Benefit	Benefit	DB					
12	51	\$0	\$1,010,356	\$3,852,668	\$3.0M	307%					
13	52	19,648	1,076,690	3,916,550	\$3.1M	102.3%					
14	53	19,648	1,146,131	3,982,952	\$3.1IVI	60.3%					
15	54	19,648	1,218,973	4,052,245	\$3.111	42.7%					
17	56	19,646	1,295,305	4,124,295	\$3.∠IVI \$3.2M	27 19/					
18	57	19,048	1,373,210	4,199,219	\$3.2M	27.170					
19	58	19,648	1,430,333	4 355 189	\$3.2M	19.9%					
20	59	19,648	1,545,500	4,335,109	\$3.3M	17.6%					
21	60	19.648	1.730.002	4.518.450	\$3.3M	15.8%					
22	61	19.648	1.828.148	4.602.804	\$3.3M	14.4%					
23	62	19.648	1.930.418	4.689.298	\$3.4M	13.2%					
24	63	19,648	2,036,967	4,777,711	\$3.4M	12.2%					
25	64	19,648	2,147,453	4,867,152	\$3.4M	11.4%					
26	65	19,648	2,262,002	4,957,723	\$3.4M	10.6%					
27	66	19,648	2,381,011	5,050,152	\$3.4M	10.0%					
28	67	19,648	2,504,633	5,144,528	\$3.5M	9.5%					
29	68	19,648	2,632,898	5,240,945	\$3.5M	9.0%					
30	69	19,648	2,765,900	5,339,427	\$3.5M	8.5%					
31	70	19,648	2,903,698	5,439,957	\$3.5M	8.2%					
36	75	19.648	3.665.746	5.978.563	\$3.6M	6.7%					
41	80	19.648	4.551.081	6.577.461	\$3.6M	5.8%					
46	85	19 648	5 542 464	7 257 229	\$3.7M	5.1%					
51	90	19 648	6 585 627	8 000 385	\$3.7M	4 7%					
56	95	19 648	7 700 557	8 794 586	\$3.7M	4.3%					
61	100	19,040	8 862 525	9 750 033	\$3.8M	4.0%					
66	105	19,040	10 120 149	10 782 014	\$3.8M	3.8%					
00	105	19,048	10,120,149	10,762,014	ųסיסי£	3.070					

Not a MEC

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<sup>4)</sup> Any guarantees shown are backed by the financial strength and claims -paying ability of the issuing carrier.

**INFORCE POLICY VS MARKETPLACE ALTERNATIVES** 

- Summary:
- Paying \$19,648 annually plus IRC 1035
- DB grows from \$7M to \$7.1M at LE
- How was the DB increased? Internal costs were reduced from \$0.26 to \$0.17 per \$1 of death benefit on a PV basis

		N	ot a MEC		
	VUL	Policy - M	atch NWM	L Premi	ium
		Per	nn Mutual		
		No	t Applicable		
		Pro	tection VUL		
		Variable U	niversal Life v	v/NLG	
Underwrit	ing:	Pre	eferred Plus		
Rate Ass	ump:	7.00% G	Gross / 6.87%	Net	
1035 Exc	h/LS	\$	6947,000		
DB Guara	antee		Lifetime		
Death Be	nem	\$	7,000,000		
	- 1	Net Cash	Proj	Guar	IRR on
EOY	New	Surr	Death	Death	Proj
12 51	Prem	Value	Benefit	Benefit	DB
12 51	\$0	\$685,099	\$7,000,000	\$7.0M	639%
14 53	19,648	738,825	7,000,000	\$7.0101	170.8%
15 54	19,048	851 323	7,000,000	\$7.0M	63.9%
16 55		911,672	7,000,000	\$7.0M	48.2%
17 56	19,648	974,293	7,000,000	\$7.0M	38.6%
18 57	19,648	1,039,364	7,000,000	\$7.0M	32.1%
19 58	19,648	1,107,004	7,000,000	\$7.0M	27.5%
20 59	19,648	1,177,137	7,000,000	\$7.0M	23.9%
22 61		1,249,614	7,000,000	\$7.0M	19.0%
23 62	19,040	1 471 433	7,000,000	\$7.0M	17.2%
24 63	19,648	1,596,537	7,000,000	\$7.0M	15.7%
25 64	19,648	1,737,583	7,000,000	\$7.0M	14.4%
26 65	19,648	1,885,071	7,000,000	\$7.0M	13.3%
27 66	19,648	2,039,150	7,000,000	\$7.0M	12.4%
28 67	19,648	2,175,043	7,000,000	\$7.0M	11.6%
29 08	19,648	2,318,503	7,000,000	\$7.0M	10.8%
31 70	10,040	2,400,700	7,000,000	\$7.0M	0.6%
36 75	19,646	2,626,767	7,000,000	\$7.00	9.0%
36 75	19,648	3,557,609	7,000,000	\$7.0101	7.4%
41 80	19,648	4,781,419	7,109,637	\$7.011	6.1%
46 85	19,648	6,363,518	8,434,338	\$7.0M	5.6%
51 90	19,648	8,313,402	10,060,621	\$7.0M	5.3%
56 95	19,648	10,741,109	12,048,299	\$7.0M	5.1%
61 100	19,648	14,178,659	14,662,070	\$7.0M	5.0%
66 105	19.648	18 781 939	19 422 296	\$7.0M	5.0%

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- M= meet, this doesn't mean that we are doing business, simply means that you have more questions
- I= introduction to someone in your network that you would like to introduce me to in order for them to learn more
- S= speaking opportunity to benefit that group
- A= what was your "aha" moment today?
- T&E= send a copy of the Trust & Estates Article





- This material is intended for informational purposes only and should not be construed as legal or tax advice and is not intended to replace the advice of a qualified attorney, tax advisor or plan provider.
- This information has been taken from sources, which we believe to be reliable, but there is no guarantee as to its accuracy.
- Variable life insurance products are long-term investments and may not be suitable for all investors. An investment in variable life
  insurance is subject to fluctuating values of the underlying investment options and it entails risk, including the possible loss of principal.
- Variable Universal Life insurance combines the protection and tax advantages of life insurance with the investment potential of a comprehensive selection of variable investment options. The insurance component provides death benefit coverage and the variable component gives you the flexibility to potentially increase the policy's cash value.
- This is a hypothetical illustration and is not indicative of the performance of any particular investment. The performance of your account will
  vary and you may receive more or less than the amount invested.
- Veralytic is independently owned and operated.
- Securities Offered Through M Holdings Securities, Inc. A Registered Broker/Dealer, Member FINRA/SIPC. Investment Advisory Services Offered Through KB Financial Partners, LLC. KB Financial Partners, LLC. is independently owned and operated.

File number #5347907.1 APPROVED JAN 2023



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## What Fiduciaries Need to Know about Dollar Sequence of Return Risk With Permanent Life Insurance in Relationship to their Clients' Best Interests.

**March 2024** 

A Member Firm of M Financial Group

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Did You Hear About the Actuary Who Drowned While Trying to Cross a River with an Average Depth of 1/4"?





Did You Hear About the Actuary Who Drowned While Trying to Cross a River with an Average Depth of 1/4"?



Rivers don't have average depths and life insurance doesn't have level returns. Rivers have varying depths and life insurance has varied returns.

We use Stochastic Analysis of life insurance illustrations. What are the odds of success when returns vary?

sto·chas·tic {stə kastik} randomly determined; having a random probability distribution or pattern that may be analyzed statistically but may not be predicted precisely.

Stochastic simulation for life insurance randomizes return expectations for multiple sets of future outcomes. The result is a probabilistic outcome of the success or failure of the policy for a lifetime.

# **Stochastic Analysis is Available for:**

- Permanent Life Insurance
  - Inforce policies and proposed insurance
- Variable Life, Indexed Universal Life and Private Placement Life Insurance (PPLI)
- Death Benefit oriented (protection)
- Accumulation oriented (accumulation)
  - With and without potential tax-free income solves
- Single Life and Survivorship Life

Note: Universal Life and WL have variability but not volatility

Examine: varying crediting rate, Caps, costs, confidence levels, life expectancy, etc.

Universal Life Flexible Premiu	m Adjustable Life Plan
Initial Annual Premium:	\$8,244.39
Initial Death Benefit:	\$1,000,000.00
Riders: None	

Narrative Summary Prepared For: Sample Male Age 45, Preferred Premium Allocation: 100% Indexed, 0% Fixed

Indexed Account When you decide to allocate part of your premium payment to the Indexed Account, an "Index Segment" is created. Each Segment accrues interest based on the positive performance of the S&P 500 Index (exclusive of dividends and subject to cap and floor rates) between the allocation date and the end of the segment term, which occurs one year after funds are allocated in the segment. This process is referred to as "annual point-to-point."

Index Segments are created on the 15th of every month, so the Indexed Account may have up to 12 different Indexed Segments in various stages of maturity at any given time. The total Indexed Account value is the sum of these Indexed Segments.

Although the Indexed Account can earn interest based on the positive performance of the S&P 500, Protective Index Choice UL is not a security or investment and you are not investing directly in the stock market.

If the S&P 500 Index becomes unavailable or if the index calculation is substantially changed, we will notify you of the external financial index.



We are looking at an illustration:

- Male age 45 Preferred
- Indexed Universal Life Ins\*
- 100% index, long term horizon
- Cap of 9% 3% guarantee
- Floor of 0%
- S&P 500 index, no dividends
- Participation rate 100%
- Premium \$8,244 annually
- \$1,000,000 face amount
- Guarantee period 28 years (A73)
- Illustrated at 5.77% to age 100
- What are the odds of success?
- I don't sell IUL
- I don't understand it
- Your clients will not understand it
- The insurer controls all the levers: cap, COI, participation rate, etc.
- If your clients want IUL we can make it a better design

0.000	
Additional Key Terms	"Age" is the issue age plus the number of years the policy is assumed to have been in force. This is the age at the end of the policy year.
	"Allocation Date" The allocation date will be the 15th day of each calendar month. If the 15th is a non-Business Day, then the next Business Day will be an Allocation Date.
	"Cap Rate" is the maximum interest rate allowed for a Segment. It is the maximum rate of interest the policy will earn, regardless of changes to the designated index. The cap rate credited to your policy value can be changed at the sole discretion of the Company but not below the guaranteed cap rate of 3.00%. The illustrated cap rate is 9.00%.
[	"Floor Rate" The minimum interest rate allowed for a Segment. The floor for each Segment will not be less than 0.00%.
	"Indexed Account" The Indexed Account is made up of 12 Indexed Segments, for which Indexed Interest is based on the performance of external financial index S&P 500, exclusive of dividends.
	"Indexed Segment" A division of the Indexed Account. There is a separate Segment for each Allocation Date in the Policy Year.
	"Indexed Segment Term" A period of one calendar year beginning on the Allocation Date. Each Segment has its own Segment Term.
	"Non-Guaranteed Elements" are the premiums, benefits, values, credits or charges that are not guaranteed or cannot be determined at issue.
	"Participation Rate" The participation rate determines what percent of the gain in the designated index will be credited to the policy. The participation rate for each Segment will never be less than its minimum guaranteed participation rate shown on the policy schedule page. A higher participation rate does not necessarily mean a higher crediting rate. Your crediting rate will depend on the S&P 500 performance (excluding dividends) and the cap and floor rate.

Univers	al Life Flo	exible Premiun	n Adjustable Life Pl	lan <i>Tabu</i>	lar Detail									
Initial D	nnual Pr	emium:	\$8,244.3	9 Prepa	red For: Sample	a'	1							
Initial D	eath Ber	hefit:	\$1,000,000.0	Nale /	Age 45, Preterre	a								
Riders: I	None			Premi	um Allocation: 1	00% Indexed, 0% Fixed								
				G	Guaranteed Assumptions			Non-Guaranteed Assumptions			Non-Guaranteed Assumptions			
				Fixed	Fixed Account 1.00% Guaranteed		Fix	Fixed Account 3.25% Current			ed Account 3	25% Current		
				Interest	Rate		Interest	Rate		Interest	Rate			
				Floor	Floor Indexed Interest Rate 0.00%			te Indexed In	terest Rate 3.25%	Illustrate	ed Indexed In	terest Rate 5.77%		
		N	Aaximum Polie	cy Charges		Current Policy Charges			Current Policy Charges					
		Premium	Cumulative	Policy	Surrender	Death	Policy	Surrender	Death Notes	Policy	Surrender	Death Notes		
Age	Year	Outlav*	Premium	Value <sup>1</sup>	Value	Benefit Notes <sup>2</sup>	Value <sup>1</sup>	Value	Benefit <sup>2</sup>	Value <sup>1</sup>	Value	Benefit <sup>2</sup>		
46	1	8,244.39	8,244	3,415	0	1,000,000	6,040	0	1,000,000	6,205	0	1,000,000		
47	2	8,244.39	16,489	6,752	0	1,000,000	12,147	0	1,000,000	12,637	0	1,000,000		
48	3	8,244.39	24,733	10,037	0	1,000,000	18,323	0	1,000,000	19,310	0	1,000,000		
49	4	8,244.39	32,978	13,257	0	1,000,000	24,562	0	1,000,000	26,228	0	1,000,000		
50	5	8,244.39	41,222	16,390	0	1,000,000	30,961	0	1,000,000	33,504	504	1,000,000		
51	6	8,244.39	49,466	19,423	0	1,000,000	37,589	5,339	1,000,000	41,221	8,971	1,000,000		
52	7	8,244.39	57,711	22,300	0	1,000,000	44,383	12,893	1,000,000	49,337	17,847	1,000,000		
53	8	8,244.39	65,955	24,973	0	1,000,000	51,340	20,610	1,000,000	57,866	27,136	1,000,000		
54	9	8,244.39	74,200	27,409	0	1,000,000	58,491	28,531	1,000,000	66,859	36,899	1,000,000		
55	10	8,244.39	82,444	29,608	418	1,000,000	65,833	36,643	1,000,000	76,332	47,142	1,000,000		
56	11	8,244.39	90,688	31,559	3,139	1,000,000	73,323	44,903	1,000,000	86,264	57,844	1,000,000		
57	12	8,244.39	98,933	33,285	5,635	1,000,000	80,933	53,283	1,000,000	96,652	69,002	1,000,000		
58	13	8,244.39	107,177	34,798	7,928	1,000,000	88,671	61,801	1,000,000	107,525	80,655	1,000,000		
59	14	8,244.39	115,421	36,086	9,996	1,000,000	96,532	70,442	1,000,000	118,904	92,814	1,000,000		
60	15	8,244.39	123,666	37,114	11,814	1,000,000	104,533	79,233	1,000,000	130,834	105,534	1,000,000		
61	16	8,244.39	131,910	37,801	17,561	1,000,000	112,595	92,355	1,000,000	143,266	123,026	1,000,000		
62	17	8,244.39	140,155	38,042	22,862	1,000,000	120,746	105,566	1,000,000	156,257	141,077	1,000,000		
63	18	8,244.39	148,399	37,732	27,612	1,000,000	129,045	118,925	1,000,000	169,899	159,779	1,000,000		
64	19	8.244.39	156,643	36,797	31,737	1,000,000	137,638	132,578	1,000,000	184,367	179,307	1,000,000		
65	20	8,244.39	164,888	35,153	35,153	1,000,000	146,503	146,503	1,000,000	199,683	199,683	1,000,000		

Non-guaranteed assumptions assume that scales for interest and cost of insurance rates will continue unchanged by the Company for all years shown. This is not likely to occur because interest and cost of insurance rates are subject to change by the Company based on various factors such as claims and investment experience, persistency, expenses, taxes, and the overall economic environment. Actual results may be more or less favorable than those shown.

Universal Life Flexible Premium Adjustable Life Plan Initial Annual Premium: \$8,244.39 Initial Death Benefit: \$1,000,000.00 Riders: None Tabular Detail Prepared For: Sample Male Age 45, Preferred

Premium Allocation: 100% Indexed, 0% Fixed

				G	uaranteed As	sumptions		Nor	-Guaranteed	Assumption	5	No	n-Guaranteed	Assumption	15
				Fixed Floor M	Account 1.00 Interest Indexed Inter Iaximum Poli	9% Guaranto Rate rest Rate 0.0 cy Charges	eed	Fix Alterna	ed Account 3 Interest te Indexed In Current Polic	.25% Current Rate terest Rate 3. cy Charges	25%	Fix Illustrat	ed Account 3 Interest ed Indexed In Current Polic	.25% Current Rate terest Rate 5 cy Charges	.77%
		Premium	Cumulative	Policy	Surrender	Death		Policy	Surrender	Death N	otes	Policy	Surrender	Death N	Votes
Age	Year	Outlay*	Premium	Value <sup>1</sup>	Value	Benefit	Notes <sup>2</sup>	Value <sup>1</sup>	Value	Benefit <sup>2</sup>		Value <sup>1</sup>	Value	Benefit <sup>2</sup>	2
66	21	0.00	164,888	21,566	21,566	1,000,000	*	148,641	148,641	1,000,000	*	208,706	208,706	1,000,000	*
67	22	0.00	164,888	7,028	7,028	1,000,000	*	150,564	150,564	1,000,000	*	218,001	218,001	1,000,000	*
68	23	0.00	164,888	0	0	1,000,000	*	152,285	152,285	1,000,000	*	227,612	227,612	1,000,000	*
69	24	0.00	164,888	0	0	1,000,000	*	153,685	153,685	1,000,000	*	237,458	237,458	1,000,000	*
70	25	0.00	164,888	0	0	1,000,000	*	155,364	155,364	1,000,000	*	248,120	248,120	1,000,000	*
71	26	0.00	164,888	0	0	1,000,000	*	156,720	156,720	1,000,000	*	259,094	259,094	1,000,000	*
72	27	0.00	164,888	0	0	1,000,000	*	157,683	157,683	1,000,000	*	270,353	270,353	1,000,000	*
73	28	0.00	164,888	0	0	1,000,000	*	158,165	158,165	1,000,000	*	281,862	281,862	1,000,000	*
74	29	0.00	164,888	0	0	0	*р	158,047	158,047	1,000,000	*Р	293,564	293,564	1,000,000	*P
75	30	0.00	164,888	0	0	0		157,221	157,221	1,000,000	*	305,415	305,415	1,000,000	*
76	31	0.00	164,888	0	0	0		155,555	155,555	1,000,000	*	317,360	317,360	1,000,000	*
77	32	0.00	164,888	0	0	0	P	152,939	152,939	1,000,000	*	329,368	329,368	1,000,000	*
78	33	0.00	164,888	0	0	0		149,246	149,246	1,000,000	*	341,400	341,400	1,000,000	*
79	34	0.00	164,888	0	0	0		144,306	144,306	1,000,000	*	353,394	353,394	1,000,000	*
80	35	0.00	164,888	0	0	0		137,903	137,903	1,000,000	*	365,266	365,266	1,000,000	*
81	36	0.00	164,888	0	0	0	6	129,624	129,624	1,000,000	*	376,794	376,794	1,000,000	*
82	37	0.00	164,888	0	0	0		119,070	119,070	1,000,000	*	387,792	387,792	1,000,000	*
83	38	0.00	164,888	0	0	0		105,821	105,821	1,000,000	*	398,082	398,082	1,000,000	*
84	39	0.00	164,888	0	0	0		88,840	88,840	1,000,000	*	407,092	407,092	1,000,000	*
85	40	0.00	164,888	0	0	0		67,228	67,228	1,000,000	*	414,394	414,394	1,000,000	*

Non-guaranteed assumptions assume that scales for interest and cost of insurance rates will continue unchanged by the Company for all years shown. This is not likely to occur because interest and cost of insurance rates are subject to change by the Company based on various factors such as claims and investment experience, persistency, expenses, taxes, and the overall economic environment. Actual results may be more or less favorable than those shown.

Universal Life Flexible Premium Adjustable Life Plan Initial Annual Premium: \$8,244.39 Initial Death Benefit: \$1,000,000.00 **Riders: None** 

Tabular Detail Prepared For: Sample Male Age 45, Preferred Premium Allocation: 100% Indexed, 0% Fixed

				G	uaranteed Ass	sumptions	Nor	n-Guaranteed	Assumptions		No	n-Guaranteed	Assumption	s
				Fixed Floor N	Account 1.009 Interest R Indexed Intere Maximum Polic	% Guaranteed Rate est Rate 0.00% γ Charges	Fix Alterna	ed Account 3 Interest te Indexed In Current Polic	.25% Current Rate terest Rate 3.2 vy Charges	5%	Fix Illustrat	ed Account 3. Interest ed Indexed In Current Polic	.25% Current Rate terest Rate 5. γ Charges	.77%
		Premium Cumulative		Policy	Surrender	Death	Policy	Surrender	Death No	otes	Policy	Surrender	Death N	otes
Age	Year	Outlay*	Premium	Value <sup>1</sup>	Value	Benefit Notes <sup>2</sup>	Value <sup>1</sup>	Value	Benefit <sup>2</sup>		Value <sup>1</sup>	Value	Benefit <sup>2</sup>	A
86	41	0.00	164,888	0	0	0	39,558	39,558	1,000,000	*	419,279	419,279	1,000,000	*
87	42	0.00	164,888	0	0	0	4,172	4,172	1,000,000	*	420,970	420,970	1,000,000	*
88	43	0.00	164,888	0	0	0	0	0	0	*	418,474	418,474	1,000,000	*
89	44	0.00	164,888	0	0	0	0	0	0	*	411,030	411,030	1,000,000	*
90	45	0.00	164,888	0	0	0	0	0	0	*	397,410	397,410	1,000,000	*
91	46	0.00	164,888	0	0	0	0	0	0	*	376,048	376,048	1,000,000	*
92	47	0.00	164,888	0	0	0	0	0	0	*	351,884	351,884	1,000,000	*
93	48	0.00	164,888	0	0	0	0	0	0	*	324,553	324,553	1,000,000	*
94	49	0.00	164,888	0	0	0	0	0	0	*	293,639	293,639	1,000,000	*
95	50	0.00	164,888	0	0	0	0	0	0	*	258,671	258,671	1,000,000	*
96	51	0.00	164,888	0	0	0	0	0	0	*	219,118	219,118	1,000,000	*
97	52	0.00	164,888	0	0	0	0	0	0	*	174,379	174,379	1,000,000	*
98	53	0.00	164,888	0	0	0	0	0	0	*	123,774	123,774	1,000,000	*
99	5/	0.00	164,888	0	0	0	0	0	0	*	66,535	66 535	1,000,000	*
100	55	0.00	164,888	0	0	0	0	0	0	*	1,790	1,790	1,000,000	*
101	56	0.00	164,888	0	0	o	0	0	0	*	0	0	0	*
				**Policy T **Lapse P	erminates: yr rotection ends	29** s: yr 29, mo 7**	**Policy 1 **Lapse P	Terminates: y Protection en	r 43** ds: yr 29, mo 7	**	**Policy T **Lapse F	ferminates: y Protection en	r 56** ds: yr 29, mo	7**

\*Lapse Protection ends: yr 29, mo 7\*

\*Lapse Protection ends: yr 29, mo 7\*'

<sup>1</sup> Whenever the policy value is shown as zero, it may be zero or less than zero.

<sup>2</sup> Reference the Additional Information section, following the Tabular Detail section, for definitions of Notes.

Non-guaranteed assumptions assume that scales for interest and cost of insurance rates will continue unchanged by the Company for all years shown. This is not likely to occur because interest and cost of insurance rates are subject to change by the Company based on various factors such as claims and investment experience, persistency, expenses, taxes, and the overall economic environment. Actual results may be more or less favorable than those shown.

#### What odds of failure is your client willing to accept?

## **Case Study 1: Indexed Universal Life-Protection- Analysis**

	robability Results	5		Sustainatiitiy And
Scenario	Note:			
	IU	L Protection Sample (illus	trated charges, current o	cap)
		Data a and Catimata a		h Trial Dura of 1 000
Expected	Crediting Rates: S&P500	Cap: 9.00%   Floor: 0.00%	Participation: 100%   Spr	read: 0.00%   Charge: 0.00%.
·				Probability of Failure
	LE Age	1st Fail	1/2 Fails	Probability of Fallare
	88	85	93	82%
By Age 10	0 there is a 82% Probabil	ity of Failure. Half of the fail	ures occur by age 93 with a	an Avg. Life Expectancy of age 88.
		Percentage of	Failures by Age	
15.00%		Cumulative Tota	l Failure Rate: 82%	
14.00%				
12.00%				
10.00%				
9.00%				- In-
9.00% 8.00%				du.
9.00% 8.00% 6.00%				dlu.
9.00% 8.00% 6.00% 4.00%				մես.
9.00% 8.00% 6.00% 4.00% 3.00%				.dlh.
9.00% 8.00% 6.00% 4.00% 3.00% 2.00%				
9.00% 8.00% 6.00% 4.00% 3.00% 2.00%				
9.00% 8.00% 6.00% 4.00% 3.00% 2.00% 0.00% 44	46 48 50 52 54 56 S	8 60 62 64 66 68 70 7;	2 74 76 78 80 82 84 80	6 88 90 92 94 96 98 100 102 10.
9.00% 8.00% 6.00% 4.00% 3.00% 2.00% 0.00% 44	46 48 50 52 54 56 s	8 60 62 64 66 68 70 7;	2 74 76 78 80 82 84 84	6 88 90 92 94 96 98 100 102 10.
9.00% 8.00% 6.00% 4.00% 3.00% 2.00% 0.00% 44	46 48 50 52 54 56 5 0 there is a 18% Probabili	8 60 62 64 66 68 70 7; ty of Success.	2 74 76 78 80 82 84 8	6 88 90 92 94 96 98 100 102 10-
9.00% 8.00% 6.00% 4.00% 3.00% 2.00% 0.00% 44 By age 100	46 48 50 52 54 56 5 D there is a 18% Probabili	8 60 62 64 66 68 70 7 ty of Success. Probability of	2 74 76 78 80 82 84 84 Success by Age	6 88 90 92 94 96 98 100 102 10
9.00% 8.00% 6.00% 4.00% 3.00% 2.00% 0.00% 44 By age 10(	46 48 50 52 54 56 5 D there is a 18% Probabili	8 60 62 64 66 68 70 7; ty of Success. Probability of Not Meeting 20% Failure Rate Goa	2 74 76 78 80 82 84 8 Success by Age	6 88 90 92 94 96 98 100 102 10-
9.00% 8.00% 6.00% 4.00% 3.00% 2.00% 0.00% 44 By age 100 100% 90%	46 48 50 52 54 56 5 D there is a 18% Probabili	8 60 62 64 66 68 70 7; ty of Success. Probability of Not Meeting 20% Failure Rate Goa	2 74 76 78 80 82 84 8 Success by Age Meeting 20% Failure Rate Goal	
9.00% 8.00% 6.00% 4.00% 3.00% 2.00% 0.00% 44 By age 100 100% 90% 80%	46 48 50 52 54 56 5 D there is a 18% Probabili	8 60 62 64 66 68 70 7; ty of Success. Probability of Not Meeting 20% Failure Rate Goa	2 74 76 78 80 82 84 8 Success by Age Meeting 20% Failure Rate Goal	
9.00% 8.00% 6.00% 4.00% 3.00% 2.00% 0.00% 44 By age 100 80% 80% 70%	46 48 50 52 54 56 5 D there is a 18% Probabili	8 60 62 64 66 68 70 7; ty of Success. Probability of Not Meeting 20% Failure Rate Goa	2 74 76 78 80 82 84 8 <b>Success by Age</b> ■ Meeting 20% Failure Rate Goal	
9.00% 8.00% 6.00% 4.00% 3.00% 2.00% 0.00% 44 By age 100 80% 70% 60%	46 48 50 52 54 56 5 0 there is a 18% Probabili	8 60 62 64 66 68 70 7 ty of Success. Probability of Not Meeting 20% Failure Rate Goa	2 74 76 78 80 82 84 84 Success by Age Meeting 20% Failure Rate Goal	
9.00% 8.00% 6.00% 4.00% 3.00% 2.00% 0.00% 4.4 By age 100 100% 90% 80% 70% 50%	46 48 50 52 54 56 5 D there is a 18% Probabili	8 60 62 64 66 68 70 7 ty of Success. Probability of Not Meeting 20% Failure Rate Goa	2 74 76 78 80 82 84 8 Success by Age	
9.00% 8.00% 6.00% 4.00% 3.00% 2.00% 0.00% 4.4 By age 100 100% 90% 80% 70% 60% 40%	46 48 50 52 54 56 5 D there is a 18% Probabili	8 60 62 64 66 68 70 7 ty of Success. Probability of Not Meeting 20% Failure Rate Goa	2 74 76 78 80 82 84 8 Success by Age	6 88 90 92 94 96 98 100 102 10.
9.00% 8.00% 6.00% 4.00% 2.00% 0.00% 44 By age 100 80% 70% 60% 40% 50% 40%	46 48 50 52 54 56 5 D there is a 18% Probabili	8 60 62 64 66 68 70 7. ty of Success. Probability of Not Meeting 20% Failure Rate Goa	2 74 76 78 80 82 84 8 Success by Age 1 Meeting 20% Failure Rate Goal	6 88 90 92 94 96 98 100 102 10.
9.00% 8.00% 6.00% 4.00% 2.00% 0.00% 44 By age 100 80% 50% 60% 50% 40% 30% 20%	46 48 50 52 54 56 5 0 there is a 18% Probabili	8 60 62 64 66 68 70 7; ty of Success. Probability of Not Meeting 20% Failure Rate Goa	2 74 76 78 80 82 84 8 Success by Age ■ Meeting 20% Failure Rate Goal	
9.00% 8.00% 6.00% 4.00% 3.00% 2.00% 0.00% 44 By age 100 By age 100 80% 50% 60% 50% 40% 50% 40%	46 48 50 52 54 56 5 D there is a 18% Probabili	8 60 62 64 66 68 70 7; ty of Success. Probability of Not Meeting 20% Failure Rate Goa	2 74 76 78 80 82 84 8 Success by Age ■ Meeting 20% Failure Rate Goal	
9.00% 8.00% 4.00% 3.00% 2.00% 0.00% 44 By age 100 80% 80% 50% 40% 30% 50% 40% 30% 50% 40% 30% 50% 40% 30% 50% 40%	46 48 50 52 54 56 5 0 there is a 18% Probabili	8 60 62 64 66 68 70 77 ty of Success. Probability of Not Meeting 20% Failure Rate Goa Not Meeting 20% Failure Rate Goa	2 74 76 78 80 82 84 8 Success by Age ■ Meeting 20% Failure Rate Goal	
9.00% 8.00% 6.00% 4.00% 3.00% 2.00% 0.00% 44 By age 100 By age 100	46 48 50 52 54 56 5 D there is a 18% Probabili	8 60 62 64 66 68 70 77 ty of Success. Probability of Not Meeting 20% Failure Rate Goa Not Meeting 20% Failure Rate Goa	2 74 76 78 80 82 84 8 Success by Age Meeting 20% Failure Rate Goal	
9.00% 8.00% 6.00% 4.00% 3.00% 2.00% 0.00% 44 By age 100 80% 50% 40% 30% 50% 40% 30% 10% 0% 44	46 48 50 52 54 56 5 0 there is a 18% Probabili	8 60 62 64 66 68 70 77 ty of Success. Probability of Not Meeting 20% Failure Rate Goa 60 62 64 66 68 70 72	2 74 76 78 80 82 84 8 Success by Age ■ Meeting 20% Failure Rate Goal	

- The proposed illustration was run at an illustrative constant rate of 5.77%.
- The policy illustrates through age 100.
- Would the typical UHNW client be comfortable with 18% odds of success based on 1000 trials? Defined as inforce through age 100?
- How many of your clients already own policies that may fail?
- How many clients will purchase policies in the future?
- Would they want to know about solutions now?
- Fix current policy
- Find a superior policy

## Why Do These Failures Occur?

Return Rate Volatility can lead to financial failures in the future as costs increase and there is reduced cash value. As a result, crediting is unable to keep up with the charges of the policy.

Or the owner is trying to pull out too much money from the policy.



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			Admin/				
Policy	Planned	Premium	Contract	Insurance	Amount	Policy	
Year	Premium	Charge	Charges	Charges	Credited	Value	
1	181,047	32,588	33,274	1,253	6,430	120,361	
2	181,047	32,588	33,274	8,044	12,207	239,709	
3	181,047	32,588	33,274	11,011	18,036	361,918	
4	181.047	32,588	53,475	13,808	23,473	466,567	L.
5	181.047	32,588	58,907	16,969	28,425	567,575	
6	181.047	32,588	60,731	19.867	35 421	670,857	
7	181.047	32,588	62,555	23,564	40,703	773.899	
8	181.047	32,588	64,379	27,738	45,959	876,199	
9	181.047	32,588	66,204	32,486	51,159	977,128	
10	181,047	32,588	68,028	38,557	56,250	1,075,252	1111
Totals:	1,810,470	325,885	534,099	193,297	318,063		
11	181,047	32,588	69,852	42,944	61,241	1,172,156	
12	181,047	32,588	71,676	50,179	66,087	1,264,846	
13	0	0	68,069	58,307	63,024	1,201,494	4
14	0	0	64,462	67,402	82,067	1,151,697	1
15	0	0	60,855	59,211	184,094	1,215,725	1
16	0	0	57,247	70,337	191,757	1,279,898	1
17	0	0	53,640	79,345	198,754	1,345,667	10
18	0	0	50,033	89,586	206,844	1,412,892	7
19	0	0	49,786	101,095	219,466	1,481,478	100
20	0	0	49,786	126,066	239,553	1,545,179	2
Totals:	2,172,564	391,062	1,129,504	937,769	1,830,950		1
21	0	0	49 786	150 978	260 171	1 604 587	Z
21	0	0	49,786	170 244	278 653	1,663,210	
22	0	0	49,700	191 970	299 300	1,005,210	
23	0	0	49,786	216 563	322,008	1,720,735	
24	0	0	49,786	246 751	348 731	1,878,608	
25	0	0	49,786	281 308	378 993	1,876,508	
20	0	ů 0	49,786	317 371	411 990	1 921 342	
28	0	0	49,786	361 362	452,660	1,962,855	1
20	0	0	49,786	424 709	511 313	1,999,674	
30	0	0	49,786	498,992	580,020	2,030,916	0
31	0	0	49,786	610,241	672,660	2,042,550	
32	0	0	49,786	713,636	764,291	2,044,419	
33	0	0	49,786	823,972	859,851	2,030,513	
34	0	0	49,786	917,128	933,669	1,997,268	
35	0	0	49,786	1,017,648	1,009,965	1,939,800	10
36	0	0	49,786	1,119,916	1,081,145	1,851,243	7
3/ 38	0	0	49,786	1,252,449	1,147,956	1,716,964	
39	0	0	49,786	1,596.502	1.076.278	795,499	
40	õ	Ŭ O	49,786	1,896,347	1,151,647	1,013	
							1

### WHY DO THESE FAILURES OCCUR?

In the 34<sup>th</sup> year the costs begin to exceed the credits.

In the 32<sup>nd</sup> to 33<sup>rd</sup> year, the cash value of \$2.044M begins to plummet to \$0 in just 8 years. This is called the death spiral. Variances in the amount credited may cause the cash value to plummet earlier or later in the illustration.

Without sufficient cash value or expensive remediation this policy will expire worthless. Remediation in the later years may cost \$100,000+ annually

## Why Do These Policy Failures Occur?

- In the 34<sup>th</sup> year the costs begin to exceed the credits.
- In the 32<sup>nd</sup> to 33<sup>rd</sup> year, the cash value of \$2.044M begins to plummet to \$0 in just 8 years. This is called "the death spiral".

]	Policy Year	Planned Premium	Premium Charge	Admin/ Contract Charges	Insurance Charges	Amount Credited	Policy Value	Surrender Charge	Net Surrender Value
	31	0	0	49,786	610,241	672,660	2,043,550	0	2,043,550
	32	0	0	49,786	713,636	764,291	2,044,419	0	2,044,419
	33	0	0	49,786	823,972	859,851	2,030,513	0	2,030,513
+	34	0	0	49,786	917, <mark>1</mark> 28	933,669	1,997,268	0	1,997,268
	35	0	0	49,786	1,017,648	1,009,965	1,939,800	0	1,939,800
	36	0	0	49,786	1,119,916	1,081,145	1,851,243	0	1,851,243
	37	0	0	49,786	1,232,449	1,147,956	1,716,964	0	1,716,964
	38	0	0	49,786	1,374,365	1,072,696	1,365,509	0	1,365,509
	39	0	0	49,786	1,596,502	1,076,278	795,499	0	795,499
	40	0	0	49,786	1,896,347	1, <mark>1</mark> 51,647	1,013	0	1,013
	Totals:	2.172.564	391.062	2,125,216	15,100,220	15.444.947			




- M= meet, this doesn't mean that we are doing business, simply means that you have more questions
- I= introduction to someone in your network that you would like to introduce me to in order for them to learn more
- S= speaking opportunity to benefit that group
- A= what was your "aha" moment today?
- T&E= send a copy of the Trust & Estates Article. Cochran v KeyBank.
- V- video series on clients best interests for life insurance- what fiduciaries need to know about life insurance illustrations in relation to their fiduciary duties



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## LISA Disclosures

## Disclosure

A LISA Report uses stochastic modeling techniques including running hundreds of possible outcomes while randomizing certain input variables. For example, crediting rates are randomized based on a distribution of returns from a rolling 20 years of monthly data. For VUL policies, the debt and equity portions of the portfolio allocations are based on monthly returns of generally accepted benchmarks - broad baskets of US fixed income and US equity securities, respectively. IUL policies use annual returns of the selected underlying indexed market based securities excluding dividends.

Benchmark LISA Reports: policy costs and charges are based on industry averages for the particular policy type, for example, VUL for Protection is based on a basket of VUL products that are death benefit only focused.

Benchmark cost of insurance charges are based on the Society of Actuaries - 2001 Valuation Basic Tables (VBT) of insured lives mortality and further incorporates age, gender, health rating and table rating specifics as inputted. Customized LISA Reports: policy costs, charges and cost of insurance charges are based on the actual policy illustration's values as uploaded by the application user and incorporated into our set-up of the illustration for creating a Customized LISA Report and running Customized LISA Report Scenarios.

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