

# Comparing indexed UL insurance products can be confusing.



## JOHN'S STORY

I'm definitely aware of the recent market turmoil. Who isn't? With all of the uncertainty, my risk level is low to moderate, at best. So when my financial professional told me about indexed universal life, I was naturally interested.

I really like the protection against market decline through the guaranteed minimum interest rate, and the potential for greater interest crediting than more traditional universal life. They really appealed to me!

But when my financial professional reviewed the different IUL products with me, the complexity was mind-boggling.

Once you see ING IUL-CV, the choice is clear.

## ING Indexed Universal Life-CV (ING IUL-CV)

Issued by Security Life of Denver Insurance Company

**With so much design variation among Indexed Universal Life (IUL) products, how do you decide which one is right for your client? First, target the right client. One like John.**

John has the typical IUL profile. In addition to his need for life insurance, he has:

- A low to moderate risk tolerance
- Familiarity with major market indexes
- Preference for simplicity

**What product design best matches John's profile?**

**Take a look inside...**

## One Index or Multiple

### Which is simpler?

Although indexed universal life does not directly participate in any index fund, stock or equity investment, the enhanced crediting potential within the policy is based, in part, on the movements of a market index.

It's beneficial for clients to be familiar with the market index so they understand how their policy works.

The ING Life Companies uses the S&P 500<sup>®1</sup> as its sole underlying index. Its performance is considered to be representative of the stock market as a whole and many people are familiar with it since it represents 75% of the total U.S. equity market<sup>1</sup>.

Other carriers may use a multiple index strategy, including international indexes, where the weighted average of several indexes is used.

#### JOHN'S THOUGHTS

Some products use one index in their indexed strategy and others use many. Then there are many ways the index credit can be calculated. I'm not a mathematician, so I was a little concerned about choosing which was best for me.

I'm familiar with the S&P 500<sup>®</sup>. I'm definitely less familiar with international indexes. In the end I decided I wanted a product that used just one index rather than having to understand how multiple indexes performed.



#### JOHN'S THOUGHTS

The annual point-to-point method with a cap made sense to me. It seemed to be the simplest method and one that I understood.

This is an important life insurance purchase for me and I need to make sure I understand what I'm buying.



## Index Crediting Methods

### What method is easy-to-understand, yet competitive?

There are many different index crediting methods. Point-to-point methods can be monthly, annual, inverse annual, two-year, five-year, and so on. There are also monthly and daily averaging. Who can keep it all straight?

The ING Life Companies uses one straight-forward method that's easy to grasp - the one year point-to-point based on the S&P 500<sup>®</sup>. With a cap and 100% participation rate, it's very easy to understand. This method simply takes the value of the S&P 500<sup>®</sup> at the end of the period divided by the value of the S&P 500<sup>®</sup> at the beginning of the period. Then the cap and guaranteed minimum interest rate are applied to determine the credited rate. (To see a hypothetical example refer to page 11 of the ING IUL-CV Buyers Guide.)

Other methods may not be as simple. For example, the monthly point-to-point method works almost like the annual point-to-point except that the caps are set monthly rather than annually. However, the floor is still set annually, not monthly.

A policy using the monthly point-to-point method could have a 3% monthly cap and a 0% annual floor. So it's possible for that policy to be credited 1% per month for the first 11 months, but, if the index declines by 11% in the 12th month, the earned interest would drop to the 0% floor rate.

## Variable Rate Loans

### Does your client understand the added risk?

A variable rate loan<sup>2</sup> is designed so that the rate charged for the policy loans varies based on a market index. Often the Moody's Corporate Bond Yield Average is used. The cash values held by the insurance company as collateral are then credited with index returns using the exact same strategy as on unborrowed funds.

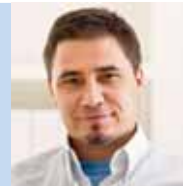
As long as the crediting rate on the collateral is higher than the rate charged for the loan, the insurance company is basically paying consumers to borrow their own money. At least that's what the illustrations would have clients believe.

These illustrated values show a static picture of a dynamic future. Though the illustrations project a nice even gain on the loan each year, the client really bought the index on margin using a variable rate loan. The index return is likely to fluctuate from year to year, sometimes exceeding and sometimes falling short of the illustrated return. The variable loan interest rate is also likely to fluctuate from year to year. These fluctuations are likely to produce larger than illustrated leveraged gains in some years and leveraged losses in others.

#### JOHN'S THOUGHTS

The illustrations for products with variable rate loans looked very promising. A little too promising, which concerned me. Bottom line is, the index performance is not guaranteed. It could fall below the variable loan interest rate. Then I would have to pay interest. Plus I wouldn't receive any indexed gains on my policy!

This just wasn't worth the risk to me.

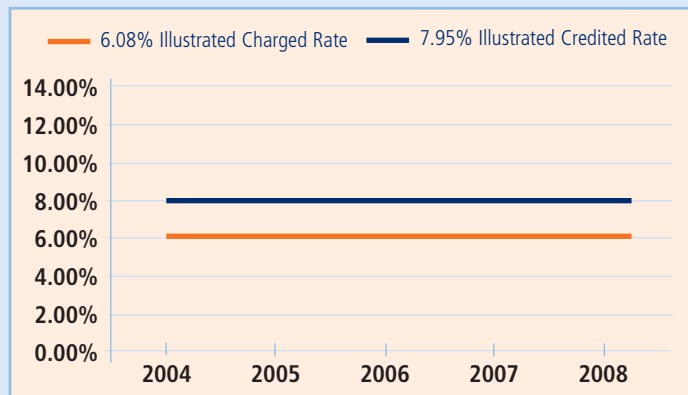


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<sup>2</sup> Loans and withdrawals requirements may vary by state and may generate an income tax liability, reduce available cash value, reduce the death benefit or cause the policy to lapse.

Clients may be disappointed with the level and variability in the actual results when compared to the stable level leveraged gains illustrated. Take this hypothetical variable rate loan<sup>2</sup> scenario, for instance.

## ILLUSTRATED VALUES

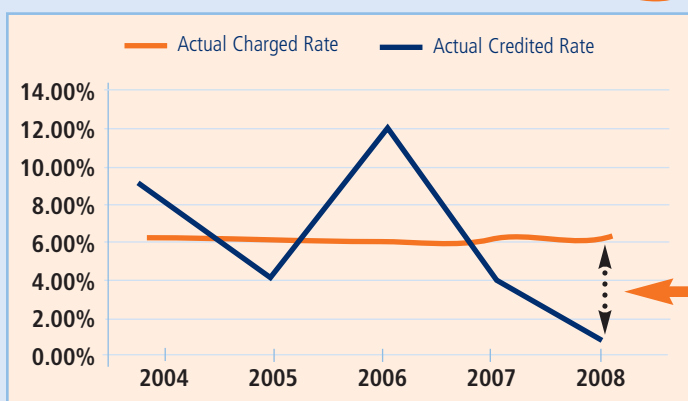


There's nothing inherently wrong with variable rate loans; however you must make sure they're suitable for your client. After all, if an IUL client is too risk averse or unsophisticated to invest directly in the stock market, one has to wonder if he/she is sophisticated enough to use a technique that requires understanding two indexes and how they will interrelate over time.

ING IUL-CV has a very predictable fixed loan interest design that would fit John's profile. The rates in effect at the point-of-sale when John signs his policy illustration are guaranteed to not vary by more than 0.25%. So, if and when John decides to initiate an actual policy loan, he'll know what to expect with ING IUL-CV.

## ACTUAL RATES 2004-2008

# VS



Given the turbulent times in which we live, you should ask yourself the key question: Is your client willing to take on more risk with volatile variable rate loans? John wasn't.

(Assumes 12% cap and 1% guaranteed minimum interest rate. The credited rate is based, in part, on movements of the S&P 500<sup>®</sup> and the charged rate is based, in part, on movements of the Moody's Corporate Bond Yield Average.)

**THE RISK:** When the credited rate falls below the charged rate, your client would have to pay loan interest, contrary to what the illustration shows.

## The choice is clear. ING IUL-CV.

The IUL world can be complex and difficult for your client to understand, but it doesn't have to be. That's why there's ING IUL-CV. It has a simple design with enhanced crediting potential for long-term surrender values. It sure made John's choice clear.

Typical IUL client profile	Does ING IUL-CV match up?
<ul style="list-style-type: none"> <li>• A low to moderate risk tolerance</li> <li>• Familiarity with major market indexes</li> <li>• Preference for simplicity</li> </ul>	<p><b>YES</b></p>

## Why ING IUL-CV?

Easier to understand. Easier to sell.

- Just one index
- Easy-to-understand indexing strategy
- No variable rate loans that can add risk

### JOHN'S THANK YOU NOTE TO HIS FINANCIAL PROFESSIONAL



I just received my ING Indexed Universal Life-CV statement. Better yet, I understand it!

Thanks for helping me get closer to meeting my retirement goals. I know I made the right choice for me. - John

<sup>2</sup> Loans and withdrawals requirements may vary by state and may generate an income tax liability, reduce available cash value, reduce the death benefit or cause the policy to lapse.

## To learn more:

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ING Life Sales Support at 1-866-ING-SELL (866-464-7355)

**Click:** ING for Professionals at [www.inglifeinsurance.com](http://www.inglifeinsurance.com)

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