Variable Universal Life (VUL)

Variable Universal Life (“VUL”) is the generational next step in life insurance product design, combining the premium flexibility of Universal Life and the cash value "investment" control of Variable Life with a number of traditional features. The key to VUL is mastery of the basics, requiring familiarity with all the features and options of the product and the benefit each offers clients.

# Introduction

Variable Universal Life is not so much a revolutionary life insurance concept as it is an evolutionary one. VUL is essentially an improvement on an established, proven design, with some exciting new features. For instance, due to several unique features, each VUL policy can be custom designed to meet the individual needs of the vast majority of clients, making it an excellent product for needs-based selling. Depending on the separate cash value investment accounts offered, the policy can be fine tuned to reflect the financial objectives and risk attitude of each client.

All Variable Universal Life products have certain basic features and options in common. Nonetheless, because of the tremendous flexibility of VUL, many variations exist from company to company in individual policy design. Additionally, VUL is a dynamic product; it continues to evolve based on consumer need and underwriting experience.

What Is Variable Universal Life?

Variable Universal Life goes by a number of formal and informal names. It has been described variously as flexible premium variable life; modified premium variable life; equity-based life insurance; and so on. For our purposes, we will refer to this product by its popularized generic name: Variable Universal Life (VUL).

But just what is VUL? In its purest, simplest form, it is essentially a Universal Life policy with separate cash value accounts.

But that's not all; VUL effectively blends many features of traditional whole life, universal life and variable life in one product. Key among these are its:

* Premium Flexibility
* Death Benefit Flexibility
* Cash Value Investment Control

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These are the three key features that give VUL its unique characteristics and which make it highly responsive to policyowners' needs.

Because VUL is both policyowner-driven and market driven, each policy has the capability to respond— at the policyowner's discretion— to changing economic conditions and personal financial objectives. For instance, when conditions and objectives change, policyowners easily can:

* Switch all or a portion of their cash values into different investment accounts within the policy.
* Reduce or suspend premium payments as long as there is adequate cash value within the policy.
* Pay additional amounts, within prescribed limits, into the policy to increase the death benefit or take advantage of tax-advantaged competitive returns produced by their separate cash value investment accounts.
* Switch death benefit options, depending on whether their objective is rapid cash value accumulation or death benefit increases.

Many VUL policies can be designed to incorporate much of the security of traditional life insurance guarantees, but with premium flexibility, cash value growth potential and investment control. VUL enables clients to create a balanced life insurance program that allows them to participate directly in the investment experience of their cash value accounts, selecting investments that are in tune with their own "risk attitudes" and objectives. The result is a policy that makes it possible for you to help clients custom build a dynamic life insurance plan that will meet their individual financial objectives and insurance needs— not just today but for as long as they choose to keep their policies in force.

Summary of Key Features and Benefits

Cash Value Life Insurance

VUL has been designed to provide policyowners with lifelong insurance protection.

Tax-favored Life Insurance Status

Variable Universal Life Insurance effectively combines both insurance and investment features. In fact, it is a security, which is why advisors must be securities licensed to sell

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VUL. For tax purposes, however, VUL is treated as life insurance. As a result, while net premiums go directly into separate cash value investment accounts— where they earn a competitive, current rate of return— earnings accumulate on the same tax-advantaged basis as do cash values of traditional whole life policies.

Flexible Premium

With VUL policies, once the initial or specified minimum premium has been paid, policyowners can pay whatever premium amount they wish, within certain limitations. Provided there is adequate cash value available to cover all periodic charges and the cost of insurance, they can suspend or reduce premium payments.

Conversely, policyowners wishing to increase death benefits or take advantage of tax-favored accumulation of cash values can pay additional premiums into their plans; however, most policies contain maximum limits, and if the increase is above a certain amount, proof of insurability may be required.

Separate Cash Value Investment Accounts

Unlike traditional life insurance policies, the cash value in a VUL plan is maintained separately from the rest of the policy. At the time of application, policyowners elect to have their net premiums (and cash values) allocated to one or more investment accounts. These separate accounts function independently of the insurer's assets, with earnings and losses accruing directly to the policyowner's cash value. This is why VUL policies have a two-part prospectus— one explains the policy itself; the other describes the investment account management.

Policyowners also can redirect future premiums and switch accounts periodically. The result is a life insurance policy that provides policyowners with their own self-directed investment options. These accounts function exactly as would outside investments, subject to stated charges and management fees.

Generally, policyowners have from five to eight choices of accounts, though some policies offer even more options. Typical account options within a VUL policy include a money market account, one or more common stock accounts, a bond fund, an index fund and a balanced account. Many policies also offer one or more fixed rate funds (providing guarantees similar to traditional products) and/or a general investment fund with a declared rate of interest (similar to Universal Life).

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No Cash Value Guarantees

The cash value in a VUL policy builds or declines as a result of premiums paid, fees charged, periodic deductions for the cost of insurance and the investment experience of the policyowner's selected accounts. As a result, cash values are not guaranteed by the insurer, nor can future earnings be projected with accuracy.

While policyowners enjoy the potential for virtually unlimited growth within their policies, they also bear the entire risk of any losses. However, due to the cash value account options and the ability to switch, policyowners can increase or decrease the amount of risk, based on their individual financial objectives and risk attitude.

For instance, some policyowners may wish to allocate 100 percent of their net premiums to aggressive investments, such as a growth-oriented common stock fund. Those who are more conservative may prefer investments offering greater safety, such as a bond fund, or a fixed account. Others may choose to spread the risk and diversify by allocating cash values among several funds with different investment objectives. Of course, as personal objectives and economic conditions change, policyowners can change their allocations as often as desired.

Death Benefit Options and Flexibility

As with Universal Life, VUL policies generally offer either a level death benefit (which provides a fixed death benefit— until policy values reach what is known as the corridor level— and potentially higher cash value accumulation) or a variable death benefit (which provides a death benefit that fluctuates in response to cash value investment performance, often on a daily basis).

The amount of death benefit can be increased or decreased as needs change through premium adjustments, changes in the selected amount, partial withdrawals and policy loans.

As a rule, the death benefit in a Variable Universal Life policy is not guaranteed. If investment experience is poor, the policy can lapse unless additional premium amounts are paid. However, some VUL policies do offer death benefit guarantees. Under these policies, payment of the minimum scheduled premium ensures that the policy will remain in force for the specified amount for a specified time, even if the cash value is zero.

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Fixed Expense Charges

All life insurance policies have expenses and charges. The main difference between these charges in a VUL policy and those built into traditional plans is that they are "unbundled" in a VUL policy. In other words, they are fully disclosed in the policy.

These charges and deductions can take several forms. The majority of VUL products have a type of front-end load whereby deductions are taken from premiums as they are paid. These deductions cover marketing costs, state premium taxes and other expenses. There may also be some first-year deductions to cover the cost of issuing the policy.

Additionally, specified amounts are deducted periodically from the cash value to cover ongoing administration expenses, account management fees and the cost of life insurance coverage.

Deductions from premium and cash value are guaranteed not to exceed the amounts stated in the policy; however, they may be lower.

Full Disclosure

By law, policyowners must be given a prospectus (and in some states, a Buyer's Guide) at some time during the selling process. The prospectus details the specifics of the policy and the separate investment accounts, including maximum fees and charges that can be deducted. The policyowner also receives an annual report. This document provides an update of all policy transactions, values and deductions.

Finally, the Planner must not only provide certain information, but must also refrain from making any promises, guarantees or misrepresentations.

Standard Provisions and Riders

Variable Universal Life policies contain most of the standard provisions and options available under traditional policies. These include, but are not limited to, grace period, settlement options, policy loans and other rights.

# The Mechanics of Variable Universal Life

As does every permanent life insurance policy, Variable Universal Life has three key elements:

* Premiums

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* Death Benefit
* Cash Values

In a traditional policy, all three of these are fixed and determined at the time the policy is issued. This is not the case in a VUL policy. Within limits, all three may be changed periodically at the policyowner's discretion. Also, changes in one will have an effect on the other two.

Premiums

Every Variable Universal Life policy is issued with a minimum scheduled premium based on an initial death benefit (specified) amount and the age, sex and risk of the applicant. The premium is the actually determined amount needed to establish the plan, meet first-year expenses and provide adequate funding to cover the cost of insurance protection. In subsequent years, as long as cash values are adequate to keep the policy in force, no further premium is required. Policyowners will receive scheduled premium notices and have the option of paying more, less or no premium at all. Additionally, unscheduled premiums may be paid at any time.

Still, there are limits. Most companies impose a minimum amount that may be paid. In other words, while policyowners may elect to make no premium payment in a given year, should they choose to pay in some amount, it must be at least $50, $100 or $250, depending on the individual plan specifications.

There are also maximum limits imposed by law. There is a corridor amount or ratio that must be maintained between the cash value and the death benefit for the policy to continue to qualify as life insurance (and retain its tax-sheltered cash value accumulation status) for income tax purposes.

Also, companies may impose a premium limit for premiums paid each year. Drop-ins above these limits must be approved by the home office. Excess amounts may be returned, or the policyowner may be required to provide current proof of insurability.

Upon the payment of a premium, the net premium (the total premium minus certain charges or loads) goes directly into the separate cash value investment accounts selected by the policyowner. The cash value in the policy rises or falls depending on the investment performance of the separate accounts. From this cash value fund, deductions are made periodically to cover the cost of administration fund management and life insurance protection.

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Deductions from Premiums

Variable Universal Life policies may have a front-end load and/or a back-end load to cover various policy expenses. Front-end loads are deductions made from premiums as they are paid. Back-end loads are generally in the form of surrender charges.

*Front-End Loads*

Front-end loads usually consist of the following:

1. A premium expense or sales charge to compensate the company for expenses incurred in connection with the marketing and distribution of the policy. These charges— which are a percentage of the premium and are stipulated in the policy itself— are deducted from each premium paid.

2. A premium tax charge reimbursing the company for premium taxes imposed by the various states.

3. A processing fee, in the form of a flat dollar amount.

How premium payments affect policy values: Once the policy is in force, there is no direct connection between premiums paid and the level of cash value and death benefit. For this reason, as long as there is an adequate amount of cash value in the policy to meet monthly deductions for life insurance and administration charges (which will be discussed later in this section), the policyowner can pay any premium amount he or she wishes.

By paving more than the scheduled premium, policyowners may be able to accelerate cash value growth, as well as increase the death benefit. In the same manner, reducing or skipping premiums may lead to decreases in the cash value and death benefit.

Keep in mind that payment of even regularly scheduled premiums will not guarantee that the policy will remain in force (with the exception of VUL plans offering minimum death benefit guarantees). Should the cash value accounts experience sustained investment losses, policies may have "negative growth." In this situation, the policyowner may be required to make substantial premium payments to prevent the policy from lapsing. Nonetheless, the policy will only lapse if the net cash value is insufficient to cover ongoing deductions from the cash value to cover the cost of insurance and administration charges.

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Death Benefit

The death benefit is neither fixed nor guaranteed in most Variable Universal Life policies. Instead, within limits, it may increase or decrease depending on the amount of cash value in the plan and the death benefit option selected by the policyowner.

VUL Plans Have Two Death Benefit Options— Variable and Level

*The Variable Death Benefit Option*

Under this option, the policyowner selects a specified amount of pure insurance coverage. This specified amount remains constant. The death benefit payable at any point in time is a combination of the specified (or face) amount and the cash value within the policy. Essentially, the cash value is added on top of the specified amount, to create the total death benefit. Increases in the cash value are directly reflected in the death benefit. This option provides a death benefit that may fluctuate dramatically depending on the investment performance of the cash value accounts.

Under this option, mortality costs deducted from the cash value generally will be higher than those for the level death benefit. This is because the amount at risk remains level for the life of the policy, with the mortality rate applied to the total specified amount. Essentially, deductions for insurance coverage within the plan are for a level amount of yearly renewable term insurance. As a result, total cash value accumulation will tend to be less than under an identical plan with a level death benefit option.

*The Level Death Benefit Option*

Under this option, the emphasis is on maximum cash value accumulation. The policyowner specifies the total death benefit in the policy. This amount remains constant and does not fluctuate as cash values increase or decrease. Instead, cash values simply build up within the policy. Then, if they reach the "corridor" ratio, the death benefit will then increase in line with increases in the cash value. Until that point is reached, however, cash values simply accumulate in the plan, with each increase replacing a corresponding amount of pure insurance needed to keep the death benefit at the specified amount.

The level death benefit is structured in the traditional manner, with an amount at risk, or pure insurance, which decreases as the cash value increases. Similarly, should the cash value decrease, the corresponding amount of pure insurance is automatically increased to keep the death benefit at the chosen level.

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This death benefit is often selected by clients who want a level amount of protection, with maximum cash value build-up.

*Changing Death Benefit Options*

The policy owner not only has a choice of death benefit options, but after the policy has been in force for a certain period of time (generally one year), he or she can also switch options at any time. No evidence of insurability is required if the switch is from the variable to the level death benefit; however, evidence of insurability may be required if the change is from the level to the variable option.

Death benefits can also be adjusted by increasing or decreasing the specified amount. Changes usually can be made after the first policy year. If the amount of insurance is increased, evidence of insurability may be required.

Cash Value

Unlike traditional whole life policies, Variable Universal Life policies do not have cash value guarantees. Instead, the cash value functions as a separate an distinct investment fund (actually, a series of funds), which fluctuates in response to the investment experience of the selected fund(s).

In this way, the policy has the potential for virtually unlimited cash value increases, assuming the separate accounts enjoy favorable returns. On the down side, however, since the risk within a VUL policy is borne directly by the policyowner, it is possible for the cash value to experience negative growth.

The Cash Value Accounts

Each VUL policy offers at least two (and often dozens) of separate investment accounts. Each account functions independently of the others and is managed outside of the issuing insurance company. These accounts are generally mutual fund series. Each has its own specific investment objectives. Typical accounts include, but are not limited to, the following:

Money Market Account, which invests primarily in short-term money market instruments. Emphasis is on safety and moderate growth. (Relative risk: low.)

Zero Coupon Bond Account, which invests in high quality debt instruments issued by the U.S. government, purchased at a discount and held to maturity. Emphasis is on a high level of safety and guaranteed return on principal. (Relative risk: low.)

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Common Stock (Growth) Account, which invests primarily in growth-oriented common stocks and securities. Emphasis is on significant growth. (Relative risk: moderate.)

Aggressive Common Stock Account, which invests in stocks of companies with high growth potential. Emphasis is on maximum growth. (Relative risk: high.)

Bond Account, which invests in fixed-income corporate bonds and U.S. government-backed debt instruments. Emphasis is on high income. (Relative risk: moderate.)

Balanced Account, which invests in a balanced combination of investment vehicles based on the discretion of the account managers and may include elements of all the above. Emphasis is on growth. (Relative risk: moderate.)

Many VUL policies offer another investment option. Policyowners can allocate all or a portion of net premiums and cash values into the company's general fund. This is similar to the declared interest fund in a Universal Life policy. Cash value in this general account earns a rate of return declared by the company and which may be changed periodically. It also provides a guaranteed minimum rate of return.

How Net Premiums and Cash Values are Allocated

At the time of application, policyowners select the account or accounts into which they want their net premiums allocated. If no account is designated, net premiums will go into one account automatically, as would be indicated in the terms of the policy.

Depending on the number of account options under a particular policy, premiums can be allocated in any proportion desired, though there is usually a 10 percent minimum that must be allocated to any account selected. There also may be a minimum dollar amount per account per payment.

Another flexible feature of VUL is that future premiums and/or existing cash values can be reallocated, or switched, among the accounts at virtually any time by the policyowner. However, there is generally a limit on the number of changes that can be made in a given policy year without charge. Additional transfers within the same year will incur a small administrative charge. In some policies there is also a minimum dollar amount that can be transferred.

As mentioned earlier, many VUL policies deduct a front-end load from each premium paid. The remainder, or net premium, then goes directly into the cash value, where it is invested in the account(s) selected by the policyowner. Periodic deductions are made from the cash

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value for monthly administration charge (which may be a flat fee per policy and/or a percentage of the selected face amount) and for the monthly cost of insurance charge to fund the at-risk cost of providing the pure life insurance coverage amount. This cost of insurance increases proportionately each year, based on the insured's attained age, just as the cost does with an annually renewable term policy. The insurance costs are stated in the policy. While the actual charges for insurance may be lower, they may not exceed the guaranteed rates.

The Effect of Loans on Cash Values

When cash values are borrowed, an amount equal to the loan is transferred to the company's general account. The transferred funds earn a stipulated rate of interest. This rate usually is either fixed or declared.

As with traditional whole life policies, loans against the cash value directly affect VUL policy values. Since the amounts borrowed no longer participate in the investment performance of the cash value accounts, the impact may be either positive or negative, depending on whether the investment performance of the accounts was favorable or unfavorable.

A policy loan will reduce the total amount payable to the beneficiary upon the death of the insured. It will also reduce the amount of cash value available for a partial or full surrender of the policy at a later date.

Partial Withdrawals and Full Surrenders

Variable Universal Life policyowners may surrender their policies at any time and receive the accumulated cash surrender value. They may also make partial withdrawals of "excess" cash value should they need the funds for other uses and prefer not to incur interest charges from a policy loan.

Full Surrenders

As with any permanent cash value policy, VUL policies can be surrendered at any time and for any reason. Upon surrender, the coverage terminates and the policyowner receives the net surrender value within the policy. The net surrender value is determined by calculating:

1. The current total cash value from all accounts,

2. Minus any outstanding loans and interest due,

3. Minus the surrender charge, if any.

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Partial Surrenders

This is also known as a partial withdrawal or withdrawal of excess cash value. This is an alternative to a full surrender or policy loan. While some policies allow an unlimited number of partial withdrawals, others permit no more than a specified number in a single year. The maximum amount that can be withdrawn depends on the amount of cash value in the policy. The minimum amount is generally between $300 and $1,000, depending on the terms stated in the policy.

As with full surrenders, the request for a partial surrender must be made in writing. The funds may be withdrawn from the cash value investment accounts in any ratio the policyowner wishes. If the policyowner does not specify otherwise, typically, the amounts will be withdrawn from the cash value investment accounts in the same proportion as the funds have been allocated to the accounts.

The total death benefit will be reduced by the amount of the partial withdrawal.

Surrender Charges

Keep in mind that the insurer does not share in the investment returns on the cash value in a VUL policy. While early surrenders of traditional policies can be costly to the company, they can be even more expensive when a VUL policy is surrendered. This is one reason why many Variable Universal Life policies include a surrender charge. Under this policy provision, a small amount of the cash value (such as the greater of 2 percent or $25) is deducted for partial and full surrenders. This charge— or back-end load— may remain constant for the life of the policy or may gradually decrease after several years. This charge reimburses the insurer for administration and other costs not yet fully amortized.

The surrender charge serves another important function— it avoids penalizing policyowners who keep their policies in force by making them bear the cost of surrenders.

The surrender charge may consist of a deferred administration charge or processing fee, as well as a percentage charged against the amount of cash value withdrawn. Partial surrenders can be put back into the policy at any time, as long as the policy is in force; however, they may be subject to front-end premium charges as specified in the policy.

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# Tax Treatment of Variable Universal Life

The federal income tax benefits afforded flexible premium life insurance contracts are a major advantage of universal and variable universal life insurance products.Legal Requirement and Regulation

Variable universal life policies are subject to regulation at both the state and federal levels. In each state, the legislature and insurance department stipulate the provisions and limitations that must be satisfied for approval of the policy for sale in that state. They also establish specific policy disclosure and other requirements that must be satisfied by the advisor during the selling process.

Additionally, Variable Universal Life is regulated by the Securities and Exchange Commission as a security because the investment gains or losses within the separate cash value investment accounts accrue directly to the policyowner. As a result, financial advisors selling variable universal life insurance must meet strict licensing and disclosure requirements and are required to provide VUL prospects with specified information and abide by rules and regulations set forth by the Financial Industry Regulatory Authority (FINRA). Created in July 2007 through the consolidation of NASD and the member regulation, enforcement and arbitration functions of the New York Stock Exchange, FINRA is dedicated to investor protection and market integrity through effective regulation. FINRA oversees nearly 5,000 brokerage firms, about 162,000 branch offices and approximately 631,000 registered securities representatives.

Before selling a Variable Universal Life product, an advisor must:

1. Have a current license to sell life insurance in the state. (Some states further require a separate variable life license.)

2. Become an FINRA registered securities representative affiliated with a broker-dealer. This requirement includes successfully completing rigorous examinations given by FINRA.

# Selling VUL

Who Is A Prospect For VUL?

Variable Universal Life is a versatile product designed to meet needs in a number of markets. Nonetheless, suitable prospects will generally have one or more of the following characteristics or needs. VUL may be the product of choice for prospects who:

* Have a genuine need for additional life insurance protection.

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* Place a high value on flexibility and self-directed control in their life insurance plans.
* Seek diversification of their investment dollars.
* Can benefit from VUL's tax-benefits coupled with the potential for competitive returns this product offers.
* Appreciate and understand the growth (and loss!) potential of equity- and interest-based investments.
* Believe their need for life insurance protection is likely to continue into the future.
* Recognize the need for balance between investment safety and growth potential in their life insurance plans.
* Understand that inflation and opportunity costs are also significant investment risks. (Traditional policies effectively reduce the "loss of principal" risk to zero; however, that is only one form of risk. Cash value in fixed-return policies is vulnerable to inflation risk, which can lead to losses in purchasing power.)
* Want the benefits of competitive investment returns, yet do not want to constantly monitor and manage their funds.
* Understand the risk/reward trade-offs of different investment vehicles.
* Need a life insurance plan that can change with them as their life-styles and needs change.

Who May Not be a Suitable Prospect?

Through the policyowner's investment account selection, Variable Universal Life can be custom-tailored to meet the needs of both the conservative-minded investor and the more aggressive risk taker. Nonetheless, VUL may not be the ideal solution in all situations.

* Specifically, this product may not be appropriate for prospects who prefer or require the simplicity of either traditional whole life or Universal Life.
* Do not need or desire investment control or are uncomfortable making even minimal investment decisions.
* Require fixed, scheduled premium payments, for whatever reason.

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* Prefer the safety of locked-in guarantees or have difficulty coping with the concept of fluctuating cash values and death benefits.Meeting Consumers' Needs with Variable Universal Life

There is no single right way to present Variable Universal Life. As indicated in the introduction to this subsection, the fundamentals remain very much the same no matter which product you are presenting. Still, VUL has more features and options than most other policies. Unless presented in a systematic, organized manner, they can be confusing to prospects. At the same time, it is imperative that the planner remain in compliance with all disclosure requirements and suitability guidelines.

Following are several recommendations that will promote adherence to these requirements and also help organize a presentation of Variable Universal Life:

1. **Take a needs based approach**. As indicated before, this is the cornerstone of the VUL presentation. This product is truly needs-driven. To help clients and prospects "design" a plan that corresponds to their specific needs, you must know what those needs are.

2. **Do a thorough fact find**. The more information obtained about the prospect, the more specific, individualized and appropriate your final recommendations can be. With VUL, a fact find requires more than the basic vital statistics of age, health, family status and financial situation. Since this product contains distinct investment elements, you must develop a clear assessment of your prospects' short-term and long-term objectives, as well as their attitudes toward, and knowledge of, risk and reward. It is only through such a detailed fact-finding process that you can accurately determine suitability.

3. **Stress the custom design and uniqueness of the product**. Early in the presentation, make it clear that this is in fact a product that can be custom-tailored to meet individual needs. Let prospects know that it doesn't just come off the rack, so to speak, but will be structured to fit their precise needs. This should be mentioned especially to prospects who have reservations about going through a detailed fact-finding session.

4. **Relate benefits to present needs.** These are the prospect's most pressing concerns and planner's explanation of the product should be organized according to their priority needs as determined by fact-finding.

5. **Relate benefits to future needs**. The focus here is on how and why the policy can be changed and adapted over the years to meet future needs.

6. **Stress regular premiums**. A key feature of Variable Universal Life is premium flexibility. However, for the product to truly perform, a system of scheduled premiums

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 should be encouraged. Too often in the past, the focus of flexible premium product presentations was on the flexible premium feature itself. These products were often sold with the assurance that the policyowners would never have to pay another premium beyond a certain point in time, especially during times of high interest rates or bull markets, when investment returns on cash value could be well above average.

This could be true; however, it is a mere possibility, not a guarantee. Besides, consistent failure to pay premiums undermines the potential of the policy to grow and help clients meet their long-term financial objectives. Most of all, the discipline of paying premiums on a regular basis is a prime factor in persistency and assuring that the policy and its values are there when needed. For these reasons, the flexible premium option should be presented as just that— an option. It is a safety feature to be used in emergencies and as part of a long-term financial strategy. The ability to skip or pay reduced premiums certainly should not be the basis for the entire presentation. To do so would not be fair to your prospects.

7. **Give and use the prospectus**. There are two practical reasons for this. First, it is a legal requirement. Second, the prospectus can be a valuable tool to help explain key features of the policy and answer questions. The planner should read it and encourage prospects to do so as well. View the prospectus as a reference guide. Many planners highlight key sections in the table of contents and briefly go over them in the presentation. In this way, the prospectus can be incorporated easily into the presentation itself.

8. **Provide full disclosure**. Variable Universal Life is a strong, competitive product. It stands up well under careful scrutiny. But there are things that need to be explained, including all fees, premium and cash value deductions and any surrender charges. It also must be pointed out that cash values are not guaranteed and that interest rates shown on illustrations and sales material show only how the policy will perform under certain "what-if" conditions. Values in each prospect's individual policy will be different, based on premiums paid, cash value investment returns and other factors. If recommendations are in tune with a prospect's needs and risk attitude, he or she will welcome a straightforward explanation of risks and charges; however, the prospect does need the facts. If all necessary information is not provided, the Planner's credibility will suffer. A candid explanation today will avoid misunderstandings and lawsuits later.

9. **Use a sample annual report**. To further explain fees and policy values, a copy of a sample annual report may be useful. This serves two purposes. First, if the company's policy has significant first-year fees and charges, policyowners may be

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caught by surprise at the potentially low level of cash value in their policies after the first year. A brief explanation will serve the interests of full disclosure. Second, an explanation of the annual report introduces the topic of the planner's service and the annual review. So take a few minutes to review the sample annual report. Go over the charges and deductions and explain their effect on first year cash values.

10. **Provide ongoing service**. While this may seem obvious, it is important that the planner be available for questions after the sale. Some will come up during the policy delivery. Others will arise shortly after the sale. Others will arise years later

# Use of VUL in Retirement Planning

Because of VUL’ s flexibility and tax advantages, it has some special relevance as a tool for retirement planning.

# Conclusion

Variable Universal Life is a dynamic, versatile life insurance product and requires a bit of work initially to acquire a comfortable working knowledge of all that it has to offer clients. This subdivision has laid out the basics of how VUL works and what it does. The planner should become familiar with his or her company's own product prospectus and all approved sales materials.

Variable Universal Life is an important product, designed to meet consumers' needs in today volatile economic environment. Though traditional whole life and term policies will always have a place in the industry, VUL now has a prominent place in the competitive planner's product portfolio.