Manage Volatility

With Indexed Universal Life Insurance

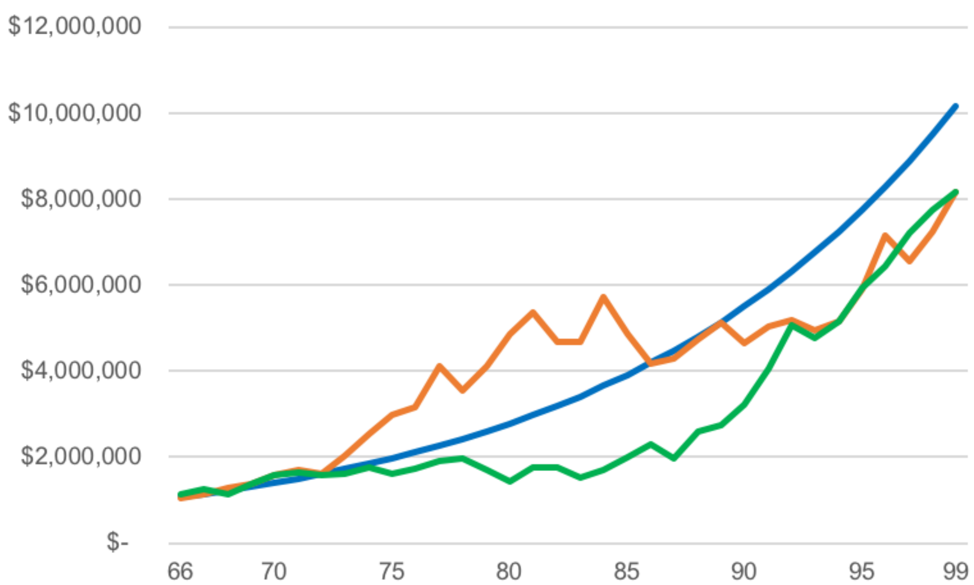
Sequence of returns risk analyzes the order in which your investment returns occur. During periods of market volatility, it can mean that you end up with fewer assets in retirement than what you expected.

Say that you have a hypothetical retirement account that's worth $1 million when you retire at age 65. A few different return scenarios help illustrate the effect the sequence of returns has over the course of your retirement.

Scenario 1: Earns a consistent 7.06% every year

Scenario 2: Interest mirrors an index, such as the S&P 500, and experiences both ups and downs over the course of retirement, with an average annual return of 7.06%

Scenario 3: Reverses the order of returns from Scenario 2, with an average annual return of 7.06%



Scenario 1: 7.06% return every year, ending account value = **$10,170,121**

Scenario 2: mirrors an index, 7.06% average annual return, ending account value = **$8,180,645**

Scenario 3: reversed order of returns, 7.06% average annual return, ending account value = **$8,180,645**

Graphs are hypothetical and do not represent the performance of any product, nor do they reflect any fees or charges that may be applicable. Past performance is not an indication of future results. Actual results may vary.

It may seem that a consistent return would be desired, but markets don't produce consistent returns every single year, so Scenario 1 really doesn't reflect how an actual account will perform. However, it does help explain the risks involved.

In Scenarios 2 and 3, the sequence of investment returns had no bearing on the account values because the average annual rate of return was the same.

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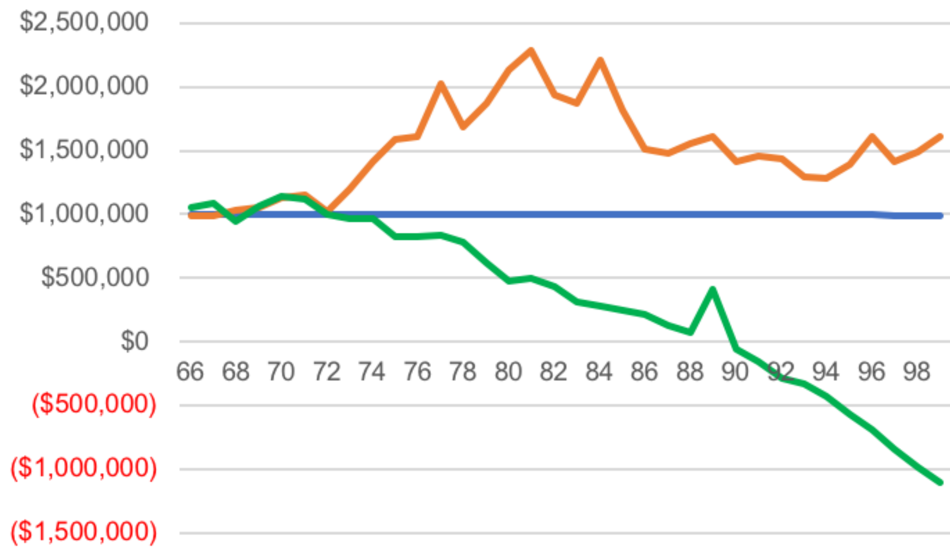
What if you need this money for retirement?

The difference becomes more pronounced when you take money out of the account every year. If high negative returns occur in the beginning years of your retirement, as happened in Scenario 3, there can be a lasting negative effect and reduce the amount of income you can withdraw over your lifetime.

Look at the three scenarios, now with an annual withdrawal of $66,000[1].



Scenario 1: 7.06% return every year, ending account value = **$992,259**

Scenario 2: mirrors an index, 7.06% average annual return, ending account value = **$1,611,150**

Scenario 3: reversed order of returns, 7.06% average annual return, ending account value = **$-1,105,825**

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Scenario 1 shows how a consistent return provides stability to an account. However, remember, this isn't an accurate representation of how markets perform.

Scenario 2 shows how investing in the market can provide the possibility of growth in your account, even when you're taking withdrawals.

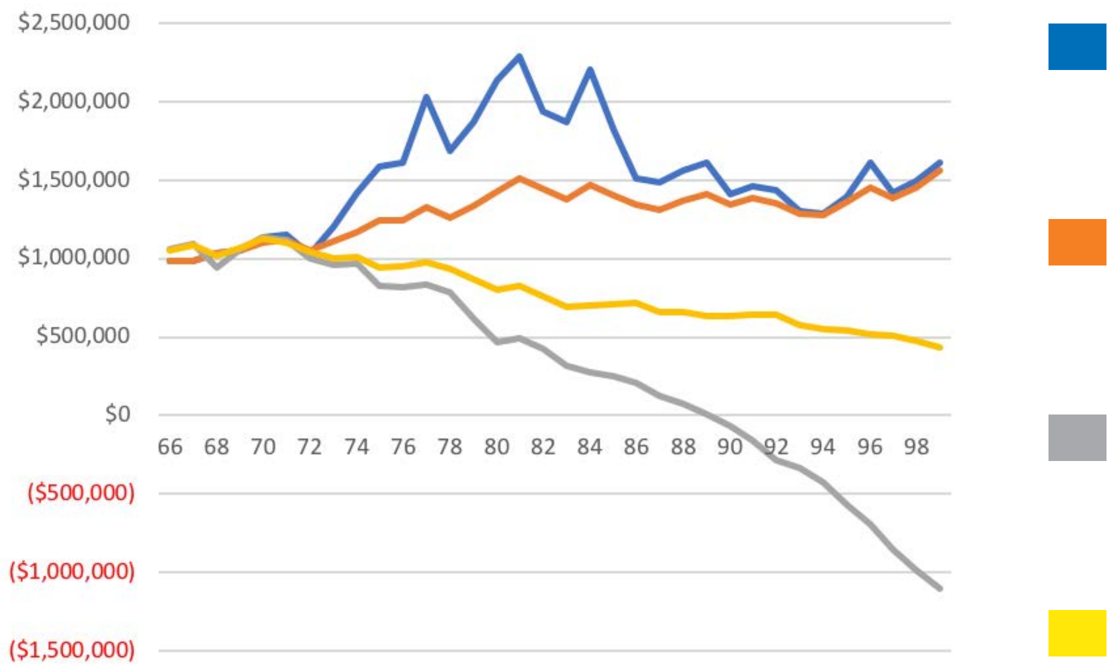
On the other hand, Scenario 3 illustrates the risk involved with investing in markets and taking withdrawals from that account when there are declines in the market early on.

A product that offers a cap and floor may help

An indexed strategy attempts to mimic the performance of a market index while minimizing exposure to volatility by providing protection from downfalls in the market. While you're not actually investing in an index, earnings are based on the performance of an index. In exchange for a cap on the growth of the index, it offers a floor to protect from loss.

An indexing strategy is the foundation for the calculation and crediting of interest on an indexed life insurance policy (IUL). An IUL policy provides important death benefit protection along with the potential for cash accumulation with an interest rate linked, in part, to the performance of one or more equity indexes, without exposure to loss from potential downfalls in the market. Of course, there are costs associated with life insurance and with other types of investments. These various charges reduce the amount that is credited with index-linked interest.

We'll add two scenarios that mirror index returns, both with a 12.25% cap and a 0% floor, to illustrate how a cap and floor work.



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Scenario 1: mirrors an index, without a cap and floor, 7.06% average annual return, ending account value = **$1,611,150**

Scenario 2: mirrors an index, with a cap and floor, 7.06% average annual return, ending account value = **$1,557,544**

Scenario 3: reversed order of returns, without a cap and floor, 7.06% average annual return, ending account value = **$-1,105,825**

Scenario 4: reversed order of returns, with a cap and floor, 7.06% average annual return, ending account value = **$430,825**

Keep in mind that all four of these scenarios are all still earning the same average annual return of 7.06%.

Adding a cap to Scenario 2, which has increasing returns early on, doesn't affect the outcome by very much.

However, adding a cap to Scenario 3, which has decreasing returns early on, results in a significant increase in the ending account value for Scenario 4. During periods of decreasing returns, the floor protects your account from losses.

Plan for your retirement

Indexed universal life insurance is designed to protect for a lifetime. It can build cash value, which helps make it a flexible financial planning tool. The cash value can be used for a variety of needs, including supplementing retirement income. If you're willing to accept the effects of protection from market loss in exchange for limits in market growth potential, consider an indexing strategy using an IUL as you plan for your retirement.

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[1] Tax law permits a policy owner to withdraw life insurance policy cash values up to the policy owner's basis or investment in the contract without income tax consequences. Withdrawals and loans will reduce the available death benefit. Withdrawals beyond basis may be taxable income. Excess and unpaid loans will reduce policy value and may cause the policy to lapse. If a policy lapses, unpaid loans are treated as distributions for tax purposes. For more information about the tax results of life insurance, consult your attorney or tax advisor.

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