THE TOP 5 WAYS TO SELL VUL: A REFERENCE GUIDE

by Charles Arnold

Introduction: This is intended to be a quick guide for the top ways VUL is being positioned. There are further, supporting documents and articles that go into greater detail for each of these strategies with the links provided. We look forward to helping our BGAs, IMOs, and financial advisors gain more comfort in positioning and offering VUL as a part of what they do.

1) The GUL Alternative and the Replacement Sale

Over the past 5 years, the #1 sales concept for VUL among BGAs and point of sale professionals has been a guaranteed sale utilizing either Lincoln or Prudential, who together share over 50% of the VUL marketplace in total premium. Prudential is a relatively new entrant in this space with a 51% increase in total premium YOY for 2017 flowing into their VUL Protector product. Lincoln's VUL ONE is well known for its appeal in the 1035 and short pay marketplace and they position it directly against their GUL solution, both in their marketing and illustration software comparisons. Back in 2013 when AG-38 went into place, it created a situation where a guaranteed VUL became more competitively priced than a GUL by offering much more death benefit per premium dollar. The carrier was able to offload liability from their general account to their sub-account investment partners with VUL, reducing the cost of reserving under the new rule. For a fully guaranteed solution with cash value accumulation potential, together with no sub-account restrictions, it continues to be an easy sale. Especially in that 1035, policy review market where clients can substantially enhance death benefit and reduce or eliminate the premium payments. We have seen, and continue to see, monster size cases for these replacement sales. We also see quite a bit with Lincoln's survivorship, SVUL ONE, product as well used in a similar manner. This is what we would call a protection based or death benefit driven sale, where little or no emphasis is placed on cash value accumulation or the VUL's investment nature. If a no-lapse guarantee (NLG) to age 85 or 90 is utilized instead of a lifetime NLG, the lower cost drag allows for substantially more cash value accumulation over time, but that is not what this sale is about: Agents, BGAs, and clients love a fully guaranteed solution.

An easy way to explain the design of a VUL life policy, either for protection or for accumulation, is to use this simple white board formula: **Prem = CV + DB**. On VUL Source, I run through a couple sample presentations using it, but it is simple. The client pays a premium and it can be applied to either cash value or death benefit. I draw a shield around the DB and talk about what that lifetime no-lapse guarantee does for the policy, so regardless of what happens with CV, your DB is protected. Or, for accumulation, you can talk about maxing out Prem and minimizing DB, thus maxing out CV. You can pivot to several different explanations using this simple formula, and I think is keeps things basic.

Supplemental Documents:

> Lincoln's Comparison Piece vs. Their GUL
> Prudential Protector vs. VUL ONE Marketing Flyer
> VUL Source: Prudential Protector's Rise and Success
> VUL Source: Prove it Pru, Show Us Your Strengths

2) The Roth IRA Alternative (LIRP Sale, Part 1)

If the IRS decided to eliminate the contribution limits and income restrictions for ROTH IRAs for just one week, there would be an absolutely unprecedented shift of assets into those accounts. Financial advisors wouldn't even be able to put the phone down. We know the IRS won't do that, but with an overfunded VUL policy, we can create a ROTH IRA look-a-like for a client from a tax-perspective with after-tax money in and tax-free money out. Even with our ability to offer this, from an industry standpoint, we really don't sell a whole lot of it. If a client is young, healthy, and maxing out their other contributions, the next thing they need to hear about is this solution. I can tell you with certainty that clients are not hearing it, and most advisors aren't either. To a big extent, we are failing them in this regard: It may be the single greatest story that isn't being told. I think we need to make it as simple as possible when it is explained, because the advisor needs to be comfortable enough to present it to their client. I once created a 3-piece wholesaler presentation for our BGAs to use; however, nobody took advantage of it. As another example, I created a **HENRY and LOUIS** story that should be well received by financial advisors and clients alike. HENRY stands for High Earners Not Retired Yet and LOUIS stands for Loved Ones with Unneeded Income Streams. Feel free to read the article I wrote in Broker World about that sales strategy but the key is to keep it elementary for advisors and clients alike. It is not a complicated story, but somehow, we continue to make it complicated.

> Broker World: The 30 Trillion Dollar Transfer: Pre-& Post-Mortem (HENRY & LOUIS)
> www.leadersgroup.net/sales (3-Piece VUL Sales Pitch – Outdated but Still Relevant)

Another way to position this type of solution is by explaining the difference between the cost of tax and the cost of insurance (**COT vs. COI**). You must assume one of these costs, and you can eliminate the other. For a high earning individual, the cost of tax is substantial and what are they getting for that? Unless they truly believe paying the government more money is a great idea, then they would get more for their money by assuming the cost of insurance instead and eliminate the taxes. At least COI goes towards a death benefit that will be paid tax-free directly to their family, not to some government black hole. There are some sales videos I created on VUL Source that can help run through some of these ideas with you, but once again, it is using a simple, relatable, and repeatable story to explain our solution.

Another great tie-in here, that our industry has just begun to offer, is **accelerated underwriting**. Programs from Principal, Lincoln, John Hancock, Nationwide, and AIG offer some great solutions to make a life insurance sale feel less like a life insurance sale from an underwriting standpoint. We are seeing policies issued within 10 to 15 days if a client qualifies. That's not quite transactional, but it is pretty damn close. The #1 reason wire-house advisors don't sell insurance is because of underwriting. The other reason is perceived cost which, with a minimum non-MEC, overfunded design really isn't as high as they think. Accelerated underwriting over the next decade will turn into transactional underwriting, and we can remove that as an objection. Process is the new product, and if you can begin to sell that, together with the tax benefits of the product, then I think you will have more success with the transactional, investment-oriented broker.

VUL Source: The Future is Here with LincXpress and ExpressTrack

3) A Variable Annuity Alternative (LIRP Sale, Part 2)

The variable annuity market is about a 95 billion dollar a year monster. To put that into perspective, that is 45 times the size of the VUL market. A big part of that market is the living benefits side, focused on guaranteed income. Another side to that market is focused on tax-deferral paired with investment accumulation. Clients are sold on income guarantees, tax-deferred investment accumulation, or both. What is interesting about this market is about 70% of the time, the client's first distribution ends up being a death benefit which is taxable to beneficiaries. That means they are sold on income and tax-deferral but are ultimately using it for death benefit. This is quite common, where a client doesn't need the income and they might as well let the investments ride tax-deferred. This is especially true for some of those VAs that were sold with guaranteed minimum investment annual roll-ups. The major differences between a VA and a VUL is underwriting and the taxation. For a max funded, minimum insurance design, the costs are right in line with a variable annuity, when you look at it over the life of the client. The VUL is front loaded with costs, so you need to spread it out over 20-30 years and you will find the average annual costs drop right in line with a VA. Some might also say that VAs have the advantage of a single premium dump-in, but the VUL does as well, only in a MEC version. The no-need for underwriting definitely makes things more transactional for the VA, and the client doesn't have to be insurable. But if the client is insurable and willing to go through either accelerated or traditional underwriting, they potentially would be better off with either a **MEC or non-MEC VUL** from a tax perspective. If the client is going to take income, go with the non-MEC solution to maintain tax-free income. If they are looking at a simple legacy strategy, the MEC single premium solution will maintain a tax-free death benefit to beneficiaries. It becomes an option of either a legacy or legacy with income solution.

Both the MEC and the non-MEC strategies offer tax-free investment accumulation with the same funds and managers that are available in most VA products. You can talk the investment language with an advisor and reference American Funds, Franklin Templeton, Fidelity, Vanguard and all the others to bridge the gap between the investment and insurance worlds. Some carriers are also offering index sub-account options, which we've heard those are becoming popular too. I took some time to dive into the MEC and non-MEC options in the below VUL Source article. Any advisor that sells a VA should be open to this story, especially with accelerated underwriting to make it more transactional in nature. Particularly once you show them the differences in compensation they will receive from a VUL as opposed to a VA! They should realize that adding this offering into the business mix can become a real revenue driver for them while offering a potentially better client solution.

VUL Source: The Single Premium Alternative to the VA
VUL Source: The Investments: The Untold Story of VUL
Broker World: The Mass Market Potential for VUL
VUL Source: Tyranny of the OR vs. Genus of the AND (White Paper on Life Distribution)

4) The LTC and LI Combo Sale

There are two carriers that lead the market for true long-term care riders: Nationwide (indemnity) and John Hancock (reimbursement). Most carriers now have a chronic illness feature that is standard, but those are for situations or conditions that are terminal. We all know the statistics around needing LTC coverage, and it is something that isn't easy to plan for. Stand-alone LTC coverage can be expensive, and an alternative option is to buy a policy with an LTC rider that can provide that benefit if it is needed. Even if you wanted to do a single premium MEC with an LTC rider, that would make sense for legacy planning with an option to accelerate a chunk of the death benefit if needed for LTC along the way. A dedicated pool of funds to supplement LTC costs will protect a client's other assets and help preserve an advisor's AUM in the event a client needs LTC. I examine these solutions in detail in the below documents:

Broker World: Protect AUM Through Life and LTC
VUL Source: Want to Make that a Combo Meal? (Nationwide's Life & LTC Solution)
VUL Source: A Single Premium Life and LTC Solution Using Nationwide Financial

5) Executive Compensation and Business Planning

The leading carriers in the business market are Nationwide and Principal. There are others, but these are the go-to solutions for most BGAs, advisors, and clients. There are many different applications for business planning but VUL, and especially high early cash value VUL, is usually the standard product. It is either a situation where a business is looking to thrive or to survive. Thrive would cover anything they are looking to do from a pure competitive retention and compensation standpoint and survive is ensuring business continuation due to an event, whether that be foreseen or unforeseen.

Generally speaking, following the historic tax-cuts, business have more money on-hand. Unemployment is at record lows and companies are having trouble finding and maintaining top talent. It creates a competitively awesome job market where employee incentives and retention strategies are top of mind. Providing incentives for top employees and funding a personal retirement solution as a business owner will be the two most popular solutions over the next couple years. Don't get me wrong, the traditional buy-sell review along with the informal company valuation offering from both carriers will continue to valuable. Any advisor managing a 401(k) plan for a client as a courtesy, which there are many, they need to be approaching those business owners with a la carte insurance solutions.

Thrive	Survive
Executive Bonus / Restrictive or Non	Buy-Sell Agreement Planning / Funding
Individual LIRP / Split Dollar	ESOP
NQDC / SERP	COLI / Key Person Insurance

Broker World: Business Market Opportunities
VUL Source: Q&A with Principal's Dan Harty of BOES