

1 Year Point-to-Point Elevated Cap Rate Index Strategy

Key Terms

What is a Cap Rate?

A Cap Rate is the maximum interest crediting rate the Insurance Company will credit to an IUL during the interest crediting period. In General this Cap Rate is set every policy year. For example, if the index provides a 16% return, but there is a Cap Rate of 12% the interest credited to the policy will be capped at 12%.

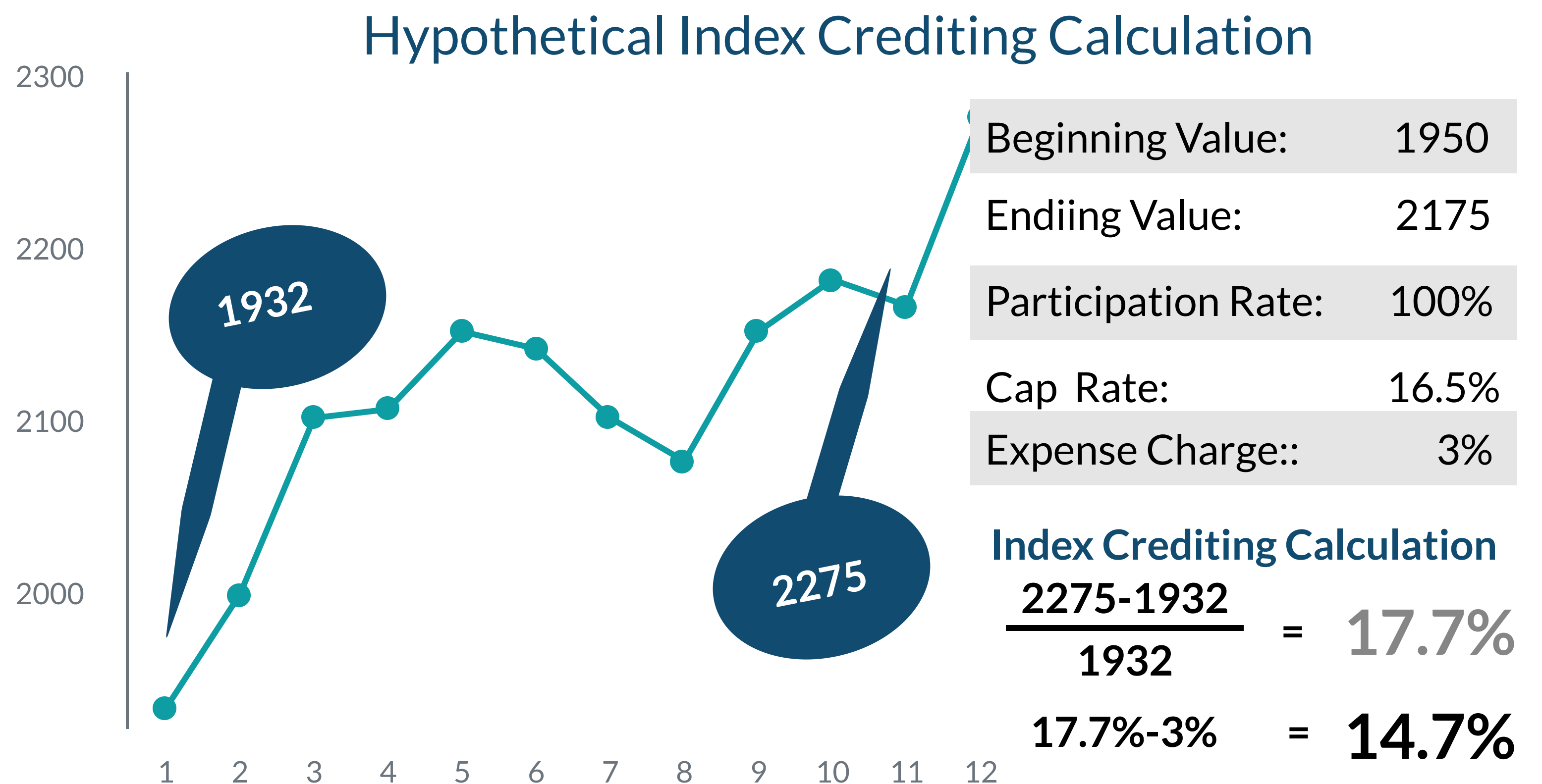
What is a Participation Rate?

The participation rate determines how much of the increase in the index's value is taken into consideration in calculating the interest credit, before applying the cap rate. This rate can vary product to product and company to company but is important to know what it is and if it is guaranteed.

What is a Strategy Expense Charge?

The index growth, if any, is reduced by the strategy expense charge prior to applying the participation rate and cap rate. The "strategy expense charge" may be reset at the beginning of an interest crediting period at the discretion of the insurance company but can never be more than the guaranteed maximum "strategy expense charge" if such guarantee is available in the strategy.

What is an Annual Point to Point With an Elevated Cap Indexing Strategy and How is it Calculated?



The Index used, most often the S&P 500®, will be measured typically at the beginning and the end of a policy year. The interest calculation will be based on the percentage increase in the Index uses in the strategy. The Interest credited will be the lesser of the index percentage change minus the expense charge and the annual cap rate, but can never be less than 0%. In this example, the cap rate minus expense charge is 14.7% which is less than the index cap rate of 16.5%, therefore the interest credited for this interest crediting period is 14.5%.

The beginning and ending index values used to calculate the 1-Year Point-to-Point Indexed Strategy are based on an interest crediting period, not a calendar year. For the purposes of this example, we assumed that an interest crediting period was created at the beginning of month one. Interest credited in this strategy will vary based on the interest crediting periods starting/ending date and the value of the Index on that date.

What is the cost of Indexing?

Indexed Universal Life (IUL) policies have no specific cost for indexing but the Life Insurance does have ongoing costs. It is important to remember that if the Index used is less than 0%, the credited interest will not be less than 0%. The IUL will still be charged for the Policy Fee, Expenses and Loads with or without an interest credit, so even though your account value will not reduce due to market loss, your policy will still have the insurance related expenses in it.

Are all Indexed Universal Life Policies the same?

No. It is important to pay attention to the fees associated with each policy. There are some newer index strategies that charge significant fees and they are sometimes hard to see in an illustration. Please be sure to look for fees tied to the indexing strategies which adds to the insurance expense of a policy.

Disclaimer: No specific company is being referenced in this material and you should consult the Insurance Company's Index Strategy descriptions.