AMW GROUP

EDUCATIONAL GUIDE · LIFE INSURANCE

Indexed Universal Life (IUL) Is It Right for You?

How IUL works, what sets it apart, and the client profile it serves best, so you can decide with confidence.

AT A GLANCE

IUL in Plain Terms

Indexed universal life (IUL) combines lifelong protection with cash value that is credited when the index rises and protected when it falls. It works best for high earners with a lasting need for permanent coverage, cash to fund it well for 15 years or more, and other tax-advantaged accounts already maxed.

An IUL policy is permanent life insurance with a cash value account. That cash value earns interest based on a stock market index, within a floor and a cap. You never own the index directly, so your gains are limited, but index losses are not passed through to you.

PROTECT

A permanent death benefit that, in most cases, passes income-tax-free to your beneficiaries.

POSITION

Cash value that grows tax-deferred and is credited from index gains, with a floor in down years.

GROW

Access to cash value through policy loans or withdrawals, often used to supplement retirement income.

HOW IT WORKS

Key Characteristics

Caps, crediting rates and charges vary by carrier, product and state.

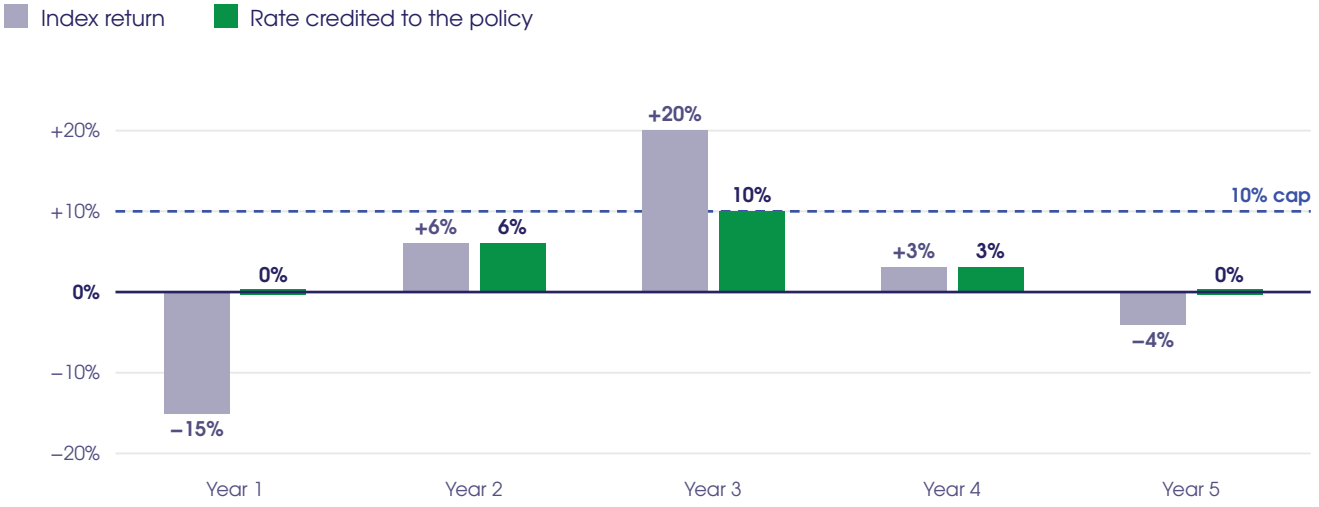
FEATURE	HOW IT WORKS	WHY IT MATTERS TO YOU
Death benefit	Permanent coverage for life while the policy stays funded; level or increasing options.	Generally passes income-tax-free to your beneficiaries.
Cash value	Builds from premiums, less insurance costs and fees.	You can access it through withdrawals or loans.
Index crediting	Interest follows an index's movement, usually over one-year segments. Stock dividends in the index aren't counted.	Market-linked growth without direct market exposure.
Floor and cap	The floor is a minimum credited rate, usually 0%. The cap is a maximum rate, set by the insurer and subject to change.	Index losses don't reduce your cash value, though fees still do; the cap limits your upside.
Participation rate	The share of index gain credited, for example 100% up to the cap.	Lower participation rates reduce the interest you earn.

FEATURE	HOW IT WORKS	WHY IT MATTERS TO YOU
Flexible premiums	Pay more or less within IRS limits, once minimums are met.	Flexibility, but underfunding can cause a lapse.
Tax treatment	Tax-deferred growth. Policy loans are generally not taxed while the policy stays in force and is not a modified endowment contract (MEC).	Can supplement retirement income.
Policy loans	Fixed, variable or indexed loans against cash value.	Loans compound and add lapse risk if not managed.
Riders	Optional add-ons, such as early access to part of the death benefit for a chronic or terminal illness.	Adds living benefits to lifelong coverage.
Costs	Cost of insurance (rises with age), premium loads and fees, plus surrender charges if you end the policy early.	Cash value builds slowly at first; a poor fit if you may need the money soon.
Guarantees	Few long-term guarantees. Illustrations are projections, not promises.	Results depend on insurer decisions and index returns.

HYPOTHETICAL EXAMPLE

The Cap and Floor at Work

Over five volatile years, $100 tracking the index would end near $107. With a 10% cap and a 0% floor, the policy is credited enough to end near $120, before fees. In a steady, strongly rising market the cap works the other way, and IUL would trail the index.



For illustration only; not a projection of any product. Assumes 100% participation and one-year crediting segments. Policy charges, which reduce cash value, are not shown.

REAL-WORLD USES

Where IUL Shines

Estate liquidity

A generally income-tax-free death benefit gives heirs cash for estate costs, so no home or business has to be sold in a rush.

Tax diversification in retirement

Policy loans can supplement retirement income and are generally not taxed if the policy stays in force and isn't a MEC.

A second look at existing policies

Caps and costs can change after you buy. We review whether your IUL policy is still on track and what it takes to keep it there.

Legacy and special-needs planning

Lifetime coverage can fund a trust for a dependent with special needs, or leave a gift to family or a cause you value.

IDEAL CLIENT PROFILE

Who IUL Fits Best

The strongest candidates match most of these traits, not just one.

TRAIT	IDEAL PROFILE	WHY IT MATTERS
Income	High and stable, often in a high tax bracket.	Tax advantages are worth more, and you can sustain strong funding.
Other savings	401(k) or 403(b), IRA or backdoor Roth, and HSA already maxed; emergency fund in place.	IUL works as an extra tax-advantaged bucket, not a replacement.
Insurance need	A lasting need for permanent coverage: estate liquidity, a special-needs dependent, business succession or a legacy.	Term insurance costs less for temporary needs.
Time horizon	15–20 years or more.	Early fees and surrender charges need time to be absorbed.
Cash flow	Surplus income to fund near the IRS maximum for years, without the policy becoming a MEC.	Underfunding is the main reason policies lapse.
Age and health	Ideally under 55 and in good health.	Lower insurance costs leave more money for cash value.
Risk tolerance	Conservative to moderate; you value a 0% floor over full market upside.	You accept capped returns in exchange for downside protection.

CONSIDER ALTERNATIVES

When IUL Isn't the Fit

- You aren't yet maxing retirement accounts, lack an emergency fund, or carry high-interest debt.
- You mainly need affordable income replacement; term insurance usually costs less.
- You may need the money within about 10 years.
- Your income is irregular or tight, so steady premiums would be hard.
- Your age or health would let insurance costs consume most of the premium.
- The main appeal is a high illustrated return or "tax-free retirement income."

KNOW BEFORE YOU COMMIT

Risks We Help You Manage

Every IUL policy carries real risks. Here is how we help you stay ahead of each one.

THE RISK	HOW WE HELP
Optimistic illustrations. Projections may assume crediting rates that real results don't reach.	We show you illustrations at conservative rates, not just the maximum allowed.
Insurer discretion. Caps, participation rates and some charges can change after purchase.	We compare insurers before you buy and review your policy every year.
Rising cost of insurance. Charges grow with age and can erode cash value later in life.	We structure funding with later costs in mind and track them at each review.
Underfunding. Minimum premiums can leave too little cash value to cover costs.	We set a target premium with you and flag any shortfall early.
Loan risk. Loans compound. If the policy lapses, gains can become taxable in one year.	We model loan income conservatively and monitor loan balances each year.
MEC status. Funding past IRS limits makes loans and withdrawals taxable, with a possible 10% penalty before age 59½.	We set premiums within IRS limits and track them as you fund the policy.
Complexity. Policies are hard to compare, and some designs favor death benefit over cash value.	We explain each design in plain language and compare options side by side.

WEIGH THE ALTERNATIVES

Compare Your Options

	TERM LIFE	WHOLE LIFE	UNIVERSAL LIFE	IUL
Coverage length	A set term of years	Lifetime, while premiums are paid	Lifetime, while the policy stays funded	Lifetime, while the policy stays funded
Premiums	Lowest to start; usually level for the term	Higher; fixed and level	Flexible, within limits	Flexible, within limits
Cash value	None	Guaranteed, steady growth; may earn dividends	Earns a declared rate, with a guaranteed minimum	Credited from index gains, within a cap and floor
Guarantees	Death benefit and premium for the term	Strongest: premium, cash value and death benefit	Minimum rate; some versions guarantee the death benefit	Fewer; results depend on funding, caps and charges
Attention needed	Low; review before the term ends	Low to moderate	Moderate; needs periodic review	Higher; needs a yearly review
Best for	Affordable protection for a set period	Lifelong coverage with certainty and predictability	Flexible lifelong coverage with rate-based growth	Lifelong coverage plus flexible, market-linked cash value

COME PREPARED

Before You Buy

Questions to ask

1. What happens to my policy if returns come in below the illustration?
2. What premium keeps my policy on track, and what happens if I pay less?
3. What does my policy guarantee if caps fall or costs rise?
4. What are the surrender charges, and how long do they last?
5. How do policy loans work, and could they cause my policy to end?
6. How will my policy be reviewed after I buy it?

HOW WE HELP

Let's Connect— We're Here to Help!

We help you weigh IUL against term, whole life and your other savings options, and we run illustrations at conservative rates so you see the full picture. Already own an IUL policy? We'll review whether it's still on track.

Needs assessment

We review your income, family, savings and goals to confirm whether permanent coverage fits.

Product recommendation

We compare IUL with the alternatives and design any policy for your priorities.

Policy management

We review your policy each year so caps, costs and loans stay on track.

SUITABILITY CHECKLIST

- ☐ Retirement and HSA accounts maxed
- ☐ 6+ months of expenses saved
- ☐ No high-interest debt
- ☐ A clear need for permanent coverage
- ☐ Can fund the target premium for 15+ years
- ☐ Comfortable with a cap and 0% floor
- ☐ Illustrations run at conservative rates
- ☐ Reviewed with your tax or legal advisor

YOUR NEXT STEP

Schedule your life insurance needs assessment with AMW Group.

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PROTECT. POSITION. GROW.

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