INCOME ADVANTAGE IUL:

The Unique Asset

A Guide to Help You Optimize the Potential of an Income Advantage IUL Policy

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Introduction

An indexed universal life insurance policy can be a valuable asset in a client's portfolio.

When most people think of life insurance, they think about a tax-free death benefit that protects their loved ones from the financial consequences of an untimely death. While that is a primary benefit, certain types of policies have features that also allow them to work as an asset in a well-rounded portfolio.

A cash value life insurance policy — particularly an indexed universal life insurance (IUL) policy — offers a death benefit, but also works as an asset that can provide your clients with tax-favored income throughout their lifetime.

The Sales Strategy At-A-Glance

Your client applies for and purchases a cash value life insurance policy and continues to fund it properly.

The cash value in the policy can accumulate interest on a tax-deferred and potentially tax-free basis.

The policyowner has access to this value for any purpose should the need arise prior to retirement.

At retirement, the client can begin taking loans or withdrawals from the policy, resulting in a tax-advantaged income stream.

And, if the insured dies prematurely, the beneficiary would receive the death benefit income tax free.

This guide provides an overview of how an IUL can work as an asset and some important information that you and your client will need to know in order to properly structure and maintain the policy.

Target Markets

First, let's identify who the target markets are. While this sales strategy can work for a wide variety of clients, those who will be most suitable for this planning strategy include:

- Middle- to higher-income wage earners who are able to fund the policy appropriately
- Someone already contributing to their employer-sponsored retirement savings plan and contributing more than the amount their employer will match
- Self-employed individuals wanting to protect their business while also saving for retirement
- Anyone who wants to save additional money for retirement and has discretionary funds
- Prospects who are concerned about paying taxes and interested in tax-favored vehicles
- Those worried about market volatility and wanting to diversify their portfolio
- Clients who are optimistic about the market but don't want a potential exposure to negative returns
- Parents that want to start a life insurance savings plan for children (subject to underwriting requirements)

While this sales strategy is primarily focused on accumulations and distributions, the death benefit can also be a key part of the strategy. Consider the following examples:

- **Young families:** If a parent purchased an Income Advantage IUL and died unexpectedly after just a couple of years, the policy's beneficiaries would receive the full death benefit which could be used to help replace their family's loss of income after that death.
- **Retirement planning:** If an Income Advantage IUL was purchased on one spouse with the goal of supplementing the couple's retirement income and the insured spouse passed away suddenly, the living spouse could use the death benefit (assuming the spouse was the beneficiary) to live comfortably up to and during retirement.
- **Business planning:** There are many business planning strategies that Income Advantage IUL can work well for. The cash value is an asset that can be used many ways — to fund a retirement, to partially fund a buyout of a partner or just to have another source of funds for the business to tap into in the future.

Our Advanced Markets department can help you with even more advanced business and personal estate planning sales strategies. This team of experts is committed to providing guidance on issues related to business, retirement, estate and tax strategies, no matter how simple or complex. They can be reached at:

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Sales Tip: How to Position the Premiums

Prospects often have competing priorities when it comes to how they are spending their money. Life insurance is often seen as a bill that takes money away from their other goals, such as:

- Saving for retirement
- Saving for college
- Achieving financial security

It's important to position the premium as a contribution to an asset that can help them accomplish these goals, NOT as an expense that replaces these goals.

Structuring the Policy and the Illustration

Using an IUL to work as an asset in a well-rounded portfolio can be a very beneficial strategy for your client, but it is extremely important to make sure the policy is structured properly. This section provides an overview of some key information you need to know when preparing a hypothetical illustration and customizing a solution for your client.

Product Selection

The first thing to think about is which IUL policy is the right policy for your client's needs. United of Omaha offers a variety of IULs, all designed for different planning purposes. When you are selling an IUL for the purpose of supplemental income, you will want to use Income Advantage IUL. This product was designed with the greatest cash accumulation potential. In contrast, our Life Protection Advantage IUL product is sold primarily for the low cost and long-term death benefit guarantees.

Death Benefit Selection

Death Benefit — When selling an Income Advantage IUL for the purpose of accumulating a cash value, you will typically want to purchase the lowest face amount allowed based on the contributions the client plans to make. This allows more of the client's money to go towards building a cash value and less towards paying for the cost of insurance charges. When you are running an illustration for this sales strategy, you will generally start by entering the planned premium, and then solve for the minimum face amount that is allowed for that premium amount.

Death Benefit Option — For this sales strategy, you will also generally want to choose an increasing death benefit option, also referred to as death benefit option 2. By choosing an increasing death benefit option, the death benefit can start smaller but will increase as the client makes additional contributions. This allows the client to pay more premiums into the life insurance policy without violating life insurance guidelines.

Later down the road, when the client is ready to start taking distributions or stop paying premiums, your client will generally want to switch to a level death benefit, also referred to as death benefit option 1. This switch can be depicted within the illustration software, but when they purchase a policy, the switch doesn't happen automatically. Your client needs to be aware of this because they will need to ask Customer Service to make this type of policy change in the future.

Avoiding MEC Status

A policy becomes a modified endowment contract (MEC) if the amount of the premiums in the first seven years exceeds what is allowed under tax law based on the policy's face amount and the client's age. This is a different test than the guideline premium test or cash value accumulation test which are absolute limits on life insurance.

Once a policy becomes a MEC, the tax treatment of withdrawals, loans and even pledges of the policy as collateral will be taxed to the extent there is gain in the policy. The distributions receive LIFO (last in, first out) treatment, rather than the usual FIFO (first in, first out) treatment. It is important therefore to ensure non-MEC status if distributions will ever be desired from the policy. **And remember, once a policy becomes a MEC, it can't be undone.**

Proceed with caution if your client wants to add more premium or reduce the face amount of the policy in the first seven years. Additionally, a future material change in the contract such as a face amount increase, could trigger a new 7-pay test.

Contributing Premiums

The contribution (premium) is largely dependent on the client's disposable income, as well as the amount it would take to reach a desired income in the future. It is important that your client understand the importance of committing to paying the planned premiums to give the plan the best chance at success.

Typically, when you run the illustration, you will specify the amount of the premium and solve for the face amount and distribution amounts. We strongly encourage you to project the distribution amounts using conservative projected values. This includes:

- A conservative illustrated rate.
- Projected distributions until age 120.
- A maximized savings element by solving for the lowest possible death benefit for the amount of premium proposed.

With a cash value life insurance policy, premiums are flexible and additional premium payments are allowed at any time, subject to MEC and Section 7702 restrictions. Of course, if the client paid the maximum non-MEC premium from the onset (as recommended), then they may not be able to increase the premium.

Tip: Where to 'Find' Premiums

When you are proposing this sales strategy, a client may tell you they don't have a lot of extra discretionary income. A good place to 'find' premiums for an IUL is by identifying how much they are putting into their employer-sponsored retirement savings plan.

Your client will generally want to contribute up to the amount their employer will match — so they don't leave any of that 'free money' on the table. But, any amount over the match could be re-allocated to their IUL policy, so that it can provide them a tax-free source of income during their retirement. The added benefit is that they won't be subject to the same restrictions as qualified plans in their accumulation years.

Presenting an Illustration

Here are a few additional tips that can be helpful when presenting an IUL illustration to your client:

Let the Client Know the Illustration is Hypothetical

One thing is guaranteed — there is a 0% chance that your client's policy will perform exactly like it was illustrated in the policy illustration that you prepare for them. The illustration assumes a consistent interest rate in all years, and we know that is not realistic. The policy will either perform better or worse than projected depending on future policy performance and the client's funding pattern.

It is important for your client to know that the illustration is for hypothetical purposes only to show them how a policy would perform under minimum, mid-point and the current maximum hypothetical assumptions. It is not meant to predict how their policy is actually going to perform or exactly how much income will be available to them in retirement.

This is also a good time to talk with your client about the importance of monitoring their policy and working with you to occasionally get an inforce illustration so that you can help ensure their policy is still on track to meet their goals.

Identify Future Actions the Client May Need to Take

Earlier in this section, we discussed changes that a client may need to make to the policy in the future, such as stopping their premium payments or changing the death benefit when distributions start. These types of changes do not happen automatically. That's why it is important to let your client know they will need to contact you or the home office to make changes in the future.

Include the Expense Charge Summary

Because IUL policies are often designed differently, it is important for clients to be able to see a Cost and Expense Charge Summary showing how those costs and expenses may impact their policy. To add the report, simply go to the Policy Options Tab within the WinFlex illustration software and select 'Yes' for 'Print Cost and Expense Summary'.

See the **Costs and Fees** section of this guide for more detailed information about the types of policy charges and what they are used for.

Cash Value Accumulation and Market Performance

While any cash value life insurance policy could be used for this sales strategy, indexed universal life insurance has features that make it especially beneficial. An IUL policy's cash value is tied to the performance of a market index, which may give it greater earning and income potential than some other types of cash value life insurance policies, all the while providing downside protection with the 0% crediting floor.

How an IUL Policy Works

When your client purchases an Income Advantage IUL policy, a portion of their premium pays for the cost of their life insurance protection and policy costs (See the **Costs and Fees** section later in this guide), and the rest goes towards building an accumulation value.

The accumulation value within an Income Advantage policy may earn interest at a rate that is calculated based on the performance of a market index. Or, like other universal life products it also offers a fixed interest crediting strategy. This accumulation is tax-deferred, which may allow it to grow more quickly than other taxable investments.

Once the policy has a sufficient cash value, your client can access it to supplement their retirement income, to help cover college expenses for children or grandchildren, or for other emergencies that may arise. This cash value can be accessed by taking income tax-free distributions from their policy (See the **Distributions** section). So long as the policy remains in force, the client will never have to pay income taxes on the loaned amount.

Throughout the life of the policy, if your client were to pass away, the policy would pay a death benefit minus any loans and loan interest. (Previous withdrawals would have reduced the death benefit as well.) Essentially, a portion of the death benefit would be used to repay the loan and the rest would be paid to the policy's beneficiaries.

How the Indexed Interest Rate is Determined

There are many ways to calculate the indexed interest rate for an indexed universal life insurance policy. Income Advantage IUL uses one of the most straightforward index crediting methods in the industry – annual point-to-point. This crediting method calculates the index interest rate by comparing the index value on the date a segment is created to the value one year later when the segment matures. The participation rate and the cap are then applied to determine the index interest rate to be credited to the funds currently in that segment.

Clients have the ability to choose from four indexed interest crediting strategies, as well as a fixed account. This allows them to tailor their policy based on how they believe the index will perform. Clients can choose to allocate all of their accumulation value to a single crediting strategy or among multiple crediting strategies.

The caps and participation rates for each strategy are typically dependent upon the economic environment, but will never drop below the guaranteed minimum levels as specified in their contract. Participation rates and caps can change as often as monthly but won't affect your indexed buckets until they mature.

The four index interest crediting strategies include:

- **S&P 500® One-Year 100% Participation —** clients who believe the index will perform at an average or slightly above average rate might be more suited to select this strategy.
- **S&P 500® One-Year High Participation —** clients who believe the index will perform below the cap or below the index average might be more suited for this strategy.
- **S&P 500® One-Year Uncapped —** clients who believe the market will outperform the cap might be more suited for this strategy.
- **BofA U.S. Agility Index: One-Year Uncapped —** those who desire an index designed to provide consistent performance in different market environments may prefer this strategy.

While an IUL policy's interest rate is calculated based on the performance of a market index, it's important to understand that the money isn't directly invested in the market index.

We also offer a fixed account option. This option may be suitable for clients who may not be comfortable with allocating all of their accumulation value to an index interest crediting strategy. But, if the client is looking for increased accumulation potential, they will most likely want to choose among our four available indexed interest crediting strategies.

Minimum Guaranteed Interest Rates

It's important for clients to understand that even if the market falls and the index change is negative, the client will be credited no less than 0% for that segment. This downside protection is a great feature that many other assets don't offer.

Here's an example of how the indexed interest rate is calculated for the Income Advantage 100% participation strategy:

	Calculation	Example (assuming a 100% participation rate and 10% cap rate)
Step 1: Calculate the Annual Index Change Percentage	(Ending Value of Index – Beginning Value of Index) ÷ Beginning Value of Index	(4,800 – 4,500) ÷ 4,500 = 6.67%
Step 2: Multiply the Index Change by the Participation Rate	Result of Step 1 x Participation Rate	6.67% x 100% = 6.67%
Step 3: Apply the Cap and Floor	If the result of Step 2 is: • Greater than 0% and less than the Cap Rate, the index interest rate credited to that segment will be equal to the result of Step 2 • Greater than or equal to the Cap Rate, the index interest rate credited to that segment will be equal to the Cap Rate • Less than or equal to 0%, no index interest will be credited to that segment; the client is protected from market loss by the guaranteed minimum floor rate of 0%	Crediting Rate = 6.67% since it's greater than 0% and less than the 10% cap rate Once this indexed interest rate is calculated, it is applied to the segment's accumulated value.

Did You Know?

At United of Omaha, we continue to be transparent in our rate setting. While crediting rates for all IULs are subject to change, our crediting rates, as well as renewal participation rates and cap rates, are published monthly on the Indexed UL page on our Sales Professional Access producer website. Your clients can also access these flyers when they look up their policy details in the Customer Access Center.

Many carriers don't publish their renewal rates. Oftentimes, it's because they don't want you to see when they have lowered their participation rates and caps on existing business, while continuing to offer higher rates on new money as a marketing tactic to bring in new business.

We believe in a simple, transparent and fair product. One that treats the money going into your new clients' policies the same as we treat your existing clients' policies that are renewing. And we prove it to you by publishing our renewal participation rates and caps.

Annual Reset

One of the most overlooked, yet most powerful, features of the indexed interest crediting rate is that it functions as an annual reset. This means that if the index is down in a given year, the end-of-year index value is now the new start-of-year index value.

Let's say the S&P 500 is at 6,000 at the beginning of a policy year and then ends at 5,000. The policy would receive the minimum guaranteed indexed interest rate of 0% since the market experienced a loss.

In the following year, the index resets and starts back at 5,000. If the S&P reached 5,500 at the end of this year, the client would receive indexed interest based on the 500-point increase. Unlike most investments, the client doesn't have to wait for the market to fully recover before experiencing gains.

The impact of an annual reset feature:

Assumptions:*

- $100,000 initial value
- S&P values:
  - Start of year 1: 6,000
  - Start of year 2: 5,000 (16.7% decrease)
  - Start of year 3: 5,500 (10% increase)

IUL Asset

Year 1: 0%
Value: $100,000

Year 2: 10% increase

Value: $110,000

Non-IUL Asset

Year 1: 16.7% loss
Value: $83,300

Year 2: 10% increase

Value: $91,630

The $18,370 difference shows the powerful impact of the annual reset feature.

*Assumes a non-IUL investment that mirrored the performance of the S&P 500, and doesn't take into account the impact of charges or fees on either investment option.

Distributions

When using an IUL as an asset, there is typically an accumulation phase and a distribution phase. Once your client reaches the distribution phase, it's important for them to know about the two ways that distributions can be taken, as a loan or as a withdrawal.

Loans and Withdrawals

When your client takes a distribution, they will need to let us know whether they want the distribution to be taken as a loan or a withdrawal. Here is a comparison of the two:

	Withdrawals	Loans
Repayment	When a client makes a withdrawal from their policy, the amount being withdrawn cannot be repaid. Any payments would be new premium to the contract and could be limited by the MEC or 7702 rules.	When a client takes a loan from their policy, the loaned amount can be repaid, but it doesn't have to be.
Impact on the Death Benefit	If a withdrawal is taken, the client is permanently removing a portion of the cash value, and that will permanently reduce the death benefit.	If the loan is not repaid, the amount owed (including accrued interest) is deducted from the death benefit.
Taxation	Assuming the policy is not a MEC, withdrawals that are taken up to the amount of the cost basis in the contract are not taxable, but any withdrawals in excess of the premiums paid will be taxable.	Loans that are taken on the cash value are generally received income tax-free if the policy is not a MEC. One thing to keep in mind when taking loans is that the policy must be monitored to ensure that the policy does not lapse, which could trigger a taxable event.
Fees or Charges	There are no charges on partial withdrawals, although they could subject the policy to surrender charges if taken during the surrender period.	The loaned amount is charged interest, and is also credited interest. The interest rate depends on the type of loan that is selected and the current loan rates. See the **Loan Charges and Credits** section for more information.

One technique used when illustrating distributions is called 'Withdrawals to Basis, then Loans.' This may make sense if your client wants to take a distribution to supplement their retirement income, and they don't have any plans to repay the loan.

The withdrawal of 'basis' (premiums paid) will not be taxable, and since it permanently reduces the death benefit, it will also reduce the client's policy charges. Then, once the client has withdrawn an amount up to the 'basis' (premiums paid), they will switch to taking loans and that loaned amount will generally be income-tax free, as well. Of course, if the client wishes to have the opportunity to earn more in crediting than they are paying in interest, then they will want to choose the index loan.

Tip: Early Distributions

If your client is interested in taking temporary distributions prior to retirement, then they will probably want to take the distribution as a loan since it will not permanently reduce the death benefit. The customer can pay that loan back later, which will allow them to continue accumulating more cash value that can be used later to supplement their retirement income.

Lapse Guard Rider

As mentioned earlier, if a policy were to lapse with an outstanding policy loan, it could create a potentially large taxable event. That is why we include an additional rider — the Lapse Guard Rider — at no additional charge on all Income Advantage IUL policies where the insured is age 0-75 at issue.

The Lapse Guard Rider is specifically designed to prevent policies from lapsing that have been overfunded and have had disbursements taken. Because exercise of this rider keeps the policy from lapsing, no policy loans will become taxable as income under current tax law.

Should the Lapse Guard Rider need to be exercised, the accumulation value will be reduced by 3%.

Index vs. Standard Loans

Two types of loans are available on an Income Advantage IUL policy: index loans and standard (fixed) loans. When selecting an IUL, it's important to look at the loan provisions since they could significantly impact the policy's performance — and the income potential — once the client starts taking loans.

	Standard Loans	Index Loans
Interest Charge	The loan amount is also charged a fixed interest rate. • In policy years 1-9, that rate is 4% • In policy years 10+, that rate is 2%	The company also charges a declared interest rate on the loaned amount. As of March 2026, Income Advantage IUL has an index loan charge of 5%. And, to help put your clients' minds at ease, our contract guarantees the highest rate we can ever charge on index loans will never exceed 6%. Many companies don't set a limit on the rate the company can charge. This allows them to set it as high as they would like, which can leave a client's IUL policy susceptible to additional risk.
Interest Credit	The loan amount is credited with a fixed interest rate. • In policy years 1-9, that rate is 2% (for a 2% net cost loan) • In policy years 10+, that rate is 2% (for a 0% net cost loan)	The loan amount is credited with the same interest rate being credited to the non-loaned policy values. This crediting rate is based on the performance of the underlying index. If the interest rate credited to the policy is higher than the rate the company is charging, the client can actually have a gain on their loaned amount.

It's important for your client to be aware of the two types of loans so they can specify the type of loan desired when they take the loan. This decision can be made at the time of the loan request — it does not need to be made at time of policy issue.

Loan Rates Are Especially Important In Down Market Years

If your client has an index loan on their policy, it is important to know that when the index is at zero or below, the client is still receiving charges on their index loans — charges that are not offset by interest credits. Clients should be aware of this and know the impacts this could have on their policy's performance. **With our IUL policies, the maximum we will ever charge your client on their index loan is 6.00% — GUARANTEED, which limits their downside risk.** With other carriers, the index loan rate could change, leaving your client susceptible to additional risk.

Sequence of Returns

The sequence of positive and negative annual returns and timing of withdrawals can impact how long assets last. If there happens to be a market downturn, accessing retirement income and selling into a market loss can be very detrimental — especially if this happens early in retirement.

The Impact of Sequence of Returns on a Retirement Portfolio

Let's say your clients have a house. They've taken good care of it — fixed the roof when it needed it, spent money on landscaping and a sprinkler system and completely redid the kitchen. Now it's time to sell and the housing market isn't looking so good — and there's no way your clients will get their money out of it. Do your clients sell for a loss? Or, is it in their best interest to wait until the market recovers before selling?

A retirement portfolio works in a similar way. When building a retirement fund, your clients will continue to invest money in it. They carefully allocate their contributions based on their risk tolerance and the investment's reward potential, they diversify it and they weather the storm of market fluctuations. All with the hope that when it's time to take retirement income, their disciplined investment strategy will pay off.

If there's a market downturn while your clients are drawing retirement income from their savings, it's probably not in their best interest to sell into the down market. Selling at a loss following a down market, especially in early retirement years, can seriously erode a portfolio and negatively impact long-term retirement funds.

Let's look at a case study:

For simplicity, let's assume:

- Your client has a $1 million retirement account.
- They are planning to use a 4% rule and take $40,000 annually for their retirement income.
- Your client has just turned age 65 and is ready to retire.
- The markets take a downturn just prior to their retirement and that $1 million retirement account is only worth $750,000 now.

In this situation, if the only retirement assets your client has are ones that were susceptible to market risk, they may:

- Need to take money from that account (not giving the withdrawn amount time to recover from the market loss), which will significantly reduce how long their retirement savings will last.
- End up needing to delay their retirement until the markets recover.
- Have to cut back on how much they are planning on spending in retirement and maybe not get to live the retirement lifestyle they had hoped for.
- Find other ways to supplement their income during retirement, such as a part-time job.

If your client had an IUL policy, they would have an additional option.

Food for Thought:

Want proof that sequence of returns can have a detrimental effect during a market downturn? Even the government acknowledged the impact of sequence of returns on retirement assets during the COVID pandemic. The federal government passed the CARES Act which granted an exception to the annual Required Minimum Distribution rule for retirees, knowing that it would have been detrimental to force retirees to pull money from their retirement accounts that were experiencing negative returns. They allowed retirees this exception so that their retirement accounts could recover from the market downturn. During this time, retirees had the option to pull their retirement income from other sources that were less susceptible to market conditions.

Help Eliminate Sequence of Returns Risk During Retirement with an IUL

One way that your clients can plan ahead for 'sequence of returns risk' is by purchasing an IUL policy.

If your client needs to supplement their retirement income during a market downturn when they don't want to draw as much from their retirement savings, they can receive tax-free supplemental income from their IUL policy's cash value by taking withdrawals and loans.

Unlike many other assets that are susceptible to market risk, an IUL policy has limited market risk since your client participates in the market's upside (up to the cap rate), but its 0% minimum floor helps protect them from downside market risk.

Let's look at that same case study:

- Your client has a $1 million retirement asset.
- They are planning to take $40,000 annually for their retirement income.
- Your client has just turned age 65 and is ready to retire.
- The markets take a downturn just prior to their retirement and that $1 million retirement asset is only worth $750,000 now.
- Your client also has an Income Advantage IUL policy with $250,000 in cash value.

Because your client has an IUL policy, they can still retire as planned and take income-tax free distributions from their IUL policy. **By taking distributions from the IUL policy during a market downturn, the client lets their retirement savings recover and doesn't sell into a market loss.**

Tip: Comparing Taxable and Tax-Free Income Sources

Keep in mind that when money is taken from a taxable retirement fund, your client has to pay ordinary income taxes on the money. Distributions from a life insurance policy are generally received income tax free. Assuming the client has a 28% effective tax rate, a pre-tax distribution of $40,000 from the client's retirement fund would be equivalent to a $28,800 distribution from an IUL policy.

Costs and Fees

We are proud to offer straightforward IUL products where clients have upside potential and downside protection without all the complexity that you will find in many products on the market today. When products offer complex features, they often come with additional policy charges and fees — ones that could put your clients' policies at more risk, especially in a down market.

In a down market, clients can still experience a decrease in their policy value — this loss comes in the form of the policy's charges and fees. When the index is down, most carriers are crediting 0%, but your client will experience a greater loss with carriers that have higher policy charges and fees. That is why we are proud to be the carrier with some of the lowest policy charges in the industry. Even if the markets decline, our clients will feel less of an impact than they would with a competitor's policy that has higher charges. Illustrate more conservative expected returns in competitive situations, and you will see how lower expenses make a difference.

"Remember, whatever you give back to the insurance company in the form of fees, is lost and gone forever. What's worse, you not only lose the fees, but you lose the opportunity cost on them as well."

— David McKnight, Author of The Power of Zero

This is why we are proud to be the carrier with some of the lowest policy charges in the industry. More of what you pay in premiums will go to building your cash accumulation.

Types of Charges and What They Cover

There are typically four types of charges on an Income Advantage IUL policy: the premium charge, the monthly expense charge, the cost of insurance charge and the surrender charge. If the client has elected any optional riders, there may also be rider charges.

- The **premium charge** is typically used to help pay for product research and development, sales expenses, the costs to underwrite and issue a policy and state and local taxes.
- The **monthly expense charge** is typically used to help pay for the insurance company operations. This helps make sure that the insurance company can keep running and will be there to assist clients in getting the benefits from their policy when they need it most. This includes, but is not limited to, client services staff, claims staff, actuarial staff, investment staff and operational expenses.
- The **Cost of Insurance (COI) charge** is typically used to help pay for the cost of the actual life insurance protection. This is based on the insured's gender, attained age, risk class and death benefit amount.

- The **surrender charge** is the amount charged if the policyowner surrenders the policy before the surrender charge period is over. In order to remain profitable, the insurance company plans on a policy remaining in force for a certain amount of time. This charge can be assessed upon a surrender or reduction in face amount, as defined in the contract.

Your clients will be familiar with these charges if you include the Expense Charge Summary on an illustration.

How Costs and Fees Compare to Alternate Investments

No one likes to pay fees and charges, so your clients may initially see the IUL charges as a downside. But, when your clients are making their savings and investment decisions, it is wise for them to consider — and compare — the costs and fees of various alternate investments. A low-cost IUL, such as United of Omaha's Income Advantage IUL, while front-loaded, can often have much lower overall costs and expenses when compared to other investment alternatives.

According to the SEC investor bulletin, 'How Fees and Expenses Affect Your Investment Portfolio,' investment fees typically fall into two categories, transaction fees and ongoing fees.

- **Transaction fees:** These are fees that are charged every time your client makes a transaction. These types of fees are often found on stocks and mutual funds. They include fees such as commissions, markups, sales loads and surrender charges.
- **Ongoing fees:** These are fees that your client's investments will incur on a regular basis. Ongoing fees can have an impact on your client's investment portfolio in two ways: your client's account is reduced by the fee and they also lose any returns they would have earned on that fee. They include fees such as investment advisory fees, annual operating expenses, 401(k) fees and annual variable annuity fees. Even small ongoing fees can have a significant impact on an investment over a long period of time.

Comparing investments is often difficult because of all of the different types of fees that may be charged. The SEC investor bulletin recommends clients ask the following questions:

- What are the total fees to purchase, maintain, and sell this investment?
- Are there ways I can reduce or avoid some of the fees I'll pay, such as purchasing the investment directly?
- How much does this investment have to increase in value before I break even?
- What are the ongoing fees to maintain my account?
- For mutual funds: How much will the fund charge me when I buy and/or sell shares?

The answers to these questions will help your clients understand how the costs and fees of different types of investments compare, and how they can potentially impact the value of their investment.

A Life Insurance Policy Also Has Creditor Protection

It's also important to know that the policy values and proceeds of a life insurance policy are typically given some protection against creditors. The type of protection will vary from state to state. But, one example is Florida where the policy is protected from creditors as long as the insured's estate is not the beneficiary.

Taxation

Throughout this guide, we have mentioned a number of tax benefits that a client can experience when using an accumulation-focused IUL as an asset in their portfolio. This section provides a summary of these tax benefits.

Tax Benefits of an IUL Policy

The three primary tax benefits of an IUL policy include:

- An income tax-free death benefit
- Tax-deferred cash value accumulation
- Policy loans and withdrawals that may be income tax free (See the **Avoiding MEC Status** section)

It's especially important to understand the tax benefits of distributions from an IUL policy as you are talking to your clients about how to manage their taxes in retirement. Retirement income sources are taxed differently, and certain types of retirement income can impact the client's overall tax liability. This is why it is important for many of your clients to have a source of non-taxable money, such as an IUL policy, to pull extra supplemental income from during retirement. These non-taxable funds can help them minimize tax bracket creep and may also lower the taxes they pay on their Social Security and long-term capital gains. Lastly, remember that unlike other retirement assets, a life insurance policy does not require that the owner wait until age 59 ½ to take a distribution without a premature distribution penalty (as long as the policy is not a MEC).

Understanding Income Taxation During Retirement

When it comes to using an IUL as an asset, the income tax-free distributions during retirement can be a key selling feature. But, it's important to understand the bigger picture when it comes to income taxation during retirement.

Types of Retirement Income and How They are Taxed

Retirees have several forms of income. Here is an overview of each type and how they are taxed.

- **Tax-deferred accounts**

  Withdrawals from traditional deductible IRAs and 401(k)s are taxed as ordinary income. Your client is usually required to start taking Required Minimum Distributions (RMDs) from these accounts the year after they reach age 73.

- **Taxable accounts**

  Profits from the sale of investments, such as stocks, bonds, mutual funds and real estate, are taxed at capital-gains rates:

  - Long-term capital-gains rates apply to capital gain assets your client has held longer than a year.
  - Short-term capital gains (assets held less than a year) are taxed at your client's ordinary income tax rate.

Interest income from bonds and rental property income are taxed as ordinary income.

Qualified dividends are taxed the same as long-term capital gains held over a year, and nonqualified dividends are taxed at your client's ordinary income tax rate.

Municipal bond payments are federally tax-free but will increase provisional income potentially causing greater taxation of Social Security benefits.

- **Roth IRAs**

  As long as the Roth IRA has been open for at least five years and your client is age 59 ½ or older (or has another qualifying event like death or disability), all withdrawals are tax-free. Your client is not required to take RMDs from their Roth IRA and contributions can be accessed at any time.

- **Roth 401(k)**

  Like the Roth IRA, a Roth 401(k) allows your client to withdraw contributions and earnings, tax and penalty free, if your client is age 59 ½ or older and has met the 5-year rule.

- **Pensions**

  Payments from private and government pensions are taxable at your client's ordinary income tax rate, assuming your client made no after-tax contributions to the plan.

- **Social Security**

  Many retirees are surprised — and dismayed — to discover that a portion of their Social Security benefits could be taxable at ordinary income tax rates. Whether or not your client is taxed depends on what's known as their provisional income: their adjusted gross income plus any tax-free interest plus 50% of their benefits.

  - If provisional income is between $25,000 and $34,000 (if your client is single), or between $32,000 and $44,000 (if your client is married), up to 50% of their benefits are taxable. If they are below these thresholds, they don't have to pay taxes on their Social Security benefits.
  - If provisional income exceeds $34,000 (if your client is single) or $44,000 (if your client is married), up to 85% of their benefits are taxable.

- **Annuities**

  If your client has a nonqualified annuity they annuitize to provide income in retirement, the portion of the payment that represents a return of their investment in the contract (generally the money they paid for the annuity) is tax-free; the rest is taxable.

  The insurance company that sold your client the annuity will be able to tell them what amount is taxable. If your client bought the annuity with pretax funds (such as from a traditional deductible IRA), 100% of the payment will be taxed as ordinary income.

- **Life insurance**

  In most cases, loans and withdrawals from a life insurance policy are received income tax-free. This assumes the withdrawals do not exceed the amount of premiums paid (less previous withdrawals); and the policy is not a Modified Endowment Contract under IRS §72, 7702(f)(7)(B), 7702A.

How One Retirement Source Can Impact the Taxation of Another

Managing the taxation of your client's retirement portfolio is about more than understanding how each type of income source is taxed individually. It's also important to know how using these income sources together can impact your client's overall taxation.

For example, some withdrawals from a retirement portfolio will increase your client's realized ordinary income and will also increase Social Security taxation and long-term capital gains taxation when taken in the same year. This can increase your client's effective marginal tax rate.

Your client's effective marginal tax rate is considerably different than the marginal income tax bracket they fall into for federal tax purposes. Their effective marginal rate can be much higher or much lower, depending upon the underlying asset's tax treatment and what impact it has on their other portfolio assets.

Because of the compounding effect of Social Security taxes, long-term capital gains taxes and effective federal taxes, your client's overall total taxes may "snowball." This can cause them to pay as much as 55 cents on the dollar in taxes, making their spendable income only 45 cents on the dollar. This is not the way to manage assets for the long life most of your clients plan to live in retirement.

Your clients need to be tax smart. Before making abrupt changes in their retirement spending, it's wise to model the tax impact. Our Advanced Markets Team can help with this analysis.

How Clients Can Manage Tax Risks and Not Volunteer to Pay Extra Taxes

It's important for your clients to have a bucket of pretax or non-taxable assets to draw income from during retirement. It can help keep them from moving into a higher tax bracket and may also lower the taxes they pay on their Social Security and long-term capital gains.

Three types of pre-taxed or non-taxable assets include:

- **A Cash Value Life Insurance Policy:** Your client can also take supplemental retirement income from the cash value in an indexed universal life insurance policy without increasing their taxable income.
- **A Roth IRA:** Most of your clients will already be familiar with the Roth IRA. Because your client has already paid taxes on their contributions to a Roth IRA, they can pull from this bucket in retirement without increasing their taxable income.
- **A Roth 401(k):** Like a Roth IRA, a Roth 401(k) can also be accessed in retirement without increasing your client's taxable income.

A Case Study

Consider Eric and Allison. In 2026 they are a high-net-worth couple in their 50s. They want to be able to take $180,000 in retirement income. Here is how their tax situation could play out with and without an IUL policy to fund that retirement need.*

Scenario 1: Without an IUL

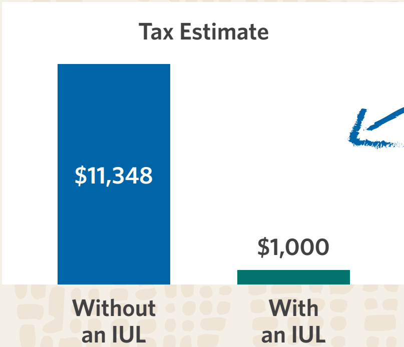
- $50,000 combined Social Security Income
- $65,000 **IRA distribution**
- $65,000 from a long-term capital gains asset (stocks)

Total Tax Estimate: $11,348
Effective Marginal Tax Rate: 6.30%

Scenario 2: With an IUL

- $50,000 combined Social Security Income
- $15,000 **IRA distribution**
- $50,000 **IUL distribution**
- $65,000 from a long-term capital gains asset (stocks)

Total Tax Estimate: $1,000
Effective Marginal Tax Rate: 0.77%



This is an extra $10,000 that Eric and Allison can use to enjoy retirement.

This is why it may be important to have a conversation about repositioning money that is being paid into other retirement savings plans into a properly structured cash value life insurance policy to effectively reduce their future tax liability.

Keep in mind that while this is a strategy that often appeals to clients with a higher net worth, it can apply to any client who has money in qualified plans.

Tip: Ask Your Clients the Following Questions

1. Do they think income tax rates will be higher or lower in the future?
2. Would it make sense to have an asset that they can access free of tax in the event that tax rates are higher in the future?

*Mutual of Omaha and its representatives do not provide tax advice. Customers should always consult with and rely on a tax advisor for their particular situation.

Additional Policy Benefits

When your clients purchase an Income Advantage IUL policy, it will come with some additional benefits. A few of these benefits include:

GRO Rider

The Guaranteed Refund Option (GRO) rider is uncommon in the industry but is included automatically on all qualifying Income Advantage policies. It provides seven 60-day windows in which policyowners can surrender their policy and receive their paid premiums back — up to 50% at the end of year 15 and up to 100% at the end of years 20, 21, 22, 23, 24 and 25, up to 80% of the face amount.

You may wonder why clients even need a GRO rider, when most companies illustrate a projected 6% (or thereabouts) indexed interest crediting rate. And the fact is that if their policy received a consistent 6% indexed interest crediting rate, they wouldn't need a GRO rider since their cash accumulation value would garner significantly more than their premiums paid.

However, when the projected cash values aren't guaranteed, clients tend to be skeptical. Especially if they think projected cash values seem to be "too good to be true." That's where the GRO rider comes in. It provides a guarantee, which offers clients reassurance.

The GRO rider provides an additional layer of protection — a safety net in an unpredictable market. Should the index not experience positive growth, the policyowner can surrender their policy during one of the seven 60-day windows and receive no less than their GRO rider amount — guaranteed!

Chronic Illness Rider

This feature allows the policyowner to access a portion of the death benefit early if they become chronically ill, as defined in the rider. This money can be used to help cover the costs of long-term care, although there is no nursing home confinement required.

This rider is automatically issued with all policies that do not include the LTC Rider. There is no cost to have this rider included with the policy. Charges will only be assessed if the policyowner chooses to use the rider benefits.

Terminal Illness Rider

If the policyowner is diagnosed with a terminal illness and has a life expectancy of 12 months or less, this feature allows early access to a portion of the death benefit. This money can help provide a little more comfort during a difficult time.

There is no cost to have this rider included with the policy. Charges will only be assessed if the policyowner chooses to use the rider benefits.

Long-Term Care Rider

Long-term care services can be expensive. When your clients purchase the LTC Rider, they have the comfort of knowing they can access their death benefit early to reimburse themselves for covered long-term care services. This extra source of funds may help ensure that the policyowner may not have to liquidate other assets to pay for their care.

When your client applies for the LTC Rider, they get to choose:

1. The maximum long-term care rider benefit. This can be as much as the initial life insurance death benefit amount.
2. The monthly maximum benefit amount. The monthly benefit can be up to 1%, 2%, or 4% of the long-term care rider benefit amount.

Once the insured meets the conditions of the rider, the policyowner will be reimbursed for covered long-term care expenses. If the client never uses the rider, they won't lose the benefit. Any portion not used for LTC benefits will be paid to the policy beneficiaries as a death benefit.

This rider must be purchased for an additional cost and underwriting is required. If the client is not eligible to purchase the LTC Rider due to underwriting restrictions, their policy will include the Chronic Illness Rider at no additional cost.

Policy selection and design is really important here. Many times, the Life Protection Advantage (our death benefit oriented IUL) is the better choice when an LTC rider is desired. If your clients want to combine the LTC and death benefit protection along with their cash accumulation goals, consider using a two-policy approach. One policy (Life Protection Advantage) can provide the LTC and death benefit coverage, and the Income Advantage can be funded in a way to provide for maximum accumulations and distributions.

Policy Reviews

It is important to meet with your clients regularly. Let your clients know in advance that you will be scheduling follow-ups to review how their policy has performed and to ensure their policy is still meeting their needs. We suggest that you hold a review at least every one to two years. When you meet with your client, two things that will be helpful are the policy statement and inforce illustrations.

Policy Statements

Each year, your client will receive a policy statement from United of Omaha. It's important for you and your client to review the statement, and for you to be prepared to answer any questions they may have. Here are a few areas that you should be prepared to discuss.

Indexed Interest Crediting

For life insurance policies, annual statements are created the day prior to the anniversary date. On an IUL, index interest is not credited until the segment matures, which will occur after the anniversary date. **This means your client will not have any index interest credits on their first statement.** Let your clients know this up-front so they are prepared for what they will see on their first statement. After the anniversary date, your client can log on to Customer Access or can contact the home office to find out their index interest credit.

Even after the policy anniversary, a client may be concerned with the interest credits on their policy if they are making semi-annual, quarterly or monthly contributions. Each contribution creates its own indexed segment and interest is only credited on the segment anniversary. So, even if they log-in to Customer Access after the policy anniversary, they will not see indexed interest for any contributions that have not reached the anniversary date for that bucket.

Tip: Even though the indexed interest isn't credited until after the first anniversary, the fees and charges will have been deducted, which can sometimes surprise a client. Preparing the client for this ahead of time can help alleviate any possible concerns.

Policy Charges and Fees

Income Advantage IUL has a low-cost structure compared to many IULs on the market, and compared to many alternative assets. Yet, you may still have clients ask about these since they are shown on the annual statement.

There are generally four types of charges on the statement: the premium charge, the monthly expense charge, the cost of insurance charge and the surrender charge. If the client has elected any optional riders, there may also be rider charges. A complete description of what these are used for can be found in the **Charges and Fees** section of this guide.

Accumulation Values

You client's statement will show the policy's accumulation value. On the policy's second annual statement, you will start being able to see the impact of the indexed interest crediting. It's important to periodically review the numbers with your clients and see how they compare to what you initially illustrated. More importantly, you will want to make sure the accumulation value is still on track to meet the client's future need for supplemental income.

If the policy has been performing well, the conversation with the client is generally a little easier. But, you may still want to discuss whether their needs have changed. For example, a change in their financial situation may result in the client wanting to increase or decrease their contributions.

If you have had multiple years where the indexed interest has not performed as expected or if the client has altered their planned premium payment stream, you may need to start talking about making adjustments, such as:

- **Increasing premiums:** the client may be able to increase their premium payments slightly to account for the 'down years' or may need to increase their premiums if they had to skip a previous premium payment. Of course, they will not be able to increase premiums if they already fully funded the product.
- **Modifying expectations:** the client may want to take a 'wait and see' approach to see if the indexed interest rates perform better in future years. This is completely acceptable; however, by having the conversation and setting expectations along the way, your client will be aware of the potential shortfall if future performance doesn't counterbalance the past performance.

Tip: If you do find yourself in a situation where a client's policy is performing below what was initially illustrated, don't put off having a discussion with your client. You will find that it's much easier to have these discussions along the way (when you still have time to make adjustments) than it is to have them when your client is ready to start taking distributions from their policy.

Inforce Illustrations

One of the best ways for a client to be able to see if their policy is still on track to meet their future needs is by running an inforce illustration. This functionality will help you provide better ongoing service to existing policyholders.

Some examples of what can be provided through an inforce illustration include:

- Solving for the required premium to achieve a desired cash value projection
- Specified increases or decreases in the premium amount
- Specified decreases in the face amount
- Changes to the death benefit option
- Reprojections of future income potential

As a producer, you have the ability to run your own inforce illustrations.* These can be found on our SPA website through the 'Sales & Marketing Tab' and then navigating to the 'Mobile & Online Quoting' page. Previous inforce illustrations will be saved in your list for up to 14 days.

The home office can also run inforce illustrations for you.

* You must be the writing agent of record to access this function, servicing agents cannot run inforce illustrations.

Policy Treatment Upon Lapse or Death

Upon Lapse

There are times where a client may inadvertently allow their life insurance policy to lapse. It could be due to missing a premium payment when there is not enough cash value to cover the cost of insurance charges and policy fees. Or, a large policy loan could be accruing interest at a faster pace than it is earning interest.

When using a life insurance policy for this sales strategy, a policy lapse — especially a lapse on a policy that has an outstanding loan — can have significant tax ramifications. If your client has taken loans, it's important for them to remember that the policy must remain in force in order for the policyholder to not be taxed on the distributions that are in excess of the premiums paid.

Tip: Help Prevent a Future Policy Lapse

Some ways to avoid unintentional lapses include:

1. Monitoring the policy regularly.
2. Not taking distributions that are greater than are sustainable.
3. Utilize Lapse Guard if the rider requirements are met.
4. Run a conservative illustration at point of sale as discussed before. Under promise and over deliver.

Upon Death

When an insured dies, the policy will pay out a death benefit to the beneficiaries per the policy terms.

- If the policy is death benefit option 1 (level), then the death benefit will equal the specified amount of insurance in effect on the insured's date of death minus any outstanding loans and loan interest.
- If the policy is death benefit option 2 (increasing), then the death benefit will equal the specified amount of insurance in effect on the insured's date of death, plus the accumulation value on that date, minus any outstanding loans and loan interest.

The death benefit paid to the beneficiaries will generally be received tax-free.

If there is an outstanding loan, it will not be subject to any taxation, it will only reduce the death benefit as indicated above.

Why United of Omaha?

There are a number of companies that offer accumulation-focused indexed universal life insurance products, so your clients may want to know what sets United of Omaha's Income Advantage IUL apart from the competition.

Here are a few selling points for our IUL product that set us apart from the competition:

We treat new and old customers the same.

We believe in a simple, transparent and fair product. One that treats the money going into your new clients' policies the same as we treat your existing clients' policies that are renewing. And we prove it to you by showing our renewal participation rates and caps on a monthly basis.

See our historical rates and more at DiscoverIUL.com.

Many carriers don't publish their renewal rates. Oftentimes, it's because they don't want you to see when they have lowered their participation rates and caps on existing business, while continuing to offer higher rates on new money as a marketing tactic to bring in new business. In fact, the only way to discover this with most carriers is to start taking a close look at each client's statement from year to year and comparing it to their new business rates. Your clients who previously purchased a competitor's product might be surprised at what they find!

We offer a Guaranteed Refund Option rider.

United of Omaha is one of the few carriers that offer a Guaranteed Refund Option on our accumulation-focused IUL. This rider provides an additional layer of protection — especially in an unpredictable market. Should the index not experience positive growth, the policyowner can surrender their policy during one of the seven 60-day windows and receive no less than their GRO rider amount — guaranteed!

We hope that the client's cash value will outperform the guaranteed refund amount so the client won't ever need to utilize this rider. But, it can help provide reassurance to clients who are skeptical and wonder if the projected cash values and distribution potential seem to be "too good to be true."

Our IUL philosophy is focused on the customer, not the illustration.

The industry has been regulating IUL illustrations over the past several years to help alleviate the ‘illustration games’ that many carriers were playing in order to enhance their projected illustration values. While some other carriers had to modify their products to comply with these new regulations, we have not had to make any changes to our IUL product. This is because of our long-standing IUL philosophy and our commitment to developing simple, client-friendly IUL products.

We have a guaranteed maximum loan rate.

Many companies don’t set a limit on the rate the company can charge. This allows them to set it as high as they would like, which can leave a client’s IUL policy susceptible to additional risk. Our contract guarantees that our loan interest rate can never exceed 6%.

Our cap integrity matters, especially for long-term accumulation.

This IUL product was introduced in 2016 and United of Omaha has demonstrated a disciplined, conservative approach to cap management. Our measured approach should help reinforce client confidence, support more reliable long-term illustrations and underscore our focus on sustainable product design over short-term market pressures.

We have a low cost structure.

This may be the most important difference. When it comes to IUL products, it can seem like all products use the same general design which makes it tempting to choose a product based on which illustrates best. However, when you look closer at each product illustration, you’ll start to notice some important differences in the charge structure. United of Omaha’s IULs use a simple design which allows us to keep our policy costs and fees low, and allows more of your clients’ premiums to go towards building the cash value.

Why Mutual of Omaha

Over 60 years of Mutual of Omaha's Wild Kingdom taught us that the animal kingdom and the human kingdom have something in common … an instinct to protect what matters most. Through insurance and financial products, we help people protect their lives, protect their families, protect their kingdoms.

mutualofomaha.com

Product base plans, provisions, features and riders may not be available in all states and may vary by state.

Mutual of Omaha