CARLSON HAMMOND

M Financial Group

M INTELLIGENCE

VUL: NOT AS RISKY AS YOU MAY THINK

Policyholders take on investment risk, but downside risk may be less than imagined along with substantial upside potential.

For some, the mere mention of variable universal life insurance (VUL) strikes fear that market fluctuations will cause account values to fall and place your client's insurance plan at risk. But "variable" simply means the policyholder has more control over how policy cash values are invested and managed than some other types of life insurance products.

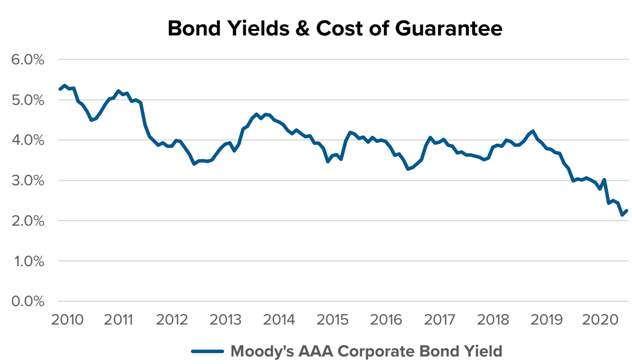
WHY VUL?

For clients with a long-term planning horizon, VUL offers important advantages:

- **Death benefit protection** — First and foremost, clients buy VUL insurance to provide the tax-free death benefit protection that is present in any life insurance product.
- **Performance** — VUL offers participation in a wide range of subaccount options, which allow for tax-deferred account value growth potential that is unmatched by other life insurance products.
- **Simplicity and Transparency** — Direct participation in subaccounts allows for a clear understanding of product performance. There is no need to understand changing caps, participation rates, and multipliers found in indexed products, or the black-box shadow accounts found in no-lapse guarantee (NLG) products.
- **Flexibility** — VUL offers flexibility in two ways: exceptional investment selection and high surrender values.
  - **Investment selection:** Variable products offer a range of subaccount investment options, allowing policyholders to select funds that best meet their risk tolerance. Most VUL products also include fixed investment options, and many offer indexed investment options.
  - **Surrender values:** Because they carry less investment risk for the insurance company, variable products may have higher cash surrender values than other life insurance products, especially guaranteed products. Higher surrender values give policyholders more flexibility to change products as their needs change or as new products are released.

MACROECONOMIC TRENDS HAVE MADE VARIABLE PRODUCTS MORE ATTRACTIVE THAN EVER BEFORE

Figure 1 — Corporate Bond Yield Trend

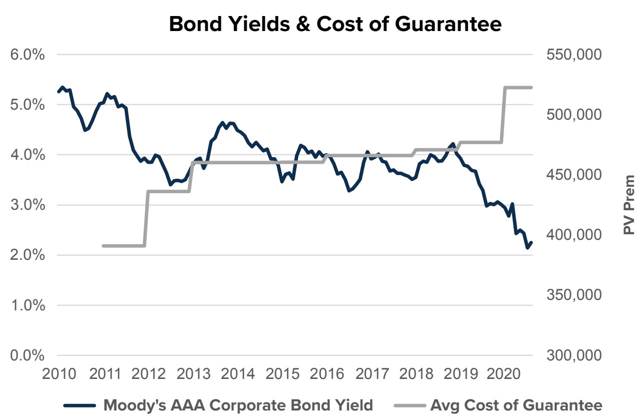


Over the past several decades, returns on lower-risk investments like commercial real estate and investment-grade bonds have decreased significantly. Since 2010, the Moody's AAA Corporate Bond Yield Average has fallen from just above 5% to just above 2%.

Falling bond yields are significant because insurance companies rely on these types of investments to price and support their guaranteed and fixed products like universal life, indexed universal life, no lapse guarantee, and whole life.

DECREASED RETURNS ON LOW-RISK INVESTMENTS HAVE RESULTED IN INCREASED PREMIUMS FOR FIXED AND GUARANTEED PRODUCTS

Figure 2 — Trends in NLG prices compared to Corporate Bond Yield Average

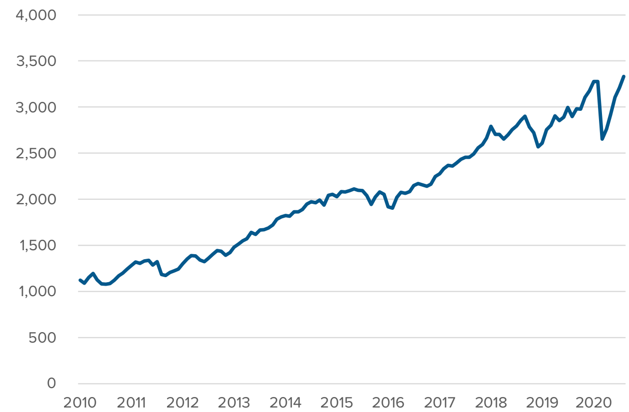


Over the same time, and due in part to decreasing returns on low-risk investments, NLG product prices have increased by 35%.

The Federal Reserve had indicated that the low interest rate environment—and therefore the pressure on fixed and guaranteed products—is going to persist for the foreseeable future.[1] In addition to increased NLG costs, decreased investment returns have caused insurance companies to reduce growth rate caps on IUL products, crediting rates on UL products, and dividend interest rates (DIRs) in whole life products.

SUBACCOUNTS IN VARIABLE PRODUCTS HAVE NOT BEEN SUBJECT TO THE SAME DECLINING PERFORMANCE

Figure 3 — S&P 500 Price History

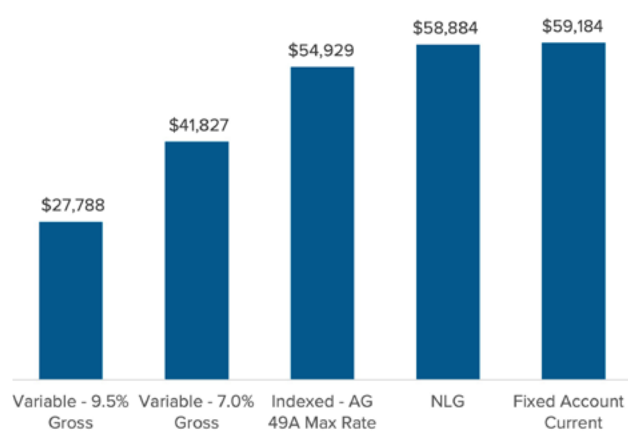


Despite periods of high volatility, U.S. equities have experienced strong growth. Between January 2010 and December 2019, the S&P 500 index with dividends had an annualized return of over 13%.[2] Strong equity returns translate into strong policy performance for VUL policyholders who allocate to subaccounts that invest in equities.

GUARANTEES: GUARANTEED, BUT EXPENSIVE

Clients may be attracted to the more stable performance of fixed and guaranteed products, which are generally not subject to the equity risk found in VUL. But it is important to keep in mind that fixed and guaranteed products come at a significant cost.

Figure 4 — Sample 10 Pay premium by product type



Samples are actual illustrated premiums generated for Male, Issue Age 55, Best Risk Class, $2M Death Benefit

[1] nytimes.com/2020/08/27/business/economy/federal-reserve-inflation-jerome-powell.html

[2] dqydj.com/sp-500-return-calculator/

A comparison of product prices across a wide range of ages, risk classes, and funding tracks shows that fixed and guaranteed products are more than twice as expensive as VUL products funded at a 9.5% equity return (near the historical average). A VUL product funded based on a 7% equity return, historically conservative, still provides premium savings of 30% or more.

VARIABLE OFFERS UPSIDE POTENTIAL

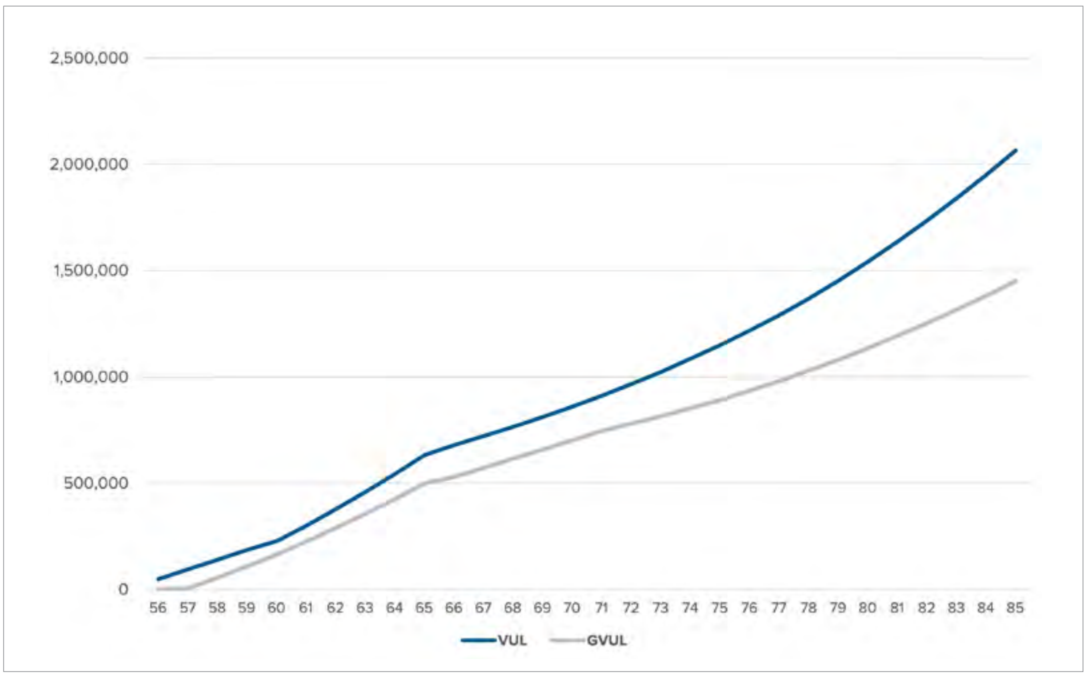
The high cost of guaranteed products cuts two ways. Guaranteed products have higher premiums and less upside potential.

Guaranteed VUL (GVUL) is often marketed as "the best of both worlds," since it offers guaranteed protection like an NLG product, with upside equity performance like a VUL. In reality, the guarantees in GVUL put a drag on its upside performance.

Paying equivalent premium into VUL and GVUL products shows that the VUL products can offer greater account values. Assuming a historically conservative 7% assumed equity return, a VUL product offers over 40% more account value at age 85.

Moreover, because the upside equity performance may push the policy into the cash value corridor, the death benefit must increase as a result. This means the VUL product provides 30% more death benefit for beneficiaries. These advantages can be demonstrated over a wide range of ages, genders, risk classes, and return assumptions.

Figure 5 — VUL vs. GVUL Cash Surrender Value Accumulation at a 7% equity return



These are actual illustrated cash surrender values from a GVUL and VUL product for a Male, 55, Best Class, 10 Pay premium, and $2M Death Benefit assuming 7% gross equity returns

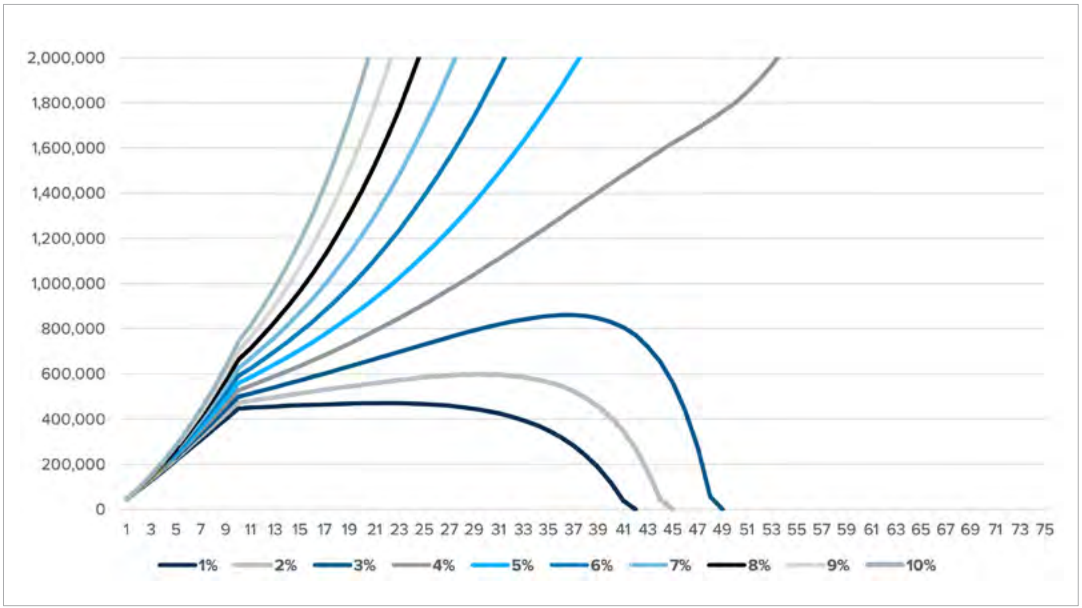
VARIABLE CAN PERFORM EVEN THROUGH VOLATILE MARKETS

Guarantees do provide some protection against the variability of the market, but in most scenarios this protection does not pay off. When subjected to 10,000 randomly generated stochastic equity scenarios, the VUL product outperformed the GVUL about 95% of the time, with the GVUL only providing protection in the most extreme equity scenarios.

Figure 6 — Results of final account values in VUL subject to stochastic scenarios

Lapse Before Life Expectancy	Lapse Before 120	Endow	Endow for More Than 10x Face Amount	Endow for More Than 50x Face Amount[3]
0.1%	5.2%	4.5%	38.6%	51.6%

Figure 7 — Cash surrender value growth at various earned rates. In this case, the VUL must earn between 3% and 4% to last until life expectancy.



In general, the equities supporting a VUL product only need to earn about 4% to outperform a GVUL to age 120 when the product is funded with the GVUL NLG premium. To put that 4% into context, the S&P 500 has returned nearly 10% on average over historical 30-year and 50-year periods, much greater than the 4% threshold.

In fact, historical returns have almost always exceeded the 4% threshold. For policyholders with a long planning horizon, this seems like a risk worth taking.

Figure 8 — Historical return percentiles

Percentile	30-Year Return Periods	50-Year Return Periods
99.9th	3.90%	4.93%
90th	6.38%	6.83%
50th	9.88%	9.57%
10th	12.44%	11.85%

VUL PROVIDES SIGNIFICANT OPPORTUNITY IN EXCHANGE FOR LESS RISK THAN EXPECTED

A VUL policyholder takes on investment risk but gains access to substantial upside potential with downside risk that may be less than you had imagined.

[3] Endowing for 50x the original face amount may sound like a lot, but it is reality of conservative funding with compound interest over many decades. You can replicate this result for yourself in an illustration system.

Carlson Hammond
CA (415) 256-8960 | HI (808) 532-2826 | **carlsonhammond.net**

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Adapted from a presentation by **Devin LaPlant** from M Financial Group, **Walt Helms** from Nease, Lagana, Eden, and Culley, and **Lauren Thomas Compton** from Thomas Financial Group at the M Financial 2020 Virtual Marketing Meeting.

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Variable life insurance products are long-term investments and may not be suitable for all investors. An investment in variable life insurance is subject to fluctuating values of the underlying investment options and entails risks, including the possible loss of principal.

Variable universal life insurance combines the protection and tax advantages of life insurance with the investment potential of a comprehensive selection of variable investment options. The insurance component provides death benefit coverage and the variable component gives you the flexibility to potentially increase the policy's cash value.

The purpose of this illustration is to show how the performance of the underlying investment accounts could affect the policy cash value and death benefit. This illustration is hypothetical and may not be used to predict or project investment results.

Loans and partial withdrawals will decrease the death benefit and cash value and may be subject to policy limitations and income tax.

Investors should consider the investment objectives, risks, charges, and expenses of any variable life insurance product carefully before investing. This and other important information about the investment company is contained in each product's prospectus. Please read it carefully before you invest.

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M Financial Group | 1125 NW Couch Street, Suite 900 | Portland, OR 97209 | 503.238.1813 | fax 503.238.1815 | **mfin.com**