THE HONEST GUIDE

Indexed Universal Life

What it is, how it works, and the real benefits — explained straight.

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Indexed universal life, explained straight

IUL is one of the most misunderstood products in the insurance world — usually because it's explained badly. This guide does it properly: how IUL actually works, the real benefits, what to get right, and how to set it up the smart way. For the right person it can be one of the most powerful pieces of a long-term plan — permanent coverage that never expires, tax-advantaged growth, and a floor against market losses. And if it turns out not to be a fit for you, I'll tell you that straight too.

> **The one-sentence version**
> Indexed universal life is a permanent life insurance policy with a cash-value account whose interest credits are linked to a market index (often the S&P 500): gains are credited up to a cap, losses are floored (usually at 0%). It's an insurance product — not a security — built to be funded for 10+ years.

The mechanics, end to end

An IUL policy has three parts working at the same time:

- **A death benefit.** The insurance side — paid to your beneficiary if you pass while the policy is in force.
- **A cash-value account.** Where premium dollars accumulate after the cost of insurance and policy charges are deducted.
- **An indexed crediting strategy.** Each segment, the cash value earns interest based on the index's movement, subject to a cap and a floor.

Every premium you pay flows in roughly this order: (1) the cost of insurance plus other policy charges are deducted; (2) the remainder is allocated to cash value; (3) the cash value earns interest under the indexed strategy you select.

Cap, floor, and participation — the three numbers that matter

Term	What it means	Why it matters
Cap rate	Maximum index credit in a segment.	If the index returns 14% and your cap is 9%, you earn 9%.
Floor	Minimum index credit, usually 0%.	If the index loses 20%, your indexed credit is 0% — but policy charges still apply.
Participation	Share of the index gain you receive, before the cap.	100% participation with a 9% cap = full gain up to 9%.

Caps and participation rates are set by the carrier and can change. The contract typically sets a low guaranteed minimum cap, and the carrier credits a higher rate at its discretion. That's exactly why a carrier's track record of cap stability matters — and why working with an independent agent who can see across multiple carriers helps.

Why people choose IUL

For the right person, IUL does something no other single product does — it combines permanent protection with tax-advantaged growth and a built-in floor against market losses:

- **Lifelong coverage that never expires.** Unlike term, it doesn't end after 20 or 30 years — your family stays protected for life, as long as the policy is funded.
- **Market-linked growth with a floor.** Your indexed cash value earns interest tied to an index when it rises, and the floor (typically 0%) means a down market year doesn't hand you a loss on that credited value.
- **Tax-advantaged cash value.** Under current tax law, cash value grows tax-deferred and can later be accessed through withdrawals and policy loans in a tax-advantaged way — which is why people use a well-funded IUL as a supplemental retirement bucket.
- **Flexibility.** Premiums and death benefit can flex with your life, within limits — something fixed products don't offer.
- **Living benefits.** Many policies include riders that let you access the death benefit early for a qualifying chronic or terminal illness.

Funded well and built around your goals, it's a genuinely powerful piece of a long-term plan. The key is setting it up right — which is exactly where I come in.

What to get right (and what I handle for you)

A few things separate a policy that performs from one that disappoints — and they're exactly what I take care of when I design yours:

- **Funding it properly.** The early years carry most of the cost, so IUL is a long-game product — I design it to be funded at a level that lets the cash value actually build.
- **Understanding the floor's trade-off.** The floor that blocks market losses comes paired with a cap on the upside — a trade I'll make sure makes sense for your goals.
- **Choosing a carrier with stable caps.** Caps can change over time at the carrier's discretion, so I compare carriers' track records and pick one with a history of stability.
- **Matching the design to your goal.** A policy built for cash-value growth looks very different from one built for the cheapest permanent coverage — I build yours around what *you* want it to do.
- **Staying inside the tax lines.** Funding around the Modified Endowment Contract (MEC) limits keeps your tax advantages intact — part of the design work I do for you.

Want an honest illustration?

I'll request a carrier-issued, AG 49-B-compliant illustration with guaranteed and non-guaranteed columns side by side — no fictional return numbers.

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How IUL is regulated: AG 49-B

IUL is regulated by your state's insurance department. The most consequential recent rule for consumers is Actuarial Guideline 49-B, an NAIC standard effective May 1, 2023. It limits how illustrations can be presented — capping illustrated credit rates and restricting bonuses on top of the maximum illustrated rate — to prevent agents from showing inflated projections.

What this means for you

Any illustration you receive from me is a carrier-issued, AG 49-B-compliant document with both guaranteed and non-guaranteed columns disclosed side by side. I will never show you a marketing chart or a calculator with a fictional return number — any agent who does is, at minimum, taking liberties with the rules.

Who IUL is a great fit for

IUL really shines when several things line up:

- You have a real, long-term life insurance need and want coverage that protects your family for life.
- Your cash flow can support consistent premiums for 10+ years.
- You've already captured employer-match and core tax-advantaged retirement contributions (401(k), Roth IRA where applicable), and want an additional tax-advantaged bucket.
- You like the idea of market-linked growth with a floor against losses.

> **When something else fits first**
> If you have employer-match dollars you haven't captured, high-interest debt you haven't paid down, or no margin to commit to premiums for the long run, there's usually a better first step — and I'll point you to it rather than sell you something that doesn't fit yet. That honesty is exactly why my clients trust the plan we build.

How to read an IUL illustration

Every IUL illustration shows two columns side by side: a guaranteed column (what the carrier promises in writing) and a non-guaranteed column (what could happen if current cap, charge, and credit assumptions hold). The non-guaranteed column is not a prediction — it's one scenario among many. Check these before you sign:

- Both columns are visible and clearly labeled.
- The illustrated rate is at or below the AG 49-B maximum.
- Expense charges and cost-of-insurance line items are explicit, not hidden in a summary number.
- The premium funding pattern matches what you'll actually pay.
- The policy isn't illustrated to lapse before your life expectancy.

IUL vs. whole life — the quick contrast

	Indexed Universal Life	Whole Life
Premiums	Flexible (within limits)	Fixed and required
Cash-value growth	Index-linked, capped & floored	Fixed, guaranteed + dividends (if mutual)
Certainty	Lower — depends on carrier-set caps	Higher — guarantees do the work
Best for	Flexibility & upside potential	Predictability & set-and-forget

Neither is "better" — they're different tools. The right one depends on whether you value flexibility and upside (IUL) or certainty and simplicity (whole life). Because I'm independent, I can compare both for you.

Frequently asked questions

Is IUL an investment?
No. IUL is an insurance product whose cash-value crediting is linked to an index but does not invest in the index. Calling IUL an investment is inaccurate and can mislead consumers about both its risk profile and its costs.

Can I lose money in an IUL?
The indexed credit has a floor (usually 0%) that protects it from market losses — a real, valuable feature. Policy charges still apply in a flat year, caps can be lowered by the carrier, and a poorly designed or underfunded policy can underperform. Funded well and set up right, though, an IUL is far less fragile than the horror stories suggest.

What is AG 49-B?
An NAIC standard effective May 1, 2023 that limits how IUL illustrations are presented — capping illustrated credit rates and restricting bonuses on top of the maximum rate — to prevent unrealistically high projections.

How long do I need to fund it?
IUL is built to be funded consistently for 10+ years. The early years are expense-heavy, so it rewards patience — it’s a long-game product, and that’s exactly where the payoff is.

Get a straight answer about IUL

A no-pressure call to see whether an IUL fits your situation — and an honest, AG 49-B-compliant illustration if it does.

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