# White Board Presentations:

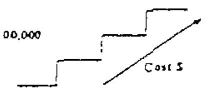
## *VUL Full Presentation*

American Express Financial Advisors
D.O. 039 Sarasota, FL
1998

Order of Presentations:

1. Three Types of Insurance (Z)
2. Mutual Funds and Life Insurance (T)
3. VUL Policy Circle (O)
4. Tax Triangle (▲)

Term
Temporary
Cheap
Renting
1 - 2%




Term
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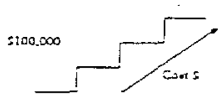
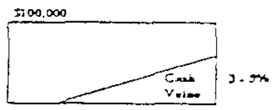



Whole Life
Permanent
Cash Value
Inflexible

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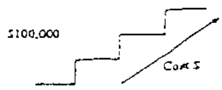


Whole Life
Permanent
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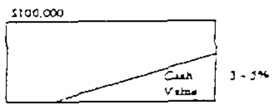
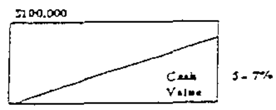
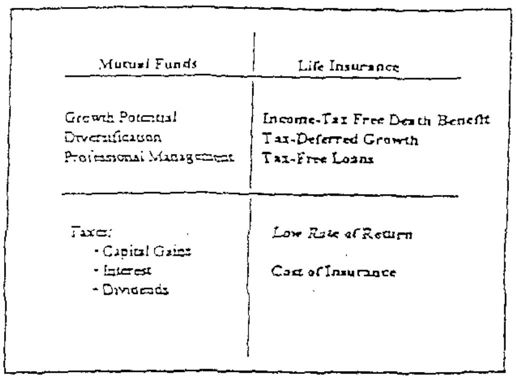


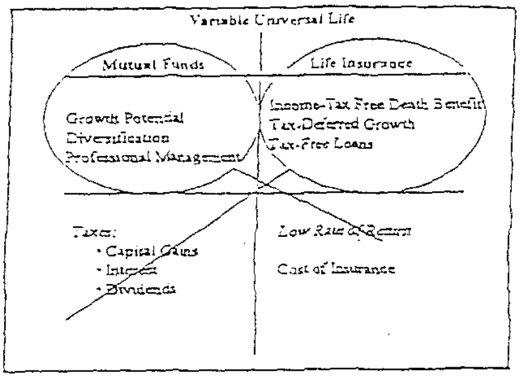

Universal Life
Permanent
Cash Value
Flexible




| Mutual Funds | Life Insurance |
|---|---|
| | |

| Mutual Funds | Life Insurance |
|---|---|
| Growth Potential<br>Diversification<br>Professional Management | |
| Taxes:<br>• Capital Gains<br>• Interest<br>• Dividends | |


Mutual Funds
Life Insurance
Growth Potential
Diversification
Professional Management
Income-Tax Free Death Benefit
Tax-Deferred Growth
Tax-Free Loans
Taxes:
• Capital Gains
• Interest
• Dividends
Low Rate of Return
Cost of Insurance


Variable Universal Life
Mutual Funds
Life Insurance
Growth Potential
Diversification
Professional Management
Income-Tax Free Death Benefit
Tax-Deferred Growth
Tax-Free Loans
Taxes:
• Capital Gains
• Interest
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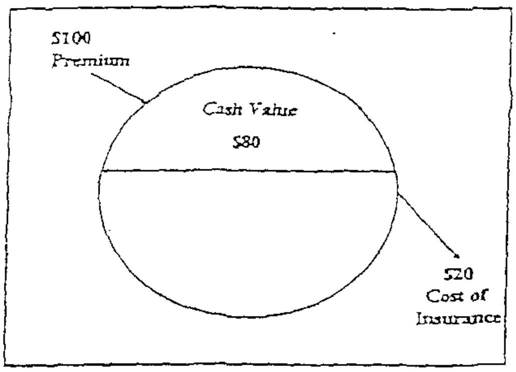
Low Rate of Return
Cost of Insurance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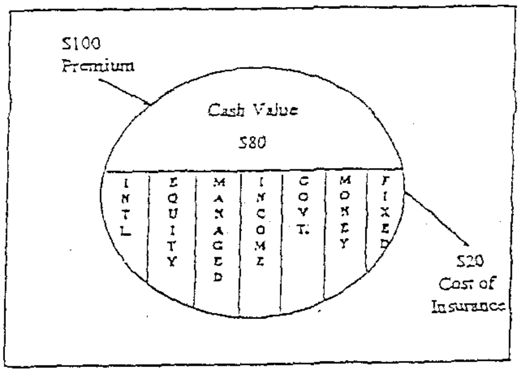
Premium
Cash Value
$80
$20
Cost of
Insurance


$100
Premium
Cash Value
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MANAGED
INCOME
GOV'T.
MONEY
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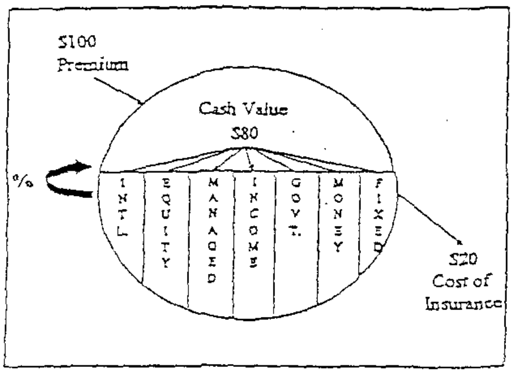
$20
Cost of
Insurance


$100
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MONEY
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$20
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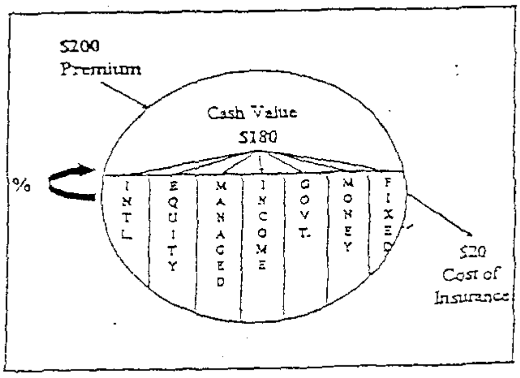
$200
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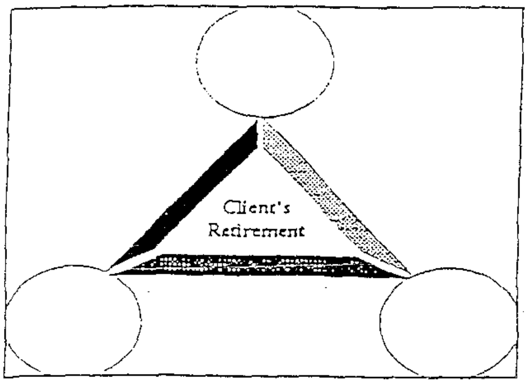
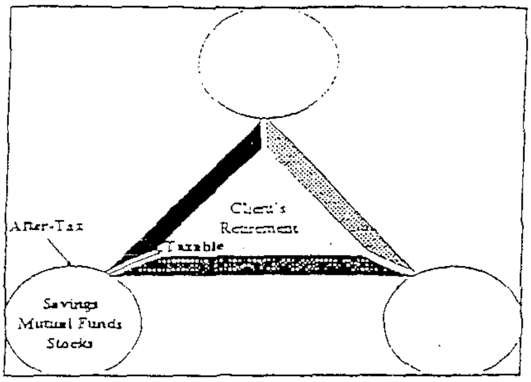
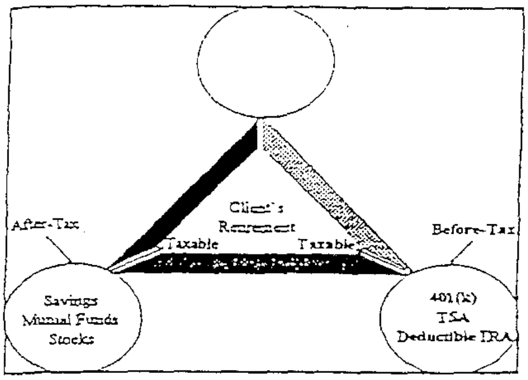

Client's
Retirement


After-Tax
Taxable
Client's
Retirement
Savings
Mutual Funds
Stocks


After-Tax
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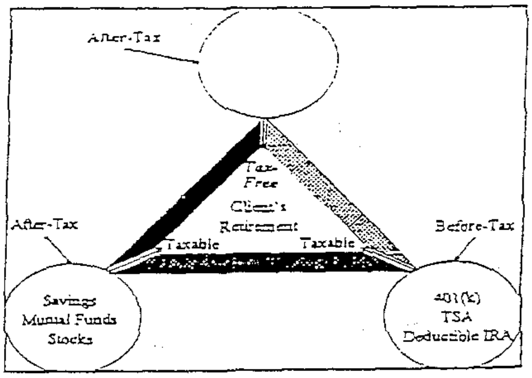
Taxable
Taxable
Before-Tax
Savings
Mutual Funds
Stocks
401(k)
TSA
Deductible IRA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After-Tax
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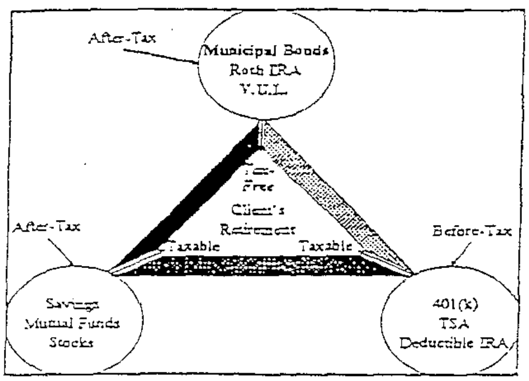
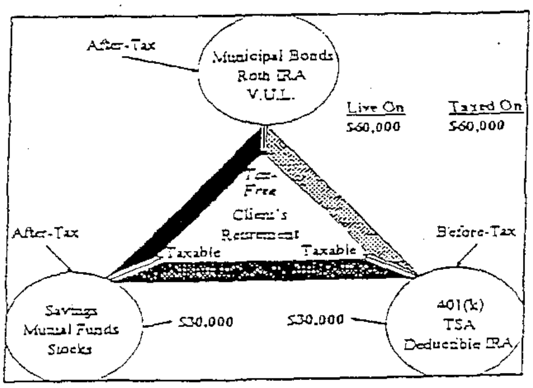
Before-Tax
Savings
Mutual Funds
Stocks
401(k)
TSA
Deductible IRA


After-Tax
Municipal Bonds
Roth IRA
V.U.L.
Tax-
Free
Client's
Retirement
After-Tax
Taxable
Taxable
Before-Tax
Savings
Mutual Funds
Stocks
401(k)
TSA
Deductible IRA


After-Tax
Municipal Bonds
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V.U.L.
Live On
$60,000
Taxed On
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Tax-
Free
Client's
Retirement
After-Tax
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Mutual Funds
Stocks
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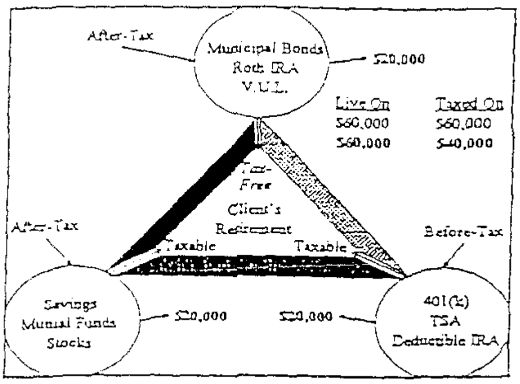
401(k)
TSA
Deductible IRA


After-Tax
Municipal Bonds
Roth IRA
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Taxed On
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Client's
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Order of Presentations:

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## INTRODUCTION

The full Variable Universal Life (VUL) presentation should be used to explain the product to a client/prospect. Of course, you will need to use this if you will propose the VUL in your recommendations. Mo~~st of the time~~, this presentation is shown in the Data Gathering / Strategy Meeting due to its length and complexity. It could be done at any of the three meetings, however, depending upon the situation. The VUL presentation ~~has four main~~ components. The ~~order is important to provide~~ clarity. You can also use the different pieces of this ~~presentation~~ to answer specific questions of the client, or to focus on another product (e.g., LP+, Roth IRA, etc.). Please al~~so remember to provide~~ full disclosure to the client and give them a prospectus for the VUL.

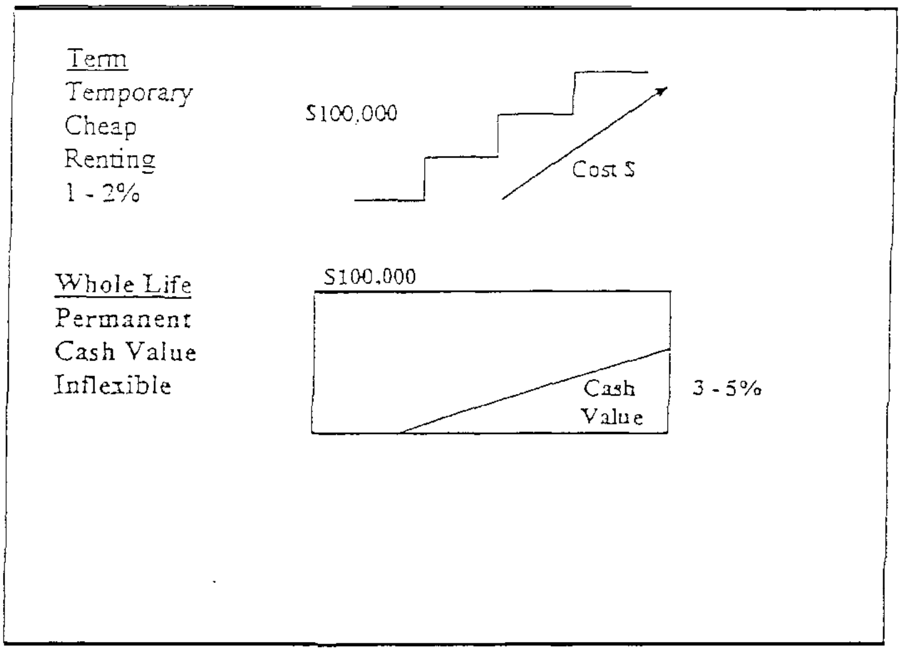
It is also important to stress this presentation as a *strategy* and as a means to demonstrate *your* expertise.

Term
Temporary
Cheap
Renting
1 - 2%


You begin the presentation usually when discussing insurance. Try to use a client's question to begin.

"That's an excellent question. Insurance can be complicated, and few people know of all of the different types that are out there. People buy insurance for two main reasons: to provide and/or to protect.

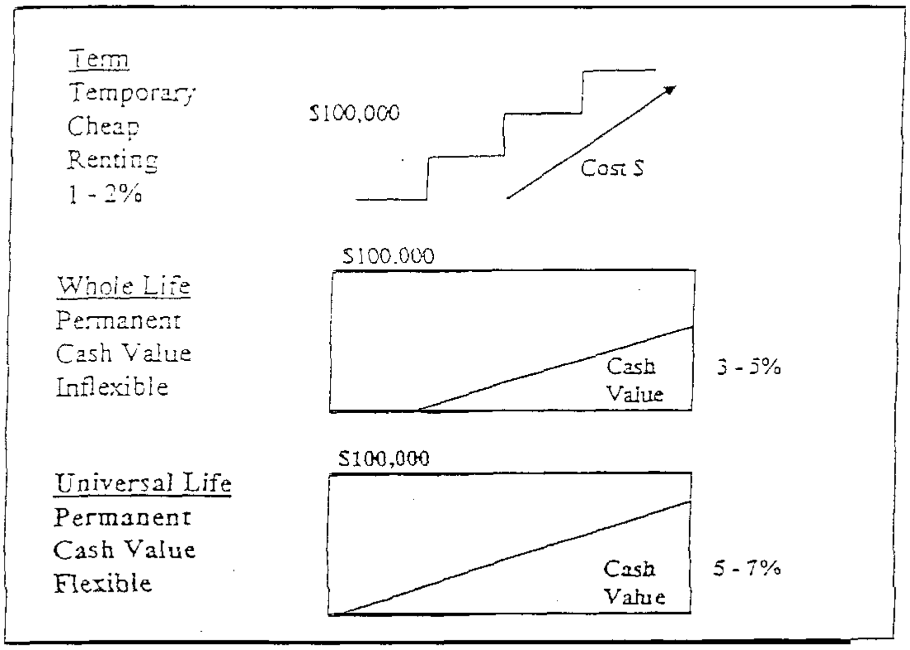
"The first type of insurance that was created is called *Term* insurance. Term is *Temporary* in nature, and people buy it because it is *Cheap*. If you think about it, it is very similar to *Renting*. You buy the insurance and pay a level premium for a specified time period. After that time period is over, you have to pay more in premiums to maintain the same benefit. You may also have to re-prove insurability. Over a person's lifetime, the *Cost* becomes extremely high, and most people drop the coverage because it is too expensive. Therefore, only about *1-2%* of these policies ever distribute a death benefit.




"The industry then created a policy called *Whole Life*. Whole life is *Permanent* rather ~~than temporary~~. In other words, you pay a single premium for a level death benefit over your entire lifetime. Whole life also created a type ~~of savings account~~, or *Cash Value*, within the policy. Let me show you how this works…" (Draw, use example D.B. and premium…)

"The cash value typically begins to grow after three years, and will continue to grow over time. It grows tax-deferred, and currently provides about *3-5%* growth on this money. You can also take tax-free loans against this policy." (Explain more as needed based upon questions, etc.)

"One of the problems with whole life, however, is that it is very inflexible. You usually cannot change the death benefit or premiums unless you purchase a completely new policy."




"So, to combat this inflexibility, the industry created a policy called *Universal Life*. Universal life is similar to whole life in that it is *Permanent* and also provides a *Cash Value*. But it differs because it is *Flexible*. Let me show you how this works..." (Draw and use same D.B. as before.)

"The cash value typically begins to grow sooner, usually after three months. It also grows at a little bit higher rate of return, *5-7%* currently. This growth is tax-deferred as well.

"The policy is flexible because you may change the death benefit and premium under certain minimums and maximums to fit your needs. This can usually be done without re-proving insurability.

"Have you ever heard the expression 'Buy term and invest the difference'?" (See next slide before erase board.)

| Mutual Funds | Life Insurance |
| --- | --- |

"It is a catch phrase in the industry that simply means to buy term insurance early in life when it is cheap, and invest the difference. If you were to invest the difference in a tax-deferred vehicle for a long period of time, wouldn't you want to gain a higher rate of return than 3-5% or 5-7%? And if you were to do that, what type of investment would you most likely use?" (Try to lead them to answer mutual funds. Erase board and continue with T-chart.)

"Yes, exactly. Mutual funds usually are a good source for higher growth. Let's compare *Mutual Funds* to *Life Insurance*.

"Both mutual funds and life insurance have advantages and disadvantages. Can you think of some of the advantages to mutual funds." (Interact with client in order to gain appropriate answers.)

| Mutual Funds | Life Insurance |
| --- | --- |
| Growth Potential<br>Diversification<br>Professional Management | |
| Taxes:<br>• Capital Gains<br>• Interest<br>• Dividends | |

"Mutual funds have three main advantages. They have a very good *Growth Potential*, especially recently... They also provide the investor with *Diversification* in order to optimize their return." (You may want to tie this back to your mutual fund windows presentation.)

"And they have *Professional Management* overlooking the fund in order to maintain that diversification and the overall objective of the fund.

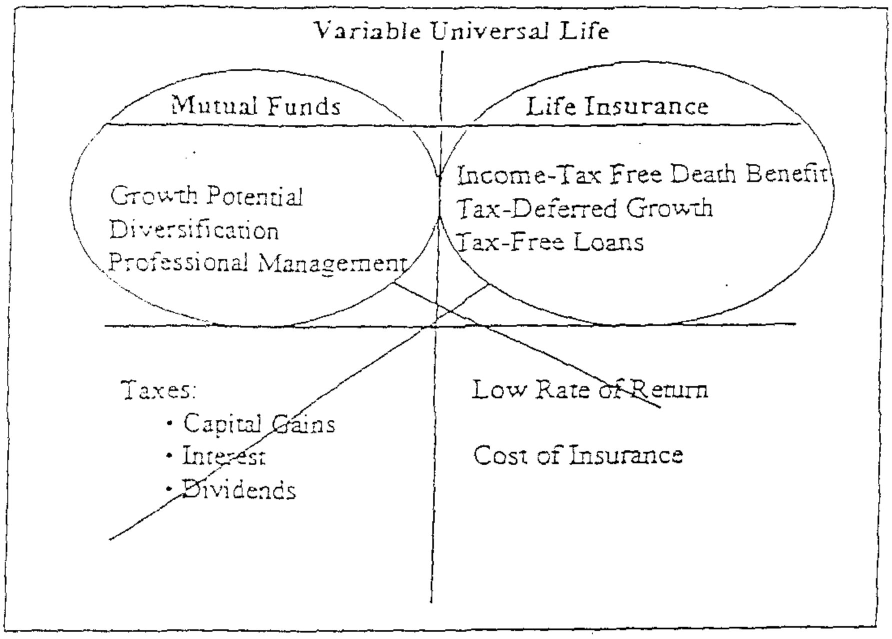
"There are also, however, three main disadvantages to mutual funds. These are the *Taxes* involved with them. You can be taxed in three ways with a mutual fund: through *Capital Gains*, *Interest*, and *Dividends*." (Explain more as needed.)

| Mutual Funds | Life Insurance |
|---|---|
| Growth Potential<br>Diversification<br>Professional Management | Income-Tax Free Death Benefit<br>Tax-Deferred Growth<br>Tax-Free Loans |
| Taxes:<br>• Capital Gains<br>• Interest<br>• Dividends | Low Rate of Return<br><br>Cost of Insurance |

"On the other side is life insurance. Like mutual funds, life insurance has three main advantages.

"These are the *Income-Tax Free Death Benefit* that your beneficiaries receive, the *Tax-Deferred Growth* of your cash value, and the possibility of *Tax-Free Loans* against the cash value as long as the policy stays in force." (Explain more as needed.)

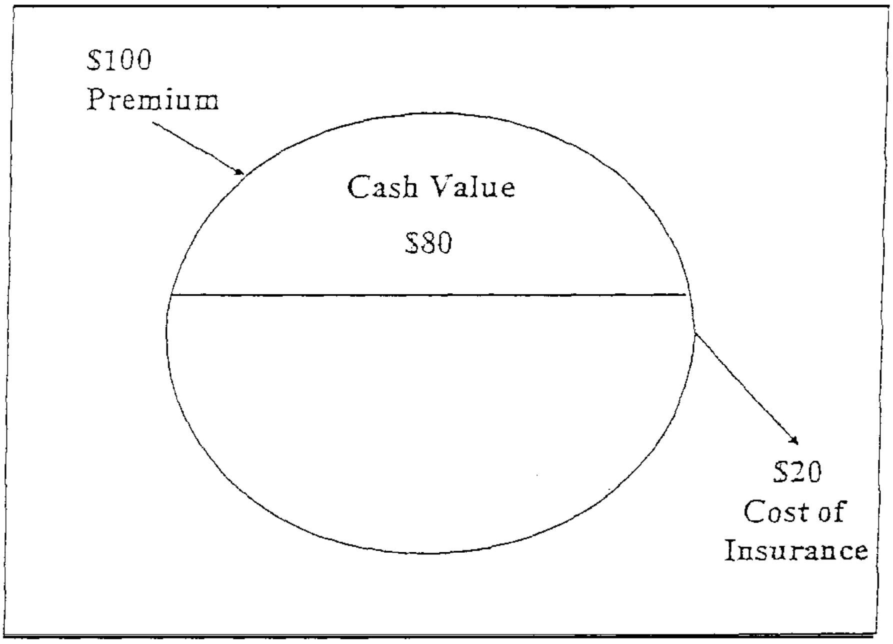
"The main disadvantages to life insurance are the *Low Rate of Return* that the cash value earns, and the *Cost of Insurance*, which pays for the specified death benefit and other expenses." (Again, explain more as needed.)




"So after taking a look at this scenario, the industry wanted to find a way to take the advantages of life insurance and use them to offset the taxes of mutual funds." (Circle life insurance advantages and cross out disadvantages of mutual funds.)

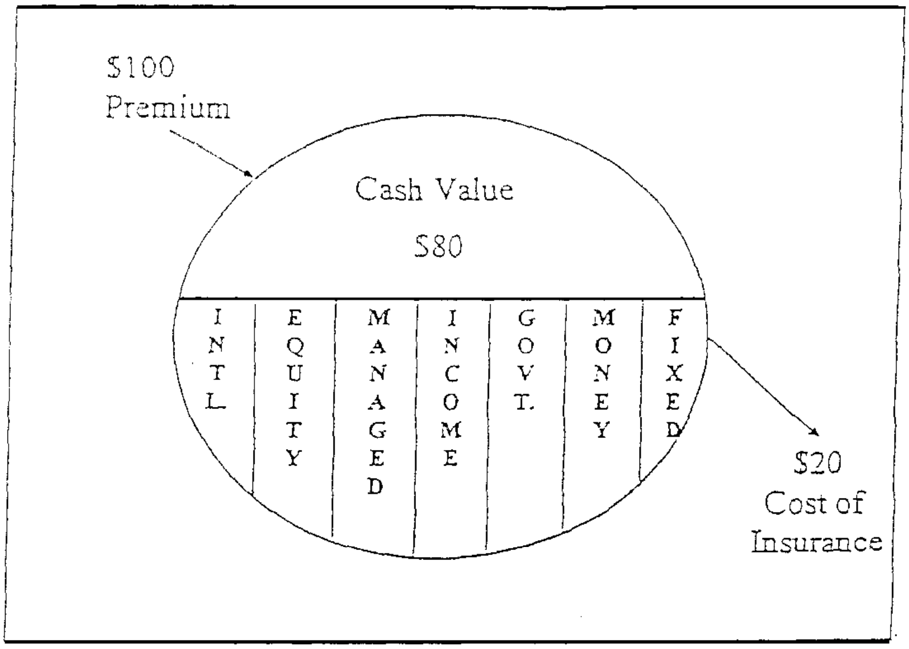
"And take the advantages of mutual funds to offset the low rate of return on the life insurance cash value." (Circle mutual funds advantages and cross out only the low rate of return part on life insurance disadvantages.)

"Well, they accomplished this strategy by creating a policy called the *Variable Universal Life* policy. It is a life insurance policy composed of mutual funds in its cash value. This product is very unique, and I have the privilege of offering it to you because I am specially licensed in both securities and insurance. Not everyone can offer this to you, and we need to figure out if it is appropriate for your situation."




"If it does work in your situation, let me show you how it works." (Draw circle with line.)

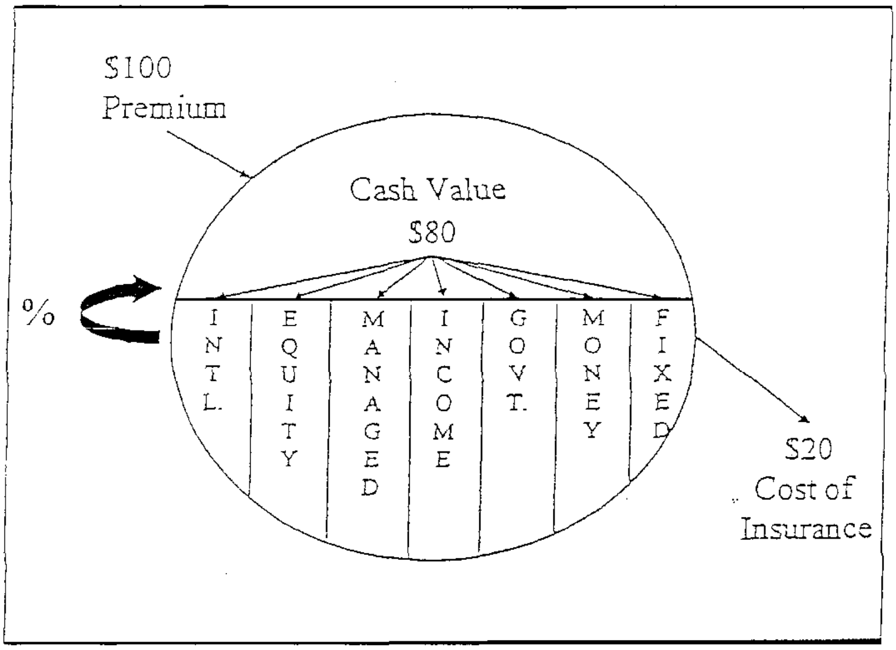
"Let's say that you want to pay *$100* per month into your VUL. We call this a premium because it is inside the life insurance. Out of the $100, let's say, for example, that *$20* comes out for your cost of insurance. That leaves you with *$80* of *Cash Value* to invest."




"The VUL has seven different sub-accounts that you may choose from. And inside these sub-accounts are mutual funds." (List seven sub-accounts in order shown. The ~~order represents~~ least risky on the right to most risky on the left. An easy reminder to the order is FM GIME I.)

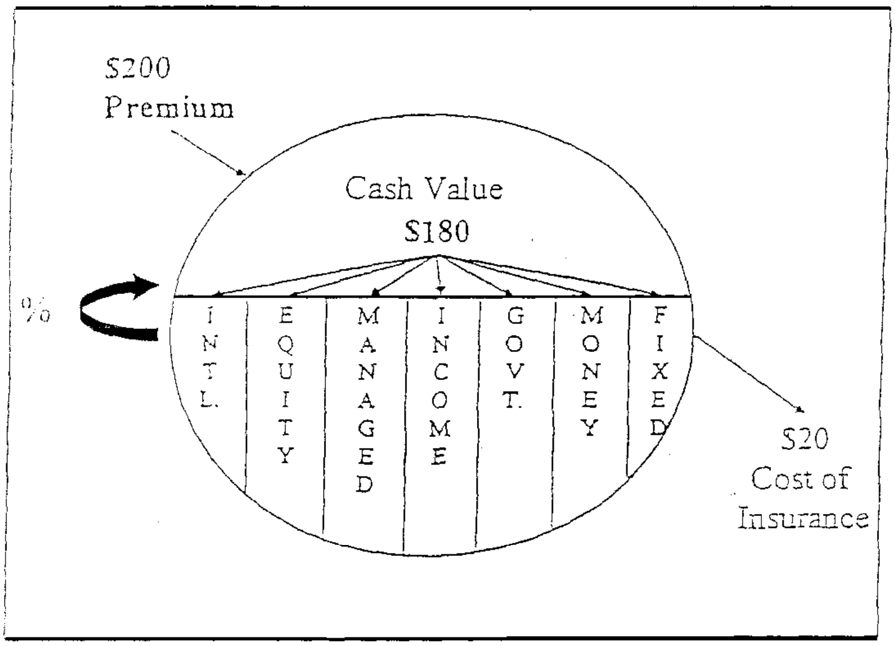
(Then, explain what each sub-account represents in terms of investment strategy.)

"You can choose to invest your cash value into any of these sub-accounts. Also, this provides for what we call a 'tax-free playground.' In other words, you can move among these funds without any tax consequences because it is inside the life insurance policy. The money grows tax-deferred as well."




"What we want to do is to invest your money into the different sub-accounts in a diversified manner." (Talk about using either their Asset Allocation or Model Portfolio.)

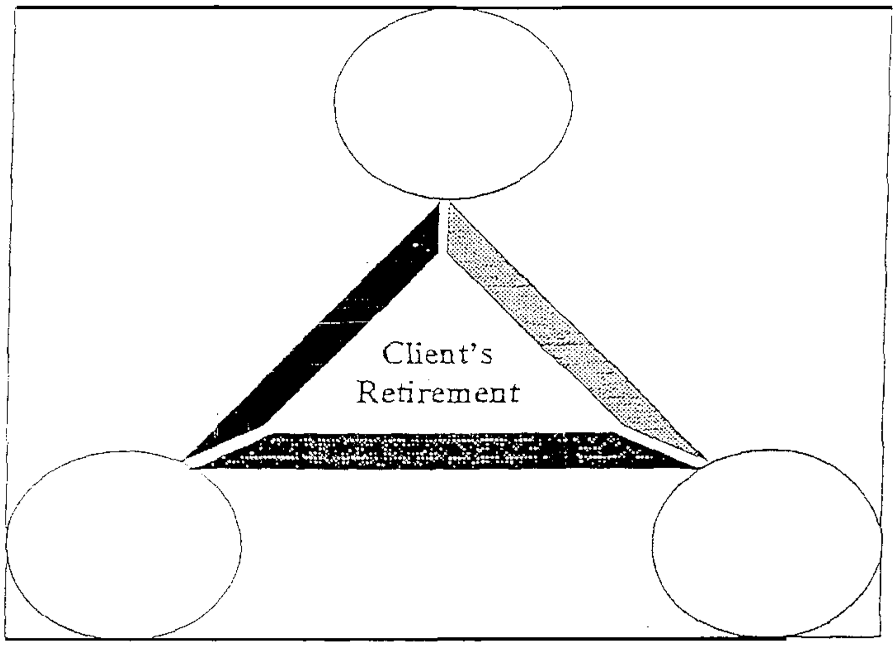
"Then, the growth that the funds provide gets invested back into the cash value, which then is re-distributed among your funds. We also use the fixed account to hold the dollars you need each month to pay for your cost of insurance. The rest is invested as you decide."




"Another benefit to this policy is that it is flexible, as the universal part of the name implies. In other words, let's say that you want to increase your premium to *$200* per month from the original $100.

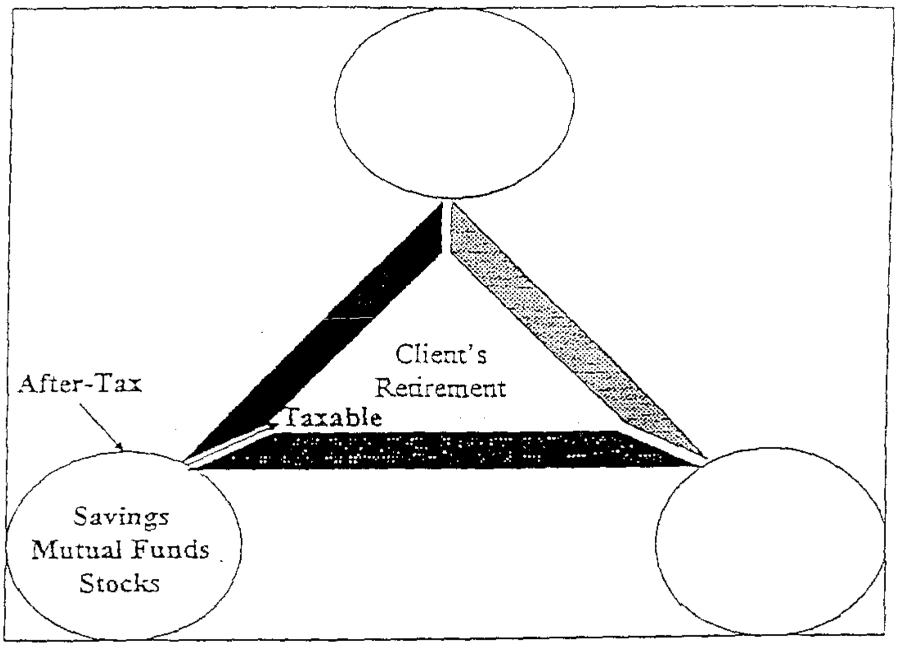
"As long as the death benefit stays the same, the same $20 comes out for the cost of insurance. This will then leave you with *$180* in your cash value to invest. You can do this under certain minimums and maximums, which we will go over later.

"As I mentioned earlier, we will have to determine if the VUL will work in your situation. But if it does, let me show you how it fits into your entire financial picture."



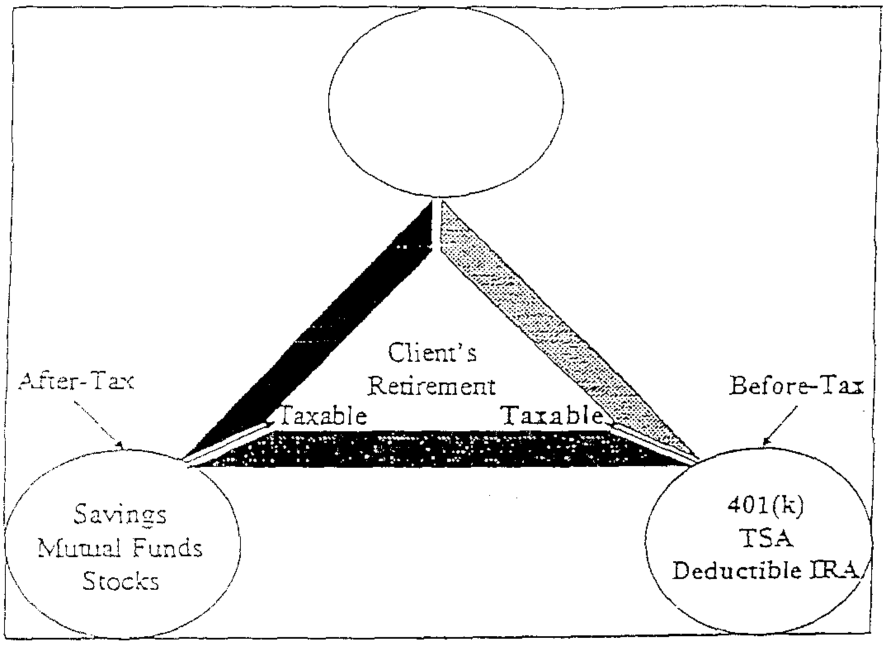

(You may have already shown the tax triangle to your client/prospect. If so, use it to recap and re-emphasize by replacing the Specially Designed Life Insurance (SDLI) piece with the VUL. Also, when using the tax triangle, try to use investment vehicles that you know the client either currently has or has prior experience with.)

"Your finances in retirement look like this... You have three pots of money from which to pull dollars for retirement income."



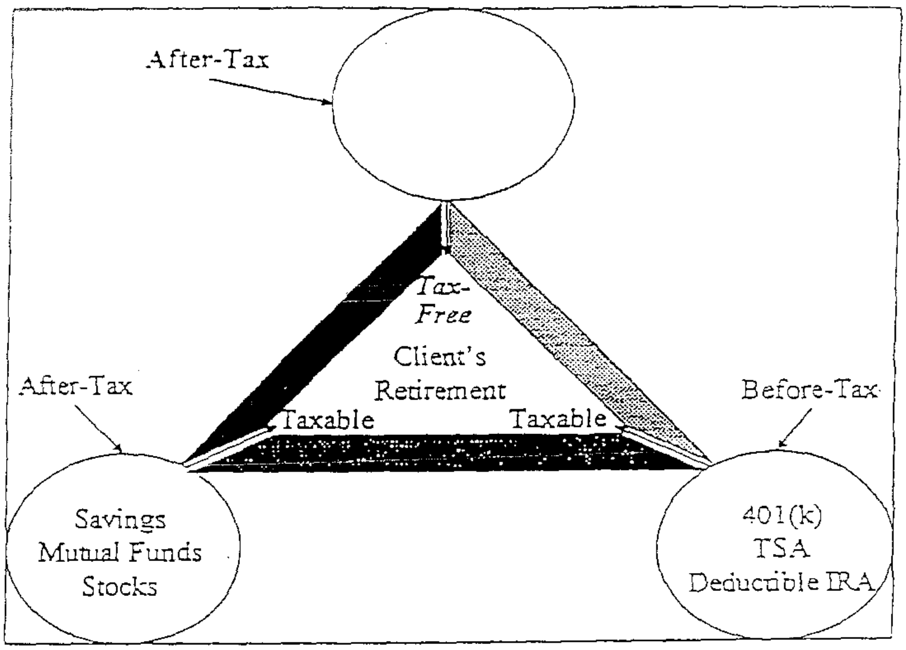

"The first pot of money is from *After-Tax* dollars that you put in. These are investments like your *Savings*, regular *Mutual Funds*, and those *Stocks* you hold." (Again, use what's appropriate for client.)

"When you go to pull this money out for retirement, the growth is *Taxable* to you. This is in the form of capital gains, interest, and dividends." (Answer questions and explain more as needed.)



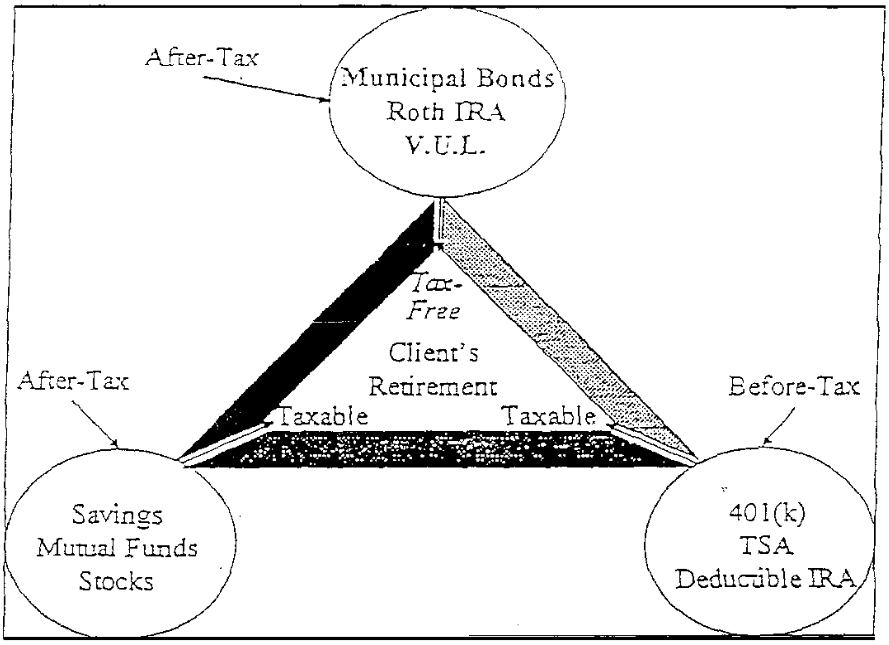

"The second pot of money is funded with *Before-Tax* dollars. These usually come from money that is deducted right out of your paycheck, like a *401(k)* or a *TSA*. Also, your *Deductible IRA* is in this pot because you deduct it from your taxable income at the end of the year." (Again, answer questions and explain more as needed.)

"When you pull this money out for retirement, it is fully *Taxable* to you. This is because you did not pay taxes on the initial money you put in, therefore the government will want you to pay taxes when you do use it."




"There is a third pot of money that we will want to look at for your situation. This is where you can put in *After-Tax* dollars to fund it, and when you pull the money out for retirement, it is *Tax-Free*.

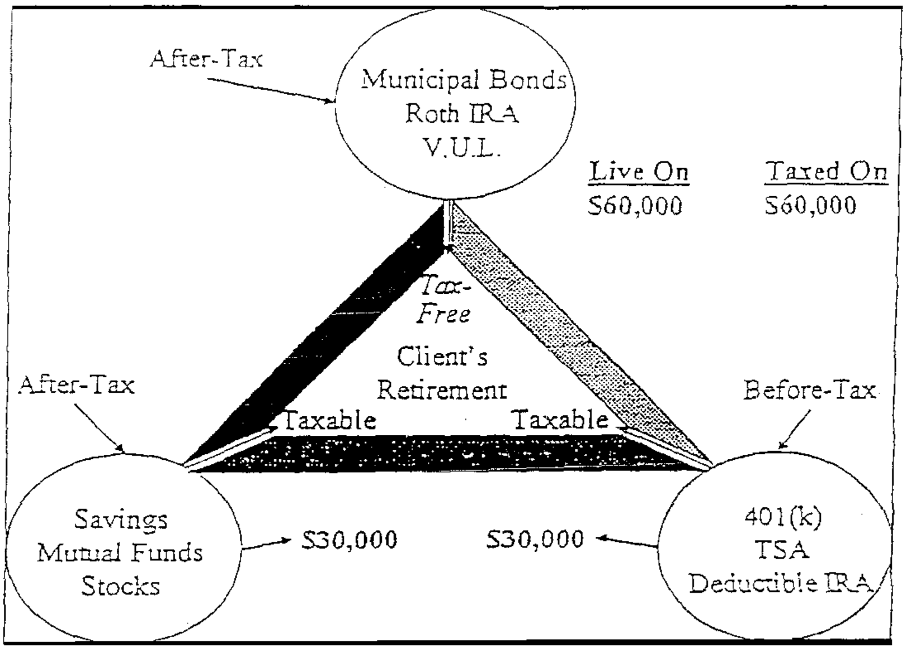
"We will need to use this third pot as a supplement to your retirement income."




"One traditional investment that belongs in this pot is *Municipal Bonds*. Are you familiar with these?" (Explain them.) "They usually provide a low rate of interest, and are usually only beneficial for people in the highest tax brackets.

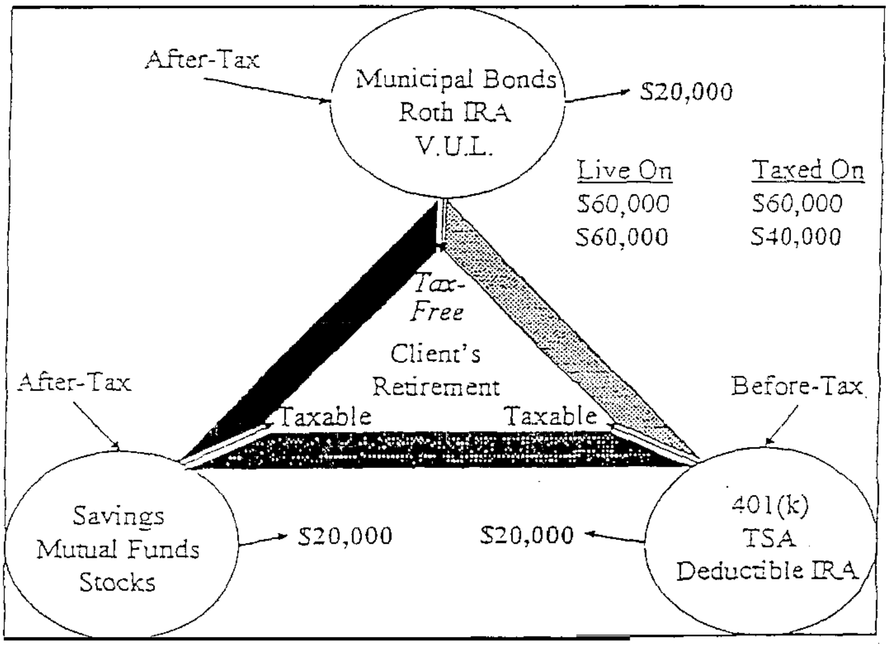
"One relatively new vehicle that is included is the *Roth IRA*. This is the entire ~~concept of the~~ Roth…" (Explain more as needed, can talk about ~~credit-proofing~~ status, contribution limitations, converting current IRA, and answer any other questions. You can use this here to sell both the idea of the Roth and VUL!)

"And, of course, this is where the *VUL* policy fits into your retirement. You fund the policy with after-tax dollars, and take out dollars that are tax-free to you. We do this by first surrendering your cost basis and then by switching to loans." (Explain more as needed, can use analogy of a bank/mortgage loan to explain tax-free nature of loans.)




"We want to thus diversify you in your tax situation just as we would with your investments. Let me use an example to demonstrate..." (You could also use the amount they said they would like to have in retirement.)

"Let's say that you would like to *Live On $60,000* per year in retirement in today's dollars. Right now, you could only draw money from the bottom two areas. Let's say you pull *$30,000* from each pot. This would give you the $60,000, but you would also be *Taxed On* the entire *$60,000*."




"But if we can use this third pot of money, let's see how that would change things. You could pull *$20,000* from each area. You would still be living off *$60,000*, but you would only be taxed on *$40,000*. Do you see how this could be a benefit to you? And I'm not sure what the tax brackets are going to be in the future, but it might even keep you in a lower tax bracket."

## CONCLUSION

"This is how I will take a look at your retirement dollars. I want you to be diversified in both your investments and in your taxes. I therefore want to see ~~what the most appro~~priate vehicles there are out there for you to use. Does this make sense? What do you like best about what I have shown you? ... " (Talk about anything else that is appropriate to the client.)

# The "T"

(The Mutual Fund & VUL T Chart)

Let me show you why the VUL really makes a lot of sense for you.
([illegible] that you think that you should just buy term and invest the difference...)

Instead of investing everything in mutual funds and then buy term insurance...
Let's consider another way to do that, with some significant tax advantages.

(Draw the MF/VUL T chart with $10,000 on each side and 10% on left side of T.)
Ok, let's say you have $10,000 to invest and you still need life insurance for your family.
And for the sake of numbers, let's say you can earn 10% in the mutual funds you select.
At 10% after a year you will have earned how much? ($1,000 that's right)
What tax bracket are you in? (Client answers... probably 28% or 31%)
With State and Federal it might be higher than that, but let's round it down to 30% so that the numbers are easy to compute off the top of our heads.

So 30% goes away each year in taxes, leaving you with $700. So the total you have in your mutual funds is $10,700.

Now with your VUL, you start with the same $10,000 and the same 10% return, but since the return you get stays inside of a life insurance product, there are no income taxes to pay. That's zero tax and your VUL has earned how much? ($1000 that's right.)

But since the VUL is insurance, you need to pay the cost of that insurance (Write COI) which will at your age run about $300 in order to provide you a $350,000 life insurance policy (Draw a picture of the policy & bring down the numbers). So that leaves you with $700 on top of your $10,000 that gives you $10,700 for both the mutual fund and the VUL. But on the mutual fund side you would still need to go out and purchase some term insurance.

So which would you prefer?

Now let' look at the future. Your 10,000 investment has grown to become $100,000, and for the sake of discussion, let's say that even though you've been paying out taxes each year from the mutual funds and have been buying term insurance in addition to that, let's say both the mutual fund and VUL side have $100,000 at the start of the year.

So your mutual funds earn how much? ($10,000) and if you're at the same tax rate you'll pay out how much in taxes? ($7,000 that's right) leaving you with a total of $10,700 and you still need to go out and buy some term insurance!

But on the VUL side let's take a look at what happens...
Your $100,000 earns $10,000 that year with ZERO tax going out. But over time the cost of insurance has most likely gone up, let's say instead of $300 you are now paying $800 because it's based on your current age. So that leaves you with $9,200 instead of only $7000 ... for a grand total of $109,200 and you still have your $350,000 life insurance policy taken care of! So let me ask you, now which would you prefer?

As I said before, the VUL product has to be underwritten, so I'm not 100% sure that you'll be able to get it. So what I recommend is that we fill out the paperwork, and submit it with a check for the first month's premium to make sure that you qualify.

# The "T"

| MF | VUL |
|---|---|
| $10 000 | $10 000 |
| 10% | 10% |
| 1 000 | 1 000 |
| 'AXES ← 30% | 0% → TAXES |
| 700 | 1 000 |
| | − 300 → COI |
| | 700 |
| $10700 | $10 700 |