The VUL Timebomb Is About To Explode…

If you sold your client a VUL, you might have to lawyer-up.

If you're an advisor and you've sold your client a VUL, let me ask you a question. When's the last time you ran an in-force illustration to see how it's doing?

If you're like most advisors, it's been out of sight, out of mind… but we've found that over 73% of VULs are headed for early lapse and advisors have no idea.

Neither do clients.

We had an advisor introduce us to a client, hoping that there might be a premium financing opportunity. He was obviously very excited. This would be the first premium financing case of his career, as well as the biggest target premium he's ever written.

The first thing we did was ask to see in-force illustrations of all the policies the client owned to see if there was any cash value appropriate for a 1035 exchange.

The client was 73-years old and had a $4,000,000 VUL survivorship policy, paying $40,000 annual premiums. Although the policy had $582,114 of cash surrender value, when we reviewed the in-force illustration, the VUL policy was set to lapse early at age 91 even with ongoing premium payments continuing until the end.

The advisor had one of those *Oh Crap* moments when he realized that had he not met us, he would have kept the client in that VUL, not realizing it was destined to lapse.

In fact, the large majority of advisors we've met have clients they sold VULs to with good intentions, but the combination of mortality expenses, internal fees and volatility create an extremely high policy lapse potential.

Perhaps you have a client that you sold a VUL to with good intentions, but you haven't run an in-force illustration recently and stress-tested it under less-than-favorable market conditions.

You Might Have To Lawyer-Up…

Now, before you start hyperventilating (if you haven't already started), there is a solution. If you approach your client properly (which we can help you do), there will be no need to *lawyer-up* or freak out about getting hit with a big E&O claim.

Going to your client with bad news and begging them for forgiveness doesn't exactly cement your status as a brilliant advisor.

So what can you do?

A better (and honorable) thing to do is to introduce your client to the power of two valuable concepts that Lionsmark Capital specializes in:

1. The 0% Protective Floor
2. Non-Recourse Leverage

In fact, if we do this together properly, we'll create an even stronger bond between you and your client due to helping them multiply their wealth, reduce their outlay, and minimize their risk.

1035 Exchange Into A New IUL…

In this scenario, you can 1035 the existing cash surrender value into a new IUL. The 1035 funds can serve as the first-year premium.

In the ***Leveraged Index Arbitrage***^{TM} program, Lionsmark Capital will arrange a commitment from one of our lenders before the new policy is issued to begin lending in year-2 of the new policy. Typically, we will design the new policy to be a 7-pay, with the first-year premium being paid by the 1035 funds, and borrowed premiums being funded in years 2-7.

In this arrangement, our lenders do not require any collateral outside of the policy. The policy becomes the sole collateral.

No Collateral Requirements…

The reason our program doesn't require any outside collateral is that due to the first -year premium being paid by the 1035 funds, by the time the financed premiums begin, the policy's cash surrender value has been given a nice running head start.

"The advisor had one of those *Oh Crap* moments…"

The new policy is designed so that even if the IUL credits 0.00% in the first two years, the CSV will be greater than 105% of the principal loan balance. As long as this ratio is in place, our lenders will not require any additional collateral.

In addition, this ratio between policy CSV and the principal loan balance creates an environment where the premium loan documents do not require a personal guaranty, making the loan nonrecourse to the borrower. The sole recourse is the policy value.

What About Interest Payments?

The interest payments on the financed premiums are paid out-of-pocket by the client, and are typically designed to be similar to the premium payments they were previously paying on their VUL policy.

In some cases, the client may wish to have the new policy owned by a pass-through entity (ie: S-Corp or LLC) with the intention of deriving some additional potential tax benefits due to IRC Section 264(d)(4).

In such scenarios, often times the net outlay is actually less in the ***Leveraged Index Arbitrage***^{TM} program.

In the scenario we mentioned earlier, the in-force VUL policy was speculated to lapse at age 91, whereas in the ***Leveraged Index Arbitrage***^{TM} program, 1035ing the existing $582,114 into a new IUL – and financing $220,984 per year in years 2-7 – resulted in a policy that lasted until age 120, run at a mere 5.73% annual policy credit.

Got VULs?

If you have a client with a VUL policy, here's what we recommend doing:

1. Run an in-force illustration at a reasonable policy crediting rate to see if it is in danger of lapsing.
2. Have Lionsmark Capital run a stress-test using our five 40-year lookback scenarios to see how the VUL will perform under different market conditions.
3. Compare these stress-tested models to the ***Leveraged Index Arbitrage***^{TM} program, 1035ing the existing CSV, and showing financed premiums in an amount that would result in interest payments in amounts similar to the VUL premium payments.

Once you see these comparisons, not only can you put your client in a more efficient life insurance strategy, but you may potentially be saving them (and yourself) for a devasting policy lapse in the future.

Oh yeah, one more thing…

As the agent, you get to make another first-year 6-figure commission, not that you would be interested in something like that. ☺

For more information, contact us at:

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Lionsmark Capital is a premium financing intermediary and has unique software that can back-test, stress-test and model IUL performance using historical index returns that includes volatility and poor sequence of returns. Their headquarters is located in Irvine, California with operations in Chicago, Illinois and Orlando, Florida.