THE INDEXED UNIVERSAL LIFE CATCH

Equity Upside, With a Guarantee That You Won't Lose Your Money… Sounds Great, Right?

Indexed Universal Life (IUL), or indexed-linked Universal Life, is a type of permanent life insurance. However, unlike traditional Universal Life, the crediting rate — what your cash value in the policy earns — is typically tied to a market index, such as the S&P 500®.

Why It May Sound Like a Good Idea

On paper, IUL contracts look very attractive, because they appear to offer the upside potential of the equity markets along with downside protection — typically a minimum guaranteed crediting rate of 0% to 2%.

HOWEVER… There's a Catch!

IULs are complex and have a number of components that may limit your potential return, your flexibility, or both. The following chart uncovers some of these.

	Definition	*The Reality*
Limited Guarantees	IULs may have minimum guaranteed credit rates.	IULs typically have low or no guaranteed cash value. The potential for underfunding can result in policies that won't last to maturity.
Indexed Crediting	The interest credit you earn is typically linked to a stock market index, or a blend of indices. Clients are often enticed by the growth potential.	While participation in the market returns does provide some benefits, clients trade off significant upside potential. Moreover, returns typically exclude the impact of dividend earnings. And, perhaps most importantly, clients are shifting interest rate risk from the insurance carrier to the equity markets.
Performance Caps	Most IULs have a "cap" or, in other words, limit the amount of upside return you can earn in a given time period (typically 12%).	So if the market goes up by 20% in a given year, you'll only get 12%. And caps can move from year to year. *That's right — many caps move up or down — and some can be lowered to as low as 3%.*
Limited Liquidity	Some IULs offer greater upside potential, but limit your liquidity for 3 to 5 years.	You do not receive your full return until the end of the defined maturity segment which is typically a year or more. In other words, you have limited access to the cash and gains you may be earning.
Point-to-Point Crediting	IULs often credit interest based on two specific points in time, called a "point-to-point" method.	This makes your return linked to when you pay your premiums. Volatility in the market can have a dramatic impact on the amount you are credited. The crediting rate is highly dependent on the day or month when you purchased the policy.
Crediting Rate	The illustrated interest rate applied to the indexed accounts, typically at 7% to 8%, based on an arbitrary look back at historical returns.	The brochure may show a 7% or 8% interest crediting rate; however, the costs associated with an Indexed Universal Life policy are much higher than other life policies. Generally, a higher return is required on an IUL policy in order to provide the same benefit as a traditional permanent life policy funded at the same level.
The Illustration Game	Many companies illustrate high crediting rates based on historical returns averaged over 20 years or more and project that rate years into the future.	Like any illustration, what you see on an IUL proposal is hypothetical. The likelihood of the policy performing as illustrated is only as good as the probability of the market index — factoring in performance and caps — to match what you see on the illustration.

continued…

More on the IUL Illustration

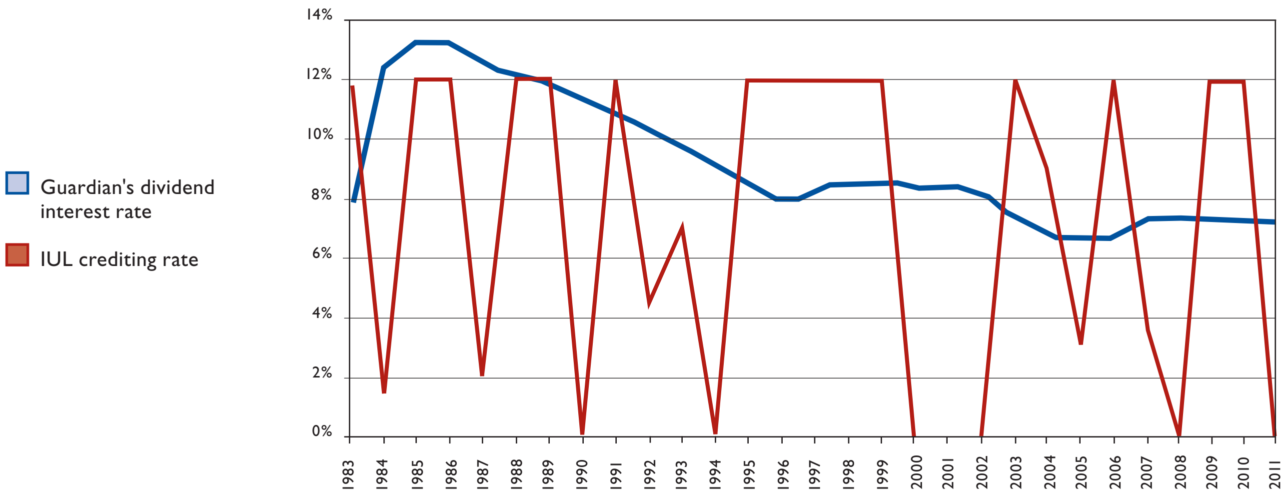
Life insurance illustrations can be hard to understand. The IUL illustration is no different — and in many cases, can be even more so. What you see on an IUL illustration has several moving parts, and is based on whatever criteria the illustrating carrier chooses.

The Floor. Like traditional Universal Life policies, IULs usually guarantee a crediting rate of 0% to 2%, meaning that you have a floor for your money.

The Volatility. Many companies illustrate long-term rates of return of 8% to 10% or more, but the actual returns vary greatly from year to year.

- Performance Caps for IULs are usually based on somewhat sophisticated investment structures, whereby insurers purchase options on select market indices. The amount of return the insurer can then pass along to their clients depends on how the market performs, and, just as importantly, how much the given options cost.

Because they are tied to the market, IULs inherently have a good deal of volatility. To demonstrate, the graph below depicts the annual returns of an S&P point-to-point index with a 12% crediting cap. Behind it is Guardian's historical dividend interest rate, which, as you can see, is much smoother.*



If It's Too Good to Be True. . .

Sound confusing? It is complex, and that's why you should fully understand IULs and your alternatives before you purchase your coverage. If you are concerned with guarantees and safety of principal, you may want to consider other permanent life insurance choices, such as Whole Life — which has guaranteed premiums and cash value growth — or traditional Universal Life.

Before you make a decision about IUL, have a conversation with your trusted Guardian representative today.

* Dividends are not guaranteed. They are declared annually by Guardian's Board of Directors.

GUARDIAN®

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Pub 4591 (01/12)
2012—0765