Impact of Low Interest Rates and Stock Market Volatility on Life Insurance Policy Performance

INTRODUCTION

Coronavirus has rocked the markets and global economy. The first quarter 2020 saw unprecedented stock market volatility and a Federal Funds Rate cut to near zero. Market volatility and interest rates can significantly impact the performance of life insurance policies.

This paper overviews the potential impact of recent developments when considering purchasing a new policy or managing an existing policy.

We will examine the impact on the industry, then by type of product.

Remember that potential negative effects discussed in this paper could be reversed by antithetical positive effects if conditions improve long term.

TOPICS

SECTION 1 IMPACT OF CURRENT ECONOMIC ENVIRONMENT ON LIFE INSURANCE COMPANIES AND POLICIES IN GENERAL

LIFE INSURANCE COMPANY FINANCIAL STRENGTH

ANALYSIS

The medium-to-long-term effects of coronavirus on life insurance carriers are yet to be known. Possible financial impacts include increased mortality, reduced yields, and pressure on guarantees. Possible short-term impacts include increased expenses and difficulty in issuing policies due to social distancing or unavailability of paramedical exams. The financial strength of the life insurance industry was solid as of year-end 2019. The industry has met its obligations for more than 200 years through challenges including prior pandemics. The financial crisis of 2008 resulted in increased regulatory oversight of the insurance industry and generally improved financial strength.

RECOMMENDATION

It is important to maintain a long-term perspective when making long-term financial plans. There is nothing in the current environment that suggests price, contract terms, guarantees, or your client's insurability will improve by delay. Proceeding with new policies to meet needs and "sticking to the plan" with existing policies avoids converting short-term concerns into long-term insurability or policy performance problems. Policies that are designed, funded and managed in alignment with objectives and risk tolerance become more important in uncertain times.

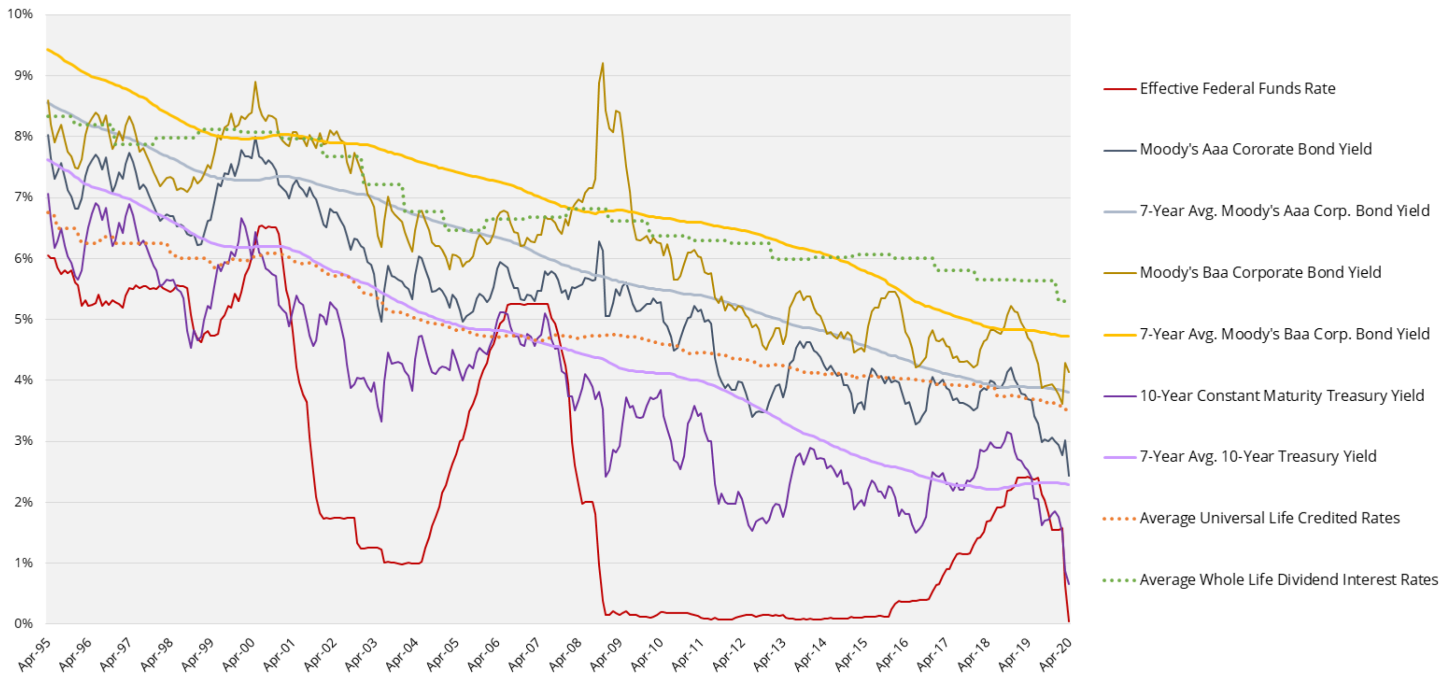
IMPACT OF LOW INTEREST RATES

Life insurance carriers invest premiums received, earnings from investments and bonds that mature into the General Account (GA). The GA is primarily invested in high-quality bonds and other fixed-income like investments, for example, commercial mortgages.

The yield on the GA is the primary driver of the interest credited to the policy either in the dividend interest rate (Whole Life) or interest crediting rate (Current Assumption Universal Life). It also provides a primary source of profitability through the margin, or spread, carriers keep in excess of credited interest. The spread contributes to the carrier's surplus and financial strength.

In low interest rate environments, new and maturing money is invested at reduced new money rates. This causes downward pressure on general account investment earnings. The amount of downward pressure depends on the difference between the general account yield and new money rates and on the amount of new money vs. existing general account assets. In times of rising rates, if new money rates exceed the GA yield, there is upward pressure on crediting rates. In both situations, there can be considerable lag time before the pressure causes a change in crediting rates. For example, a large existing GA portfolio with low sales and long-term investment maturities has less new money to invest and will feel the pressure less.

Historical Correlation of Interest Rates Over Past 25 Years



IMPACT OF STOCK MARKET VOLATILITY

Certain types of policies use investment options where policy performance is directly invested in the stock market (VUL discussed below) or is linked to the performance of designated stock market indices (IUL discussed below). For these types of policies, the policyholder takes on more of the investment risk and reward than products based solely on the General Account performance.

Market volatility, therefore, can impact the amount of premiums required to support the policy, death benefit growth, or withdrawal or policy loan disbursements, etc. Volatility can also impact elements unique to IUL, specifically the cost of options purchased to hedge the indexed crediting rates.

EFFECT ON POLICY AVAILABILITY

Low interest rates may not adversely affect the availability of Par WL, CAUL, UL or IUL. Carries will likely be continuing these types of policies. WL has higher premiums and the carrier can mitigate interest rate risk through the dividend. CAUL and IUL are flexible and quickly easily respond to the interest rate environment through adjustments to the non-guaranteed elements. VUL poses little investment risk to the carrier as it is passed all to the policyholder so VUL policy availability should not be adversely effected by market volatility.

However, carriers may change terms of new policies in price, guarantee periods, or may place limits on accepting premium payments in times of low investment yield to mitigate the adverse effect associated with investing larger amounts now at lower yields in their general accounts.

Because the carrier assumes all investment risk with UL-SG policies discussed below, and due to higher reserves required for the guarantee, some carriers may decide to increase premiums for new policies issued going forward or discontinue the sale of these policies for the time being. We have already seen a few carriers announce such new-issue price increases and one announce the discontinuance of 30-year level term. This is symptomatic of the pressure on policies with a secondary guarantee. VUL-SG policies may face similar upward pressure on guaranteed premiums, although to a lesser extent than UL-SG due to lesser pressure on reserves.

The following pages examine the impact of low interest rates and/or stock market volatility by type of product.

RETURN TO TOPICS

SECTION 2 IMPACT OF LOW INTEREST RATES AND STOCK MARKET VOLATILITY ON SPECIFIC POLICY TYPES

PARTICIPATING WHOLE LIFE (WL)

ANALYSIS — *Impacted predominantly by interest rate environment*

Par WL policies have guaranteed premiums, guaranteed death benefits and guaranteed cash values. The guarantees generally result in more expensive product at time of issue than a product without those guarantees. Par WL policies are eligible to receive dividends that allow the policy owner, at the carrier's discretion, to share in the carrier profitability if experience in mortality, investment yield or expense is better than the basis of the guarantees. The policy owner has the option to use dividends to purchase paid-up additions, increasing total cash value and death benefit greater than the guaranteed values.

IMPACT

- Most prominent carriers that sell Par WL today have been paying dividends every year for long periods.
- Dividend interest rates are correlated to the interest rate environment.
- When interest rates are declining, dividend interest rates applied to Par WL policies tend to follow, which has been the trend historically.
- We may continue to see further dividend interest rate declines until new money rates improve.
- It is too early to tell if coronavirus contributes to a measurable increase in insured population mortality or if the economic slowdown increases carrier expenses.
- **Effect on new Par WL policies:**
  - Carriers may reprice new policies with increased costs or reduced guarantees if their expectations of future investment or mortality performance has declined.
- **Effect of reduced future dividends on existing policies:**
  - Par WL guarantees cannot be changed for in-force policies, only newly issued policies.
  - Dividend changes do not affect the current total cash value if all premiums have been paid, only future.
  - Reductions in future dividends will negatively impact future total cash values and death benefit compared to prior projections but do not affect current or past dividends and values.
  - Premium offset, if dividends are so applied, may also be reduced which may increase out of pocket payments or lead to higher policy indebtedness due to automatic premium loans.

RECOMMENDATIONS

- If considering a new Par WL policy, it may be wise to act soon to eliminate the risk of a price increase.
- To illustrate future values or net premiums if conditions worsen or do not improve and to assess if the policy may achieve the owner's goals, request new or in-force illustrations at both the current and a reduced dividend interest rate assumption. A common approach for the latter is a reduction of at least 50-100 basis points (0.5%-1.0%).
- Request a no dividend illustration to see the projected guaranteed values as a worst-case scenario.

RETURN TO TOPICS

SECTION 2: IMPACT ON SPECIFIC POLICY TYPES

CURRENT ASSUMPTION UNIVERSAL LIFE (CAUL)

ANALYSIS — *Impacted predominantly by interest rate environment*

CAUL policies have guaranteed cost of insurance charges (COIs) and guaranteed crediting rates. Carriers can, and typically do, charge less than the guaranteed COIs and credit interest at a rate higher than the guaranteed crediting rate, referred to as current COI and current crediting rates. Current COIs and crediting rates are based on the carrier's then current expectations for future mortality, investment yield and expenses. Current rates can be adjusted, subject to the limits of the guarantees if actual experience is better or worse.

Premiums, which are flexible and not guaranteed, are deposited to the cash value from which policy charges are deducted and to which interest is credited. The current crediting rate (typically 2%-4% currently) is set by the carrier based on its net investment earnings (net of a profit margin), but not below the contractual minimum (typically 1%-2%). The non-guaranteed nature of the policy generally may result in a lower projected premium at the time of issue than Par WL. However, this upside comes with added risk. Planned premiums may become insufficient if current COIs increase or the crediting rate decreases relative to that which was used in establishing the planned premiums.

IMPACT

- Current crediting rates are correlated with the overall interest rate environment since they are dependent on the carrier's net investment earnings.
- When interest rates are declining, current crediting rates tend to follow with a lag, which has been the trend, historically.
- We may see crediting rate reductions, but not below the contractual minimum, until conditions improve.
- **Effect on new CAUL policies**
  - Interest rates impact the credited rate more than the cost of insurance charges. COIs are designed to be primarily based on mortality and expense assumptions.
  - New policies may be repriced if conditions don't improve with revisions to crediting rates, expenses charges, COIs, or guaranteed interest rates
- **Effect of reduced credited interest rates on recently issued existing policies**
  - Future cash values or death benefit accumulations may be reduced, a projected lapse age may occur earlier than planned or planned premium payments may need to increase.
  - If interest rates drop close to or below the guaranteed crediting rate, carriers may be forced to raise other non-guaranteed elements such as current COIs.

RECOMMENDATIONS

- It may be wise to acquire a new CAUL sooner, if being considered, to mitigate potential price increases.
- **Illustration considerations for new and in-force policies—**
  - Request illustrations at the current and a reduced crediting rate, a common approach is a reduction of at least 50-100 basis points (0.5%-1.0%). This helps show projected future values and required premiums and the extent to which the policy may achieve the owner's goals.
  - An illustration at the guaranteed crediting rate and current COI and expenses is more conservative, largely removing the interest rate risk, leaving only the COI and expense risk that could affect the outcome.

RETURN TO TOPICS

OLDER IN-FORCE CAUL POLICIES WITH HIGH GUARANTEED MINIMUM CREDITING RATES

ANALYSIS — *Impacted predominantly by interest rate environment*

Unlike the newer CAUL policies described above, some CAUL issued prior to the early 2000s had high guaranteed crediting rates (3%-6%). The high guaranteed interest is generally good for the client but a low interest rate environment, close to or below the current crediting rate, presents has unique challenges if the policy has other nonguaranteed elements (COIs and/or expenses).

IMPACT

- A primary source of revenue to a carrier is the expected spread between the investment earnings on the General Account and the current crediting rate.
- CAUL credited interest rates cannot be reduced below contractual guaranteed crediting rate.
- If the investment earning on the General Account falls close to or below the minimum credited rate of interest, a negative spread may occur.
- To remain financially strong and meet long-term obligations, carriers must maintain profitability.
- A negative spread may cause the carrier to adjust other non-guaranteed elements (COIs and/or expenses).
- This occurred in 2015-2016 where a few carriers increased COIs and/or expenses on some policies.
- The increased charges can significantly increase required premiums or cause a much sooner lapse, especially if the insured has reached an old age.

RECOMMENDATIONS

- If the carrier allows a mid-point option that reflects policy charges halfway between the current and guarantees, this can be helpful for reviewing the impact of higher-than-current charges.
- If the carrier does not allow this option, request an illustration at the guaranteed crediting rate and current non-guaranteed COIs at a minimum.
- Closely monitor correspondence from the issuing carrier for changes to non-guaranteed elements and make hasty adjustments to premiums if necessary.

INDEXED UNIVERSAL LIFE (IUL)

ANALYSIS — *Impacted by both the interest rate environment and by stock market volatility*

IUL policies are similar to CAUL policies with one difference. The credited rate is linked to the growth rate of a stock market index over specific time periods, typically 12 months, subject to a guaranteed minimum of 0%-1% and maximum based on a non-guaranteed cap or participation rate. IUL policies provide upside crediting rate potential with downside protection against market-based losses. The carrier uses the amount that would have otherwise been credited as fixed interest as a budget to buy equity call options (hedges) matching the market index over the specific time period. The cost of the hedges is called the options budget. This creates a rate of return profile that matches the index account parameters. IUL policies are designed to reduce premium or increase cash value accumulation compared to CAUL by assuming moderately higher interest rate risk and return potential.

There are two types of IUL policies (or indexed accounts within a policy) worth noting as it pertains to the impact of volatility:

- **Traditional IUL**—with normal policy charges only
- **Buy-Up IUL**—with additional investment-related asset-based charges charged against the account value (typically 1%-7.5%) that are used to buy up a higher participation or cap rate which increases the potential for cash value growth at the expense of more potential downside risk and volatility.

IMPACT

Impact of interest rate environment:

- IUL cap and participation rates are correlated to the overall interest rate environment since the primary source of the options budget is the carrier's net investment earnings on its assets.
- As carrier investment earnings decline, options budgets decline. This requires cap or participation rate reductions to align hedging costs with reduced options budgets, which has been the trend, historically.
- We may see further cap and participation rate compression until conditions improve at which point the trend may reverse.

Impact of stock market volatility:

- On cash value:
    - Volatility in market returns causes variability in the segment crediting rates applied within the range of the indexed account parameters
    - With Traditional IUL during a negative market return, the cash value will reduce only by the amount of the policy charges during that period.
    - With Buy-Up IUL during a negative market return, the cash value will reduce by a greater amount—the policy charges plus the asset-based charge for the Buy Up (more downside risk but also more growth potential with positive market return).
- On cap and participation rates
    - Expected (implied) stock market volatility generally increases the cost of individual options and may increase the cost of certain hedge packages (combination of options).
    - Traditional IUL capped accounts are generally less sensitive to increases in implied volatility due to the hedge consisting of both a long call option and short call option; the cost of short call offsets that of the long call.

—continues on next page—

INDEXED UNIVERSAL LIFE (IUL)

Impact of stock market volatility (cont'd.):

- "Volatility skew" may cause disproportion increases in implied volatility for options with strike prices equal to the current index price compared to those with higher strike prices, which could affect traditional capped account hedge costs.
- Several carriers have reported recently experiencing volatility skew in call options at higher strike price levels resulting in higher cap accounts possibly experiencing disproportionately greater hedging costs (more downward pressure, relatively) than lower cap accounts.
- Uncapped accounts are generally more sensitive to the increases in hedge costs attributable to implied volatility because the hedge consists of one long call option position without any offset to the cost from a short call as with capped accounts.
- Several carriers have recently announced reductions in the participation rates (or increases in the threshold rate at which 100% participation begins) for uncapped accounts and this trend may occur until market volatility normalizes.

RECOMMENDATIONS

- New policies may be repriced with upward pressure on COIs and expense loads and downward pressure on cap and participation rates. It may be wise to acquire a new IUL sooner to mitigate potentially higher costs.
- Review existing index account allocation selections and consider, to what extent possible or available, allocation some portion of upcoming new or renewing account value or premium segments to more aggressive accounts, such as those with no cap, a buy-up high cap or longer-than-one-year segment to capture additional return as the market recovers.
- **Illustration considerations for new and in-force policies:**
  - Credited interest rate assumptions in IUL illustrations are based on expectations of average future returns earned by the indexed account(s), which is predicated on assumptions for long-term stock market performance subject to the floor, cap and/or participation rates.
  - IUL illustrations can show only linear rates of return. Sequences of returns that simulate actual market-based performance year-to-year cannot be shown.
  - The illustrated rate of return also cannot exceed the regulatory maximum rate. The maximum rate is about 60% of the cap rate for accounts with a 0% floor and 100% participation rate
  - Request illustrations at the maximum allowable rate and reduced rates. A common approach is reductions of 10%, 20% and 30% (maximum multiplied by 90%, 80% and 70%).
  - This illustrates potential future values or required premiums, and the extent to which the policy may achieve the owner's goals under various hypothetical outcomes.

UNIVERSAL LIFE WITH SECONDARY GUARANTEES (UL-SG)

ANALYSIS — *Impacted predominantly by interest rate environment*

UL-SG policies are CAUL products with an extra guarantee. The extra guarantee is commonly referred to as a secondary or no-lapse guarantee (NLG). The UL-SG product has two account values. One operates the same as a CAUL cash value account. The other, the NLG account, is calculated based on guaranteed interest rates, COIs and expenses if it is positive, the policy is in force and death benefit guaranteed. This NLG account cannot be withdrawn or loaned against.

Typically, UL-SG policies are funded based on the minimum premium calculated to guarantee the NLG account remains positive to a specific date (e.g. $1 in NLG account vale at age 95). This is called the NLG premium. A UL-SG policy provides an NLG premium with similar guarantees as a Par WL premium but at a lower price and with little or no cash surrender value.

IMPACT

- If the NLG premium is paid as projected, the carrier assumes all mortality and investment risk during the NLG period. Also, the carrier must hold greater reserves for the NLG premium guarantee than a CAUL policy without this guarantee. For these reasons, UL-SG policies are sensitive to interest rate declines only with respect to the carrier's cost.
- If the policy has a cash surrender value, credited rates will follow declining interest rates, but most UL-SG policies are not funded at a level to produce meaningful cash surrender values.
- **Effect on existing UL-SG policies:**
  - If NLG premiums are paid, the contractual guarantees of a UL-SG will provide guaranteed coverage.
  - Any non-guaranteed cash value in UL-SG policies is likely small and crediting rate reductions will have minimal impact.
- **Effect on new UL-SG policies:**
  - If a carrier's expected investment earnings decline it may reduce NLG account guarantees which will cause an increase in NLG premiums (only for policies issued after such change).
  - Several carriers have already announced a repricing of new UL-SG policies and this trend may continue if conditions do not improve.
  - Short-pay and lump sum payment designs where the carrier receives and invests a greater amount at low current yields will be particularly impacted. Carriers may restrict or discourage this type of funding through further increased prices or premium limitations on new issues.

RECOMMENDATIONS

- It may be wise to acquire a new UL-SG sooner, if being considered, to mitigate potential price increases. This product line is likely to be one of the first impacted.
- The NLG period is dependent on the payments of specific premiums, in amount and timing. Monitor these policies closely to ensure premiums are paid correctly and on time.
- Some policies have catch up provisions if a premium is missed. Monitor these provisions closely.
- **Illustration considerations for new and in-force policies:**
  - Request in-force illustrations regularly to ensure there has been no shortening of the original planned guarantee duration resulting from deviations in the timing and amount of payments.
  - If payments have so deviated, request an in-force illustration solving for a new premium amount or catch up payment sufficient to maintain the guarantee to the desired age.

RETURN TO TOPICS

VARIABLE UNIVERSAL LIFE (VUL)

ANALYSIS — *Impacted predominantly by stock market volatility, interest rate environment somewhat*

VUL policies are very similar to CAUL in their design and mechanics. The significant difference is that CAUL cash values earn interest at the crediting rate determined by the carrier based on its General Account yield, and VUL policies have cash values that grow or decline based on the market returns in the mutual fund-like investments offered by the carrier in their separate accounts and with an asset allocation selected by the policyholder. Many VUL policies allow the policyholder to make an allocation to the Carrier's General Account. The analysis contained here focuses on allocations to the separate account. To the extent there is an allocation to any General Account options (or Indexed Account similar to IUL), the observations under the CAUL (or IUL) sections would apply to that portion of assets in those accounts.

CHARACTERISTIC	CAUL	IUL	VUL
Who makes policy investment decisions	Carrier	Carrier and policy owner	Policy owner
Assets backing policy invested in	General Account	General Account	Separate Account
Primary investment strategy	Fixed income and bond assets	Fixed income and bond assets with small portion in derivatives	Equity and fixed income mutual funds
Frequency with which credits typically applied to cash value	Fixed interest applied monthly based on carrier's declared credited rate	Indexed interest applied monthly up to annually based on index performance and carrier's declared cap and participation rates	Variable interest applied daily based on performance of selected investments
Frequency with which crediting rate elements typically determined	Credited rate reviewed and adjusted, if needed, quarterly or monthly	Cap and participation rates for new segments reviewed and adjusted, if needed, quarterly or monthly	Variable returns fluctuate daily
Guaranteed minimum crediting rate	Yes	Yes	No

VUL provides the highest long-term policyholder performance potential because the policyholder takes all investment risk and receives all the reward.

—continues on next page—

VARIABLE UNIVERSAL LIFE (VUL)

IMPACT

The impact of current market conditions occurs daily and directly reflects the market values of the funds chosen by the policyholder. The daily change in the policy's cash value can be positive or negative based on the underlying investment performance.

Effect on new VUL policies:

- Stock market volatility generally has little, if any, effect on the carriers offering VUL because market risk is taken by the policyowner. It is unlikely Carriers will need to change the prices for new policies due to market volatility

Effect on existing VUL policies:

- The monthly deductions attributable to mortality-based COIs charges are calculated by multiplying the COI rate at the attained age of the insured to the net amount at risk (NAR). The NAR is the difference between the death benefit and cash value.
- Declines in cash value can increase the NAR causing monthly policy charges to increase. This can further diminish the cash value. Because monthly deductions can increase with declines in market values, the impact on cash values can be more than the market decline amplifying the volatility.
- In increasing markets, the same mechanics apply with lower NAR reducing policy charges. In this case, upward market volatility can cause the cash value to grow more than the market.
- Summary: Market volatility, up or down, can have an amplified effect on VUL.
- If the premiums have been paid at higher amounts than are necessary to support the base policy death benefit a decline in cash value is less consequential as it pertains to the effect on monthly policy charges since there is some cushion in the cash values to absorb short term market volatility.
- If premiums have been paid at the minimum, negative market volatility can have a greater impact.

RECOMMENDATIONS

- For policies with high premium funding, ensure planned premiums continue to be paid during downturns to ensure adequate funding and the ability for the policy to withstand adverse volatility and to take full advantage of positive market volatility.
- For policies with lower premium funding, review projected premiums to ensure they are adequate for the policy to last long enough to make it through to, and benefit from, the recovery years and to help the policy gets back on track to achieve long-term objectives.
- Continuing or increasing planned premiums during a market downturn can improve long-term policy performance, when a recovery occurs, because premiums are invested at a low point—purchasing underlying assets at a discounted value.
- Investment allocations and reallocations must be continually managed and monitored to ensure continued adherence to the policyowner's risk tolerance and/or to reflect any changes in risk tolerance.
- Maintain a long-term perspective and remember that the recoveries have historically followed downturns have been more abundant, with losses more than offset by subsequent gains. But the gains occurred only if one stayed in the market and are maximized by investing more in a low market.
- **Illustration considerations for new and in-force policies:**
    - For illustrations, assume a rate of return that aligns with the policyowners risk tolerance and expectations of future market performance and run alternate scenarios with lesser rates of return to review to what extent the policy will meet its objectives under various hypothetical outcomes.

RETURN TO TOPICS

VARIABLE UNIVERSAL LIFE WITH SECONDARY GUARANTEES

ANALYSIS — *Impacted predominantly by interest rate environment:*

VUL-SG policies are similar to UL-SG policies as it pertains to the NLG account and NLG premiums. The primary difference is the cash value is invested in the carrier's separate account like VUL with investments fluctuate based on the daily market performance. Such cash value growth potential provides the potential for the net death benefit to increase long term with the assurance that the initial death benefit will be guaranteed regardless of market performance if NLG premiums are paid. It can alternatively provide a source of liquidity to the policy owner if needs change (accessing cash value may adversely affect the NLG).

IMPACT

- Because cash values are directly tied to market performance daily, the policyholder assumes all investment risk therein. Therefore, the policy's cash value performance is generally not sensitive to interest rates like other policies mentioned above. Fixed income mutual fund returns may obviously be so affected.
- If one of the investment options within the policy is the carrier's General Account (fixed account), and the policyholder elects to allocate assets to this account, the prior commentary for CAUL will apply to that portion of the cash value.
- While the carrier takes no investment risk as it relates to the cash value, it does assume all mortality and investment risk attributable to the ability of the monthly COI and expense deductions over time to meet the NLG premium and death benefit guarantees. The carrier must also reserve for this guarantee.
- **Effect on existing VUL-SG policies:**
  - NLG premiums on existing policies cannot be changed, similar to UL-SG.
  - In the unlikely event the cash value is allocated to the General Account, credited interest rate changes will impact policy performance similar to CAUL.
  - Allocation to equity or fixed income/bond funds, cash values will be impacted by equity and/or bond market performance.
- **Effect on new VUL-SG policies:**
  - Carriers may increase NLG prices for new VUL-SG policies to reflect lower investment earning and reflect a higher price for the No-Lapse Guarantee provided.

RECOMMENDATIONS

- It may be wise to acquire a new VUL-SG sooner, if being considered, to mitigate against potential price increases for the NLG premiums on new issues.
- **Illustration considerations for new and in-force policies:**
  - Request in-force illustrations regularly to ensure there has been no shortening of the original planned guarantee duration resulting from deviations in the timing and amount of payments.
  - If payments have so deviated, request an in-force illustration solving for a new premium amount or catch up payment sufficient to maintain the guarantee to the desired age.
  - If the NLG account falls to $0 the policy will remain in force if there is positive cash value, which is more likely to be realized than in UL-SG. It is important to review the non-guaranteed projected performance on this element as well.

RETURN TO TOPICS

SECTION 2: IMPACT ON SPECIFIC POLICY TYPES

SUMMARY

"Expect the best, plan for the worst, and prepare to be surprised"
—Dennis Waitley

Product Type	Impacted by	Primary Impacts	Recommendations
PAR WL	• Interest rates	• Dividend rate reductions with lag time	• Review and monitor long-term performance
CAUL NEWER	• Interest rates	• Fixed Account crediting rate reductions with lag time	• Review and monitor long-term performance
CAUL OLDER	• Interest rates	• Fixed Account crediting rate reductions with lag time or COI charge increases	• Review and monitor long-term performance
IUL	• Interest rates and stock market volatility	• Reduced cap rates and/or participation rates with lag time • Minimal to modest volatility in cash values • Fixed Account crediting rate reductions with lag time	• Review and monitor long-term performance • Review IUL segment allocation choices
UL-SG	• Interest rates	• Increased NLG premiums on new policies (existing policy NLG premiums unaffected)	• Buy new policy before any NLG price increase
VUL	• Stock market volatility • Interest rates somewhat	• Greater volatility in cash values • Crediting rate reductions in Fixed Account with lag time • Reduced cap rates and/or participation rates in Indexed Accounts, if any, with lag time	• Review and monitor long-term performance • Review variable investment allocation choices • Encourage increased funding
VUL-SG	• Interest rates	• Increased NLG premiums on new policies (existing policy NLG premiums unaffected)	• Buy new policy before any NLG price increase
	• Stock market volatility	• Greater volatility in cash values of existing policy (NLG premiums unaffected)	• Review variable investment allocation choices

RETURN TO TOPICS

ABOUT THE AUTHORS

Michael Fontanini, MT, CFP®, CLU® is Vice President, Advanced Sales and Design with Lion Street, Inc., a national network of fiercely independent life insurance and wealth management advisors. Michael specializes in developing sophisticated life insurance solutions to meet the sophisticated needs of high net worth and business owner clients of the 190 Lion Street Firms nationwide and manages a team of four advanced case design consultants. Prior to Lion Street, his background consists of diverse experience with several life insurance companies in the areas of personal financial planning, life insurance product development and advanced markets. Michael has earned a Master of Taxation (MT) Degree and Estate Planning Certificate through the Graduate Tax Program of Villanova University Charles Widger School of Law and Villanova School of Business, as well as the designations of Certified Financial Planner (CFP) and Chartered Life Underwriter (CLU). He is FINRA series 7 and 26 registered, a current member of the Wealth Transfer Committee and Estate Tax Working Group committee for the Association for Advanced Life Underwriting (AALU) and a former member of the Advanced Sales Committee for LIMRA. Michael is from Des Moines, IA and currently resides in Austin, TX.

Dan Byrne, FSA is the Principal of Sunriver Consulting LLC. Sunriver Consulting assists distributors and manufacturers of insurance products develop and implement growth strategies. Projects have included product development, relationship management, contract negotiation, business and marketing strategies, sales applications, and succession planning.

Dan Byrne is a Fellow of the Society of Actuaries and a Member of the American Academy of Actuaries and brings over 35 years of industry experience and success in working with distributors, carriers, reinsurers, technology providers, and investment advisers. He has been a frequent industry speaker at such events as Society of Actuaries meetings, Industry Conferences, AALU, and National and Regional Advisor Conferences.

Prior to starting Sunriver Consulting 2017, Dan spent 24 years at M Financial Group where he was the senior officer responsible for all aspects of M Financial's insurance strategy. Prior to M Financial, Dan spent 14 years at Sun Life of Canada where he was the Director of Product Development responsible for U.S. life insurance and annuity product development.

ABOUT LION STREET

Lion Street is a leading financial services company based in Austin, Texas. Lion Street provides our elite national network of Firms and financial professionals access to the financial products, intellectual capital, and specialized resources they need to meet the sophisticated needs of high-net-worth and corporate clients. To learn more about Lion Street, please visit www.lionstreet.com or connect with us on LinkedIn.

Variable life insurance is sold by prospectus. Please consider the investment objectives, risks, charges, expenses, and your need for death-benefit coverage carefully before investing. The prospectus, which contains this and other information about the variable life policy and the underlying investment options, can be obtained from your financial professional. Be sure to read the prospectus carefully before deciding whether to invest.

The investment return and principal value of the variable life policy are not guaranteed. Variable life sub-accounts fluctuate with changes in market conditions. The principal may be worth more or less than the original amount invested when the policy is surrendered.

Securities offered through Lion Street Financial, LLC, Member FINRA & SIPC. Lion Street Financial does not offer legal or tax advice. Please consult the appropriate professional regarding your individual circumstances.

LION STREET®

515 Congress Ave., 25th Floor - Suite 2500 | Austin, TX 78701 | (512) 776-8400

www.LionStreet.com