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Protection IUL Market Scan

What do we mean by protection in permanent life insurance? It seems to me there are two main routes to get to an answer on this question: 1) You pay for the certainty that a policy will last to exactly when you specify (i.e. a dialable guarantee), or 2) You can opt for some non-guaranteed crediting mechanic that aims to carry the death benefit out for the insured's lifetime. The primary advantage of the second route over the first is that the same amount of insurance will tend to quote at much lower premiums than fully guaranteed policies ("more bang for your buck").[1]

IUL products in some cases *can* provide a dialable guarantee as in option 1 above, but most of the largest players in this space are more of the option 2 variety. As such, the discussion in this paper revolves around protection indexed universal life (PIUL) targeting $1 cash value at maturity.

Illustrated cost savings on death benefit help explain why PIUL is one of the largest selling and fastest growing segments within LIBRA as well as the broader industry. Through April, LIBRA firms are up nearly 30% in sales with this chassis year over year, and it is currently our third largest market share behind Term and AIUL.

There can also be a marked difference between real performance and what the illustration projects. I discussed this in depth in an accumulation IUL Market Scan earlier this year (click HERE for that article). With a protection focus, some of the interest sensitivity is lessened thanks to primary guarantees, but it still exists to some extent.

In light of these considerations, I would like to tackle the analysis from several angles: competitiveness based on benchmarking, strength of primary guarantees, and how to set expectations for interest sensitivity.

Competitive Analysis

The benchmarks accompanying this paper are grouped into two categories based on interest assumption in their basic S&P 500 account[2]: the Maximum Illustrated Rate (default), and 4.5%. Below are comments on the current rankings within the market.

[1] Specifically, this is maturity guarantees. The lower one dials in a guarantee, the less disparity on pricing you see within an individual scenario. Dropping a guarantee all the way down to age 90 reduces (or eliminates) the advantage substantially, though many of the best products lapse at exactly 90 while non-guaranteed options are likely to last much longer.

[2] As I have indicated before, actual performance of volatility control indexes has been very low compared with their back tested values. With such aggressive illustrations not backed by strong returns, I have chosen to no longer include them in the benchmarks. If this situation changes, I will reconsider at that time.

Max IR

When using carriers' default AG-49 rate, several products stand out from the rest with lower premium offerings:

- ***John Hancock's Protection IUL 24*** – most consistent product in the top 3.
- ***Nationwide's IUL Protector II 2020*** – also very strong, typically in the top 4. For full paying clients ages 50 and below, it is basically the best or second best.
- ***Corebridge's Value+ Protector III IUL*** – generally in the top 5, and full pay clients ages 50 and up are in the lead or runner-up positions.
- ***Symetra's Protector IUL*** – ranks between 3 and 6 on average.

In addition, Pacific Life's Horizon IUL 2 does really well in short and single pay situations, taking basically the crown for single premium scenarios. Also, Protective's Indexed Choice UL finds its way between positions 3-5 with full pays, though it is not nearly as strong with short pays.

4.5% IR

Dropping the interest assumption to very conservative levels paints a different picture. This is **not** to say that running products at the maximum illustrated (max IR) is bad, just that many of the consistently strong options at current cap rate levels contain more interest sensitivity. I like to think of products that do well at lower interest rates as "sturdier." They can *potentially* handle the punches of changing markets, caps, and other risk factors better than those aimed at optimizing positive crediting.

- ***Mutual of Omaha's Life Protection Advantage*** – almost always places 2nd or 3rd, no matter the payment structure.
- ***Protective's Indexed Choice UL*** – also consistently strong across the board. For full pays, it almost always takes the crown.
- ***Pacific Life's Horizon IUL 2*** – strong nearly across the board, especially for single premiums (males are basically always number 1).
- ***Nationwide's IUL Protector II 2020*** – still decently competitive on full and short pays for clients ages 60 and below.

Reading Between the IRs

A few quick comments comparing this market at the maximum and 4.5% illustrated rates:

1. Protective and Pacific Life are strong in niches under the ideal lens but really shine at more conservative assumptions.
2. Nationwide is the opposite, consistently strong at Max, but loses some momentum for single pays at 4.5%.
3. Corebridge, though not mentioned in the 4.5% section, is still decently competitive, but not nearly at the same level as Max IR.
4. Mutual of Omaha is good at full pays under the Max IR lens, then really stands out at more conservative rates.
5. John Hancock is one of the strongest under optimistic assumptions, then falls to basically the middle or back of the pack using a conservative lens.
6. Finally, Symetra pushes back to ranks 5-8 at 4.5% IR.

Primary Guarantees

The death benefit on a protection IUL is still guaranteed out to ***some*** length of time. This is sometimes referred to as a primary guarantee, as opposed to the more dial-a-guarantee route where you specify the duration (e.g. a guarantee to age 100 or maturity). The primary guarantee will fluctuate within a product depending on the client's age, risk, payment structure, and how much premium is paid into the contract, but he or she will have some form of contractually guaranteed death benefit for any product on the shelf.

This means the case designer for these types of sales is sometimes engaged in a bit of a balancing act: trying to find that sweet spot where the client can get the most life insurance for the least amount of capital while also making sure the risks of underperformance do not create a difficult situation down the road (such as having to pay large sums of extra premium to keep the policy in force when the client is in their 80's/90's).

Primary guarantees make this task a bit simpler, in my opinion. As long as premiums are being paid into the policy, clients have a baseline expectation of insurance up to the guaranteed age. Then, as long as nothing blows up on them, the cash value should have accumulated to enough of a level that there is little risk of policy lapse.

For example, let us say a client bought a policy illustrated at the maximum illustrated rate with a primary guarantee to age 85. The death benefit (DB) is guaranteed to age 85, and as long as the index performs well, the policy should last from 85 to the day of the client's passing thanks to the cash value carrying the DB. Even should returns be lackluster, if the cash value would carry that DB out to age 100 instead of 120, I highly doubt most clients would break a sweat over that scenario.

Teasing this out a bit further, this particular protection scenario is not just having a good primary guarantee that makes the difference, but the right balance of lower premium to primary guarantee that provides the value. In essence, it is the guarantee hedging against bad possibilities coupled with a good price point for the insurance itself.

Is it fine to have smaller guarantees and a low premium in PIUL? Of course! There is just a longer timeline that the non-guaranteed cash value has to carry the policy. This could certainly be the right solution for the right client, it just presents a bit different risk profile. What I will say is that there are several good options that combine both low premiums and primary guarantees:

<u>Max IR Illustrations:</u>

1. ***Corebridge's Value+ Protector III IUL*** – guarantees to at least age 80 for clients 50 and up. Full pay scenarios are basically 90 and above.
2. ***Symetra's Protector IUL*** – neck and neck on guarantees with Corebridge.
3. ***John Hancock's Protection IUL 24*** – slightly less aggressive than Corebridge and Symetra, but still basically guaranteeing to at least age 80 for clients 50+.
4. ***Protective's Indexed Choice UL*** – guarantees are in a similar league to Symetra and Corebridge, but it is competitively priced in specifically the full pay niche.

5. ***Mutual of Omaha's Life Protection Advantage*** – the product includes a guarantee rider to age 90 with certain funding thresholds. If you hit the threshold, you get a strong guarantee, otherwise, it is not nearly as generous. Most full pay scenarios (where it's competitive at Max IR) hit the age 90 guarantee for those aged 50 and over.

A Note on Mutual of Omaha, Nationwide, North American, and Securian

I want to make a quick distinction between how we are structuring PIULs and guarantees versus a few standout products. Within the scope of this paper, I am targeting specifically $1 at maturity. Whatever guarantee is available with that target in mind is what we are looking at here.

However, Nationwide, North American, and Securian all have competitive dialable guarantees, while Omaha has their age 90 guarantee rider. If you activate any of these, the guarantee becomes the main objective (not $1 at maturity/best bang for the buck). These products are all competitive to some degree when dialing the guarantee to age 90 and might provide the right guarantee for the premium the client wants.

However, this comparison is different from our objective here.[3] As mentioned above, sometimes the premium to death benefit funding ratio is enough with Omaha to activate the age 90 guarantee and sometimes it is not.

Interest Sensitivity and Hedging in PIUL

For a PIUL policy, the need to hedge can almost be boiled down to: how far past the primary guarantee will the policy carry? If the primary guarantee is stronger on a product, the nonguaranteed crediting has less work to do, but if it is not as strong, the policy becomes much more dependent on the index performing well over the long run to carry that DB.

You might frame PIUL products as a team that can have good offense and/or good defense: those better at offense might provide stronger returns, better caps, better illustrations at max IR (sometimes accompanied by higher charges), while those who excel at defense have things such as stronger primary guarantees, show better at conservative rates (like 4.5% IR), come from companies less likely to decrease cap rates, might have lower charges, and so on.

In many cases, maybe even most, I suspect running a strong PIUL with a good primary guarantee at the maximum IR would be fine and allow the DB to last until the client's passing. However, the consequences of underperformance could be quite large if the policy were to underperform enough. The last thing high net worth clients want to hear after they've put large amounts of money into a product is that more premium is needed to keep the policy going.

So, when and where do we opt for more certainty and what are the tradeoffs? Do you go and get a guarantee to age 90, a nonguaranteed PIUL, or just run a guaranteed product all the way to maturity? It depends on the client. Consider the example below:

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[3] If you dial in the guarantee to age 90, some of these options will experience a lapse almost immediately afterward because the product tries to optimize guaranteed pricing, not carry the cash out to maturity on a nonguaranteed basis. Omaha is a bit of an exception, but it will sometimes still not carry all the way out on the nonguaranteed side.

Male, Age 50, Preferred Non-Tobacco assumed underwriting class
$1,000,000 death benefit with annual full-pay premiums
PIULs are run to target $1 at maturity and assume the Max IR in the best illustrating S&P 500 account

Carrier	Product	Product Solve	IR	Premium	Gty Age	Non-Gtd Lapse Age
Pacific Life	PL Promise GUL	GUL - A90	n/a	7,661	90	90
Corebridge	Value+ Protector III IUL	**PIUL - $1 at Maturity**	**Max**	8,049	89	121
Protective	Lifetime Assurance UL	GUL - Maturity	n/a	9,804	121	121
Protective	Indexed Choice UL	**PIUL - $1 at Maturity**	**4.5%**	10,508	90	121

In this example, I took the best premium for the given scenario under each of the solves as indicated in the chart using a lifetime pay for everyone. You can clearly see the best premium is to take the Pacific Life product with a guarantee to age 90. The tradeoff? The policy is going no further than age 90 and would lapse if the client were to outlive it.

Then, compared to the lifetime guaranteed GUL (Protective's LAUL), Corebridge offers a $1,800 a year lower premium (18% savings every year). It also has a strong primary guarantee to age 89 with a death benefit running out to maturity on a nonguaranteed basis at the maximum illustrated rate.

The problem happens if we run into a scenario where the policy would lapse well before maturity. Should clients prepare to pay more up front? How much more? As much as a conservative 4.5% level? If that were the case, then the lowest priced option for a PIUL at 4.5% is Indexed Choice UL, which would be $700 a year more expensive than the lifetime guaranteed GUL. I do not think you would have to go this far to improve the odds of a strong outcome on a PIUL, but it is helpful to understand interest sensitivity and the "best" and "worst" case scenario.

Personally, I would recommend that clients be aware that there is some interest sensitivity with the understanding that they likely will not run into snags unless many things go awry. Perhaps they would be willing to pay a bit more to help further hedge against negative outcomes. I would say even 50 bps below the max IR would be plenty to help in this circumstance without tanking the competitiveness of the premium.[4]

Concluding Remarks

Protection IUL products have a lot of advantages, many of which are in relation to how they compare against the fully guaranteed market. That story can certainly resonate, and I think should also be discussed inside the fuller context we have outlined in this paper. Incorporating some hedging methods and deciding which of the many options will fit your clients' risk profiles can help better position PIUL as a valuable tool in the toolbox.

[4] Please note that there are some products that, based on their charge structure, will require interest returns to stay very near the Max IR to keep the DB in play to maturity. Stress testing these even a bit seriously hampers nonguaranteed runout on the death benefit. For those products, you would definitely want to err on the side of caution and begin with a lower interest assumption, as lower returns can cause more problems.