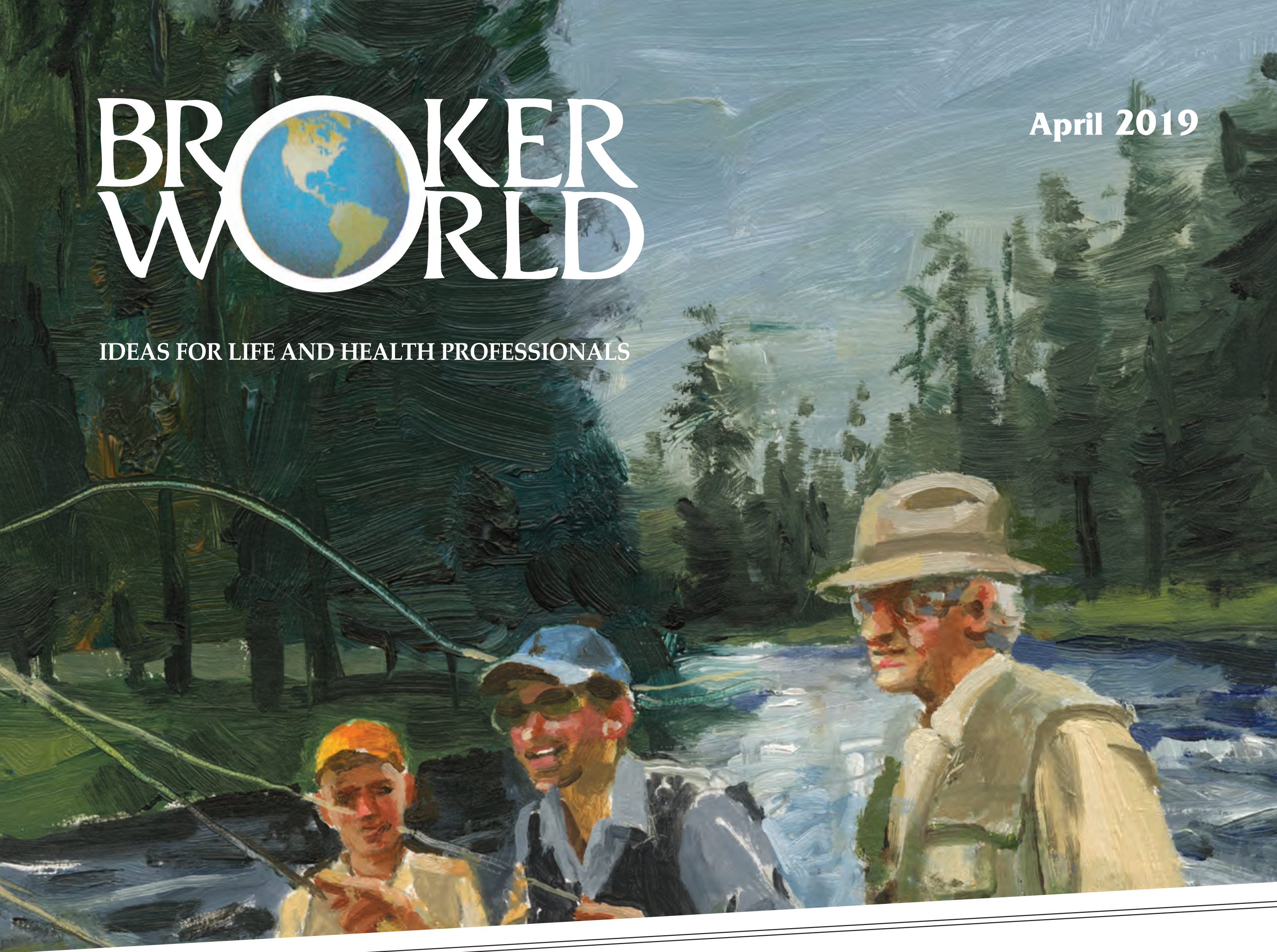

BROKER WORLD

IDEAS FOR LIFE AND HEALTH PROFESSIONALS

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Read the featured article by Brynn Thabet, Assistant Vice President and Product Manager for Pacific Life's PL Promise Product Line:

Whole Life Or GUL For Your Broad Market Clients? Answer: It Depends

This article references life insurance

PACIFIC LIFE

Business And Professional Planning/ Helping High Net Worth

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Previously, she held roles at GE Financial Assurance and Genworth Financial whose new business unit was recently acquired by Pacific Life. Her roles have spanned finance, Six Sigma, project management, customer service, product positioning and product management. Prior to the insurance industry, Thabet worked as an industrial engineer for General Electric and as a member of GE's Corporate Audit Team which took her across the United States and through Europe on numerous international assignments.

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Whole Life Or GUL For Your Broad Market Clients? Answer: It Depends

If your clients need lifetime death benefit protection, today's guaranteed universal life insurance products are designed to address the issues plaguing older universal life insurance while providing an updated alternative to higher-cost whole life insurance. Here's how whole life and guaranteed universal life (GUL) compare in meeting the needs of your broad market clients.

The majority of U.S. households earn between $50,000 to $250,000 per year—a group referred to as the broad market, and likely representing the bulk of your life insurance prospects. Regardless of which end of the income spectrum your prospects are on, chances are good they have a life insurance coverage gap—and it's probably significant. According to LIMRA, households with a combined annual income of $50,000 to $100,000 face a profound coverage shortfall totaling almost $3.75 trillion.[1] Meanwhile, their better-heeled counterparts, households earning $100,000 to $200,000 per year, fare somewhat better with "only" a $922 billion needs gap.[1]

In response, some traditional life insurance carriers known for their focus on serving the needs of wealthier households are now reaching out to the broad market with a range of life insurance products designed to meet modern consumers' demands for guarantees, flexibility and affordability.

Traditional broad market life insurers as well as the new mass-scale insurtech players are also rising to the challenge, typically with simple, inexpensive term life insurance products for consumers seeking death benefit protection for a specific period of time.

But for consumers seeking certainty and control over longer life insurance durations, longer-term life insurance coverage may be a better fit. Many people plan to continue working past traditional retirement age due to economic realities. This means the income earner will also need death benefit protection for a longer period of time.

Unfortunately, some clients may be spooked by recent stories about older universal life insurance policies that lapsed. While comparing their options, they may be looking to you for sound advice about guaranteed lifetime coverage.

Making Universal Life Insurance Work in a Low Interest Rate World

In the '80s and '90s, when hair was big and interest rates were high, universal life (UL) insurance products offered lower-cost lifetime coverage than whole life products and a greater emphasis on flexible premiums.[2] UL policy crediting rates were tied to the era's high interest rates and many policyowners benefited from strong performance.

But as interest rates fell, rising premiums were necessary to maintain cash value and ultimately keep the policies in force. For those who didn't realize the issue, or were unable to make larger premium payments, policies underperformed and sometimes even lapsed late in life.

Traditional UL products—sometimes referred to as "current assumption UL" for their reliance on original illustrated interest rate assumptions—can work well if a policyowner is able to monitor performance. But for many people the days of having the bandwidth to actively monitor a life insurance policy against lapse and adjust premium levels are over. And yet affordability—a key selling point of universal life products—remains a broad market concern, perhaps now more than ever.

Enter Guaranteed Universal Life Insurance

Today's guaranteed universal life (GUL) products offer fixed monthly premiums and guarantees against lapse in durations up to age 121. They're designed to perform well, even in low interest rate environments, by incorporating carrier premium tests to prevent lapse. These tests can be complex, but for the average policyowner they translate into clear, bottom line assurances.

GUL products are typically more expensive than traditional universal life insurance products without guarantees. However, many carriers have focused on providing the most affordable guarantees by minimizing cash value buildup in the policy. As a result, GUL is sometimes described as "term for life"—with premium payment flexibility that term products don't have.

GUL can be paid for with monthly level premiums, a single lump-sum premium or any way the client chooses. However, GUL products can be sensitive to policy changes, especially changes in the timing of the planned premiums. Before deviating from the original plan, ask the carrier for an inforce proposal so you and your client can better understand the consequences. Additionally, look for products that provide protection against paying premiums earlier or later than originally planned.

Broad market clients who buy GUL are typically more focused on guaranteed protection and affordability, and a return of premium (ROP) feature can be very appealing. In the event the client needs to access their premiums, or decides coverage is no longer needed, this feature provides a potential out—typically 15-30 years after the policy is issued. While this feature is becoming more common, take note of whether it requires additional premium or is available at no additional cost.

The Continuing Advantages of Whole Life Insurance

Whole life insurance products remain an attractive option for consumers seeking guaranteed lifetime death benefit protection and tax-advantaged cash accumulation. Whole life is focused on building cash values, whereas UL and GUL products provide a lower-cost death benefit with a decreased emphasis on cash value. Sometimes GUL policies have little to no cash value at all, only a guaranteed death benefit.

Unlike UL and GUL, whose cash value growth is based on a flat crediting rate, traditional whole life policy cash value growth is based on the portion of premium that's allocated to the cash value and whether the policy participates in dividends. Dividends, if available, are typically used to pay premiums, ensuring against lapse. Participating whole life policies can suffer from underperformance if dividends are lower than assumed, but the cash value is typically protected by carrier guarantees that insulate it against market corrections.

Due to higher premiums, whole life products are a better fit for clients without significant financial pressures. Whole life insurance can play an important role in diversifying client portfolios and reducing overall risk of outliving assets, with returns comparable to some investments.

Helping Clients Out of an Underperforming Policy

If you come across an older policy in danger of lapse, your options will be determined by the level of underfunding and the policyowner's ability and willingness to salvage the policy. A policy review can help indicate the best path forward, which is generally one or more of the following:

- Paying additional premiums to revive the policy.
- Reducing the death benefit.
- Doing a 1035 Exchange[3] for something more suitable.
- Surrendering the policy.

Other Coverage Considerations

If the client determines a cash value life insurance product with a guarantee is the right fit for their long-term financial goals, look for additional factors that can make a carrier's product stand out from the pack:

- **Optional riders**, such as a Return of Premium feature, which allows policyowners to obtain a full or partial premium refund if the policy is no longer needed.
- **Technology that makes life easier**, such as an online application process, and electronic signatures, delivery and payment.
- **Flexible premium payments**, allowing policyowners to pay premiums somewhat early or late without adverse effects.
- **Streamlined underwriting**, with simple qualification standards and predictable outcomes. Time-pressed clients may even want a fluids-free option.
- **Overall carrier financial strength and reputation**, reflected in A.M. Best ratings and other standard criteria.

The Key to Main Street?

The opportunity for brokers and other intermediaries to help American families close the coverage gap is enormous, and for many families, the stakes couldn't be higher.

While term may provide a simple and inexpensive temporary solution, there are new options for broad market life insurance shoppers who are looking for longer-term or lifetime death benefit protection. Both GUL and whole life offer low coverage amounts and guarantees against lapse, with optional features that should be balanced with a potential increase in price. For every client, there is a solution.

References:

1. *"Mass Affluent Market: Financial Product Ownership," LIMRA, June 2016.*
2. *Universal life insurance generally requires additional premium payments after the initial premium. If either no premiums are paid, or subsequent premiums are insufficient to continue coverage, it is possible that coverage will expire.*
3. *There are circumstances in which replacing your client's existing life insurance or annuity can benefit your client. You should make a careful comparison of the costs and benefits, including any applicable surrender charges, of your client's existing policy and the proposed policy to analyze how a replacement may affect your client's plan of insurance. You should provide this information to your client and discuss whether replacement is in your client's best interest.*

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Life insurance is subject to underwriting and approval of the application and will incur monthly policy charges.

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5 Ways to Jump Start Your Life Insurance Business!

Did you know the biggest opportunity in life insurance is in the broad market?

With over $4.9 trillion[1] in U.S. life insurance coverage gaps for the broad market, you can help boost your business with PL Promise from Pacific Life.

1 PL Promise Term[2]

Help your clients fulfill their promises with affordable death benefit coverage, recently repriced to be even more competitive!

2 PL Promise Conversion UL[3]

Early conversion incentives for your clients when they upgrade their coverage from PL Promise Term!

3 PL Smooth Sailing[4]

Predictable, transparent fluidless underwriting for clients at older ages with no risk class restrictions!

4 PL Promise GUL[5]

Guaranteed death benefit protection at an affordable price for the broad market.

5 Robust eCapabilities

Make life easier with eDelivery of Policies, eTicket with client voice signature, eMarketing tools, and more!

Free marketing tools make it easy to start selling.

Contact Pacific Life - Lynchburg to learn more:

(844) 238-4872 Option 3 or LynInternalSales@PacificLife.com

1 Source: "Mass Affluent Market: Financial Product Ownership," LIMRA, June 2016.

2 PL PROMISE TERM Level Premium Term Life Insurance. Policy Form #P16LYT or ICC16 P16LYT and S16LYT 10, S16LYT 15, S16LYT 20, S16LYT 25, or S16LYT 30, based on level premium period chosen and state of policy issue.

3 PL PROMISE CONVERSION UL (Policy Form #P17LYCUL or ICC17 P17LYCUL, based on state of policy issue) universal life (UL) insurance with no-lapse guarantee. Early conversion is years 1-4 for 10-year-term; 1-7 for 15-year-term; 1-9 for 20-year-term; 1-12 for 25-year-term; and 1-14 for 30-year-term. There are circumstances in which converting the client's existing life insurance or annuity can benefit the client. As a life insurance producer it is your responsibility to provide your client with detailed information as to how a conversion may affect the client's plan of insurance. Clients should be advised to make a careful comparison of the costs and benefits of the existing policy and the proposed policy to determine whether conversion is the right decision for the client. Request additional details from your Pacific Life representative.

4 PL Smooth Sailing is available with PL PROMISE TERM Level Premium Term Life Insurance, and PL PROMISE GUL No-Lapse Guarantee Universal Life Insurance. The total amount of life insurance coverage applied for and inforce with Pacific Life may not exceed $[1 million].

5 PL PROMISE GUL No-Lapse Guarantee Universal Life Insurance. Policy Form #P18PRUL and S18PRUL or ICC18 P18PRUL and ICC18 S18PRUL, based on state of policy issue.