Active Management of Life Insurance Trusts (AMLITs) and Price Discovery For In-force Life Insurance

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Active Management of Life Insurance Trusts (AMLITs) and Price Discovery For In-force Life Insurance

By: Steven S. Zeiger

With Martin M. Shenkman

A KEY ESTATE PLANNING GUIDE

Law Easy

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What Fiduciaries Need to Know About Active Management of Life Insurance Trusts (AMLITs) in Relationship to their Fiduciary Duties

April, 2024

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Active Management of Life Insurance Trusts (AMLITs)

ILITs are a managed trust asset unless it's a discretionary trust.
Yet, they are treated as custodial accounts and not managed.

Let's explore what the following laws, rules, acts, regulations have to say about managing life insurance trust assets:

- **The Uniform Prudent Investor Act**
- **The Office of The Controller of the Currency**
- **The Society of Actuaries**
- **NYS Dept of Financial Services**
- **The CFP Practice Standard**
- **FINRA**
- **Adjudicated Lawsuits**

NEW YORK'S CLIENTS BEST INTEREST RULE FOR LIFE INSURANCE FOUND CONSTITUTIONAL

Debevoise & Plimpton

"On October 20, 2022, the New York State Court of Appeals constitutionally affirmed the nation's first client's best interest regulation for life insurance and annuities."

The regulation requires the use of **"care, skill, prudence, and diligence that a prudent person"**… would use to **justify costs** relative to benefits, to evaluate the **reasonableness of performance** requirements, and to **assess risks of under-performance** relative to the client's risk tolerance… AKA fiduciary language.

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THE OLD STANDARD OF CARE

- ASSUMPTIONS:
- Male age 50, Preferred health, NS, NY resident, $10,000,000 face amount, endow at age 120
- 5.5% conservative annual return expectation, not guaranteed, permanent coverage
- Ratings among the top 10% of all life insurers

INSURER **A**	INSURER **B**
$10,000,000 face amount	**$10,000,000** face amount
Annual Premium **$114,081**	Annual Premium **$124,000**
DB IRR at **age 85 4.64%**	IRR at **age 85 4.24%**
Cash @ **age 85 $5,865,793**	Cash value **age 85 $6,453,547**
Cash IRR at **age 85 1.64%**	Cash IRR at **age 85 2.10%**

Based on these facts which policy would you choose if the clients goal was death benefit?

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THE NEW STANDARD OF CARE

LET'S ADD ADDITIONAL FACTS AS REQUIRED BY FINRA 2210/2011, UPIA, REG 187, CFP BOARD:

INSURER A
$10,000,000 face amount
Annual premium $114,081
TOTAL INTERNAL COST TO AGE 100 $8,530,402

INSURER B
$10,000,000 face amount
Annual Premium $124,000
TOTAL COSTS TO AGE 100 $5,400,000

Prepared For: Valued Client // Male/50/Preferred Nontobacco

Annual Cost Summary

		Premium		Charges					Distributions		Policy Values		
Yr	Age	Premium Outlay	Percent Of Premium Charge	Admin & Per 1000	Percent Of Sub-Account Value	Rider	Index Segment	Base COI	Total Loan Balance	Withdrawal	Investment Gain/Loss	EOY CV	Net Death Benefit
41	91	114,081	6,845	120	0	0	0	331,176	0	0	288,194	6,115,423	10,000,000
42	92	114,081	6,845	120	0	0	0	366,642	0	0	290,380	6,146,277	10,000,000
43	93	114,081	6,845	120	0	0	0	419,216	0	0	290,532	6,124,710	10,000,000
44	94	114,081	6,845	120	0	0	0	465,745	0	0	288,316	6,054,397	10,000,000
45	95	114,081	6,845	120	0	0	0	474,947	0	0	284,695	5,971,261	10,000,000
46	96	114,081	6,845	120	0	0	0	485,828	0	0	280,414	5,872,964	10,000,000
47	97	114,081	6,845	120	0	0	0	461,119	0	0	276,302	5,795,263	10,000,000
48	98	114,081	6,845	120	0	0	0	432,893	0	0	273,272	5,742,758	10,000,000
49	99	114,081	6,845	120	0	0	0	401,302	0	0	271,544	5,720,116	10,000,000
50	100	114,081	6,845	120	0	0	0	366,639	0	0	271,335	5,731,928	10,000,000
Total		5,704,050	342,243	347,532	0	0	0	7,189,136		0	7,906,790		

- Disclose costs, Investigate Costs, Justify costs
- This comparison is designed to explain why illustrations and illustration comparisons are considered "misleading", "fundamentally inappropriate" by FINRA, OCC, SOA. Hypothetical example, not a solicitation

SITUATION

Life insurance is often integral to planning…

Income Tax-Free Death Benefit

- IRC Section 101(a)(1) states in general that “gross income does not include amounts received under a life insurance contract, if such amounts are paid by reason of the death of the insured.”

Tax-Deferred Growth of Cash Value

- Cash value increases in a life insurance policy are not taxed to the policyholder as long as the policy remains inforce. Theodore H Cohen v. Comm., 39 TC 1056 (1963); Abram Nesbitt, II v. Comm., 43 TC 629 (1965); IRC Reg. Sec. 1.446-1(c)(1)(ii).

Non-Taxable Withdrawals

- Withdrawals from life insurance contracts that are not modified endowments, are treated as a withdrawal of basis first, and are taxed only to the extent that they exceed basis. IRC Sec. 7702(f)(7)(B)(iii).

Non-Taxable Loans

- Loans from inforce insurance policies that are not modified endowments, are received income tax free. IRC Sec. 72(e)(5)(A)(i).

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SITUATION

- Life Insurance is often integral to planning, but is often the last, largest, most-neglected asset
- Charges can be challenging to understand, and costs can vary as much as 80%
  - Easy to understand with the correct data
- Actual performance can be difficult to ascertain
  - Easy to understand with the correct data
- Relative to client expectations, it can be a poor-performing asset-type

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Tips for Pros: What Fiduciaries Need to Know About "Questionable Practices" Regarding Life Insurance Illustrations

Help Your Clients Achieve Better Outcomes

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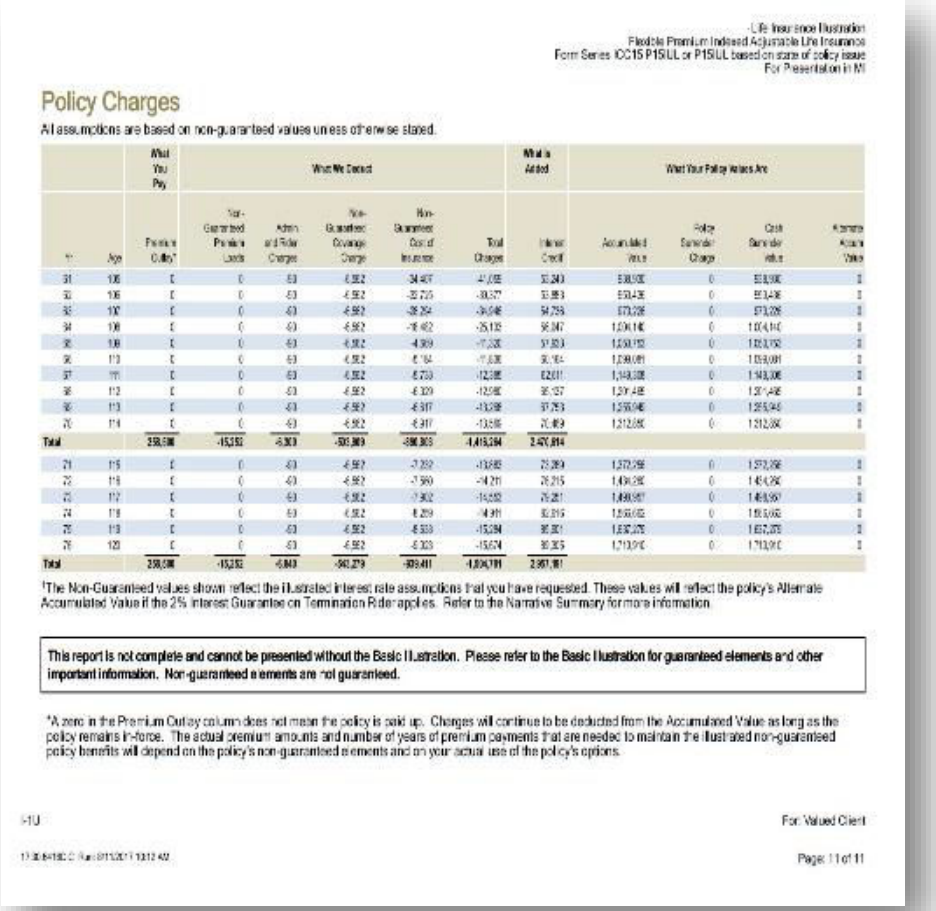
LIFE INSURANCE ILLUSTRATIONS: WHAT ARE THEY?

A "depiction of non-guaranteed elements of a life insurance policy over a period of years" comprised of:

- 50 +/- pages each
- Thousands of numbers
  - (i.e. 70 years X 10 columns for a 50 year old)
  - At different rates of return/dividends
- Dozens of disclaimers & footnotes
- Client attestation of understanding



Life Insurance Illustration
Flexible Premium Indexed Adjustable Life Insurance
Form Series IOC15 P15IUL or P15IUL based on state of policy issue
For Presentation in MI

Policy Charges

All assumptions are based on non-guaranteed values unless otherwise stated.

		What You Pay	What We Deduct					What is Added	What Your Policy Values Are			
Yr	Age	Premium Outlay*	Non-Guaranteed Premium Loads	Admin and Rider Charges	Non-Guaranteed Coverage Charge	Non-Guaranteed Cost of Insurance	Total Charges	Interest Credit	Accumulated Value	Policy Surrender Charge	Cash Surrender Value	Alternate Accum Value
51	106	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
52	106	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
53	107	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
54	108	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
55	109	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
56	110	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
57	111	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
58	112	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
59	113	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
60	114	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total		[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]				
61	115	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
62	116	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
63	117	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
64	118	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
65	119	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
66	120	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total		[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]				

[1]The Non-Guaranteed values shown reflect the illustrated interest rate assumptions that you have requested. These values will reflect the policy's Alternate Accumulated Value if the 2% Interest Guarantee on Termination Rider applies. Refer to the Narrative Summary for more information.

This report is not complete and cannot be presented without the Basic Illustration. Please refer to the Basic Illustration for guaranteed elements and other important information. Non-guaranteed elements are not guaranteed.

*A zero in the Premium Outlay column does not mean the policy is paid up. Charges will continue to be deducted from the Accumulated Value as long as the policy remains in-force. The actual premium amounts and number of years of premium payments that are needed to maintain the illustrated non-guaranteed policy benefits will depend on the policy's non-guaranteed elements and on your actual use of the policy's options.

For Valued Client

Page 11 of 11

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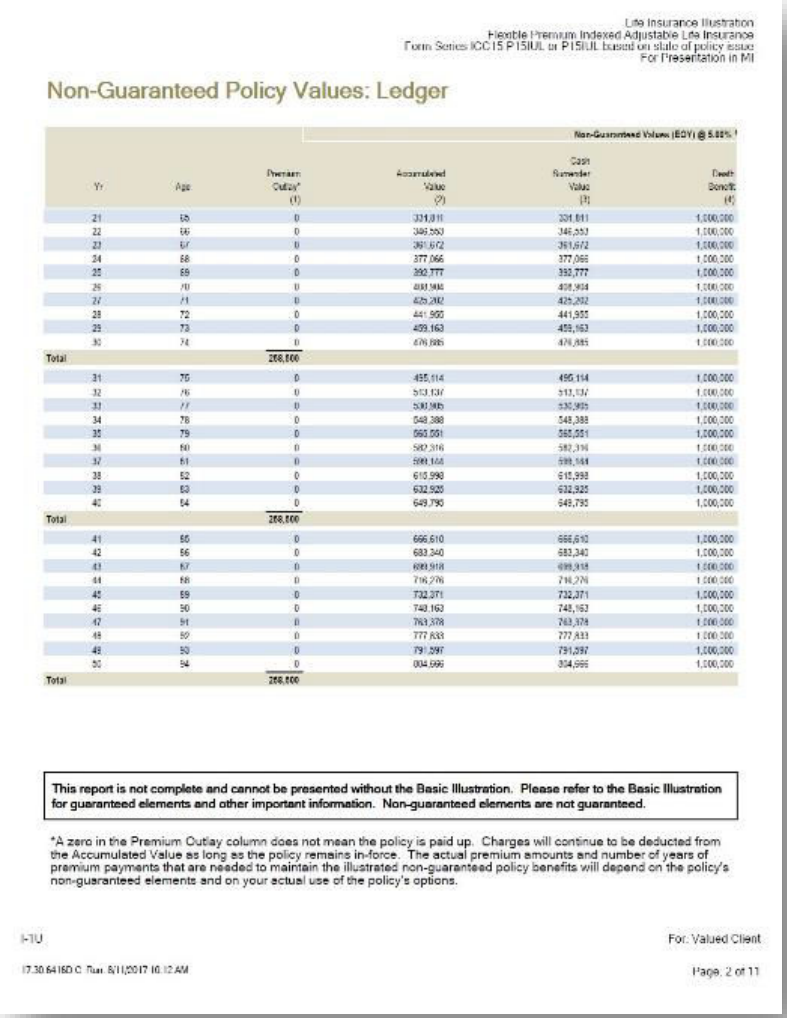
LIFE INSURANCE ILLUSTRATIONS: WHAT ARE THEY?

A “depiction of non-guaranteed elements of a life insurance policy over a period of years” based on:

- **Cost of Insurance charges (COIs) for death benefits claims;**
- **Policy expenses (E) for actuarial design, marketing, distribution, underwriting & administration; and**
- **Interest/Earnings (i%) on premiums in excess of #1 and #2.**

SUMMARY: COIs + E - i% = Premium



Life Insurance Illustration
Flexible Premium Indexed Adjustable Life Insurance
Form Series ICC15 P15IUL or P15IUL based on state of policy issue
For Presentation in MI

Non-Guaranteed Policy Values: Ledger

			Non-Guaranteed Values (EOY) @ 5.00%		
Yr	Age	Premium Outlay* (1)	Accumulated Value (2)	Cash Surrender Value (3)	Death Benefit (4)
21	65	0	331,811	331,811	1,000,000
22	66	0	346,553	346,553	1,000,000
23	67	0	361,672	361,672	1,000,000
24	68	0	377,066	377,066	1,000,000
25	69	0	392,777	392,777	1,000,000
26	70	0	408,904	408,904	1,000,000
27	71	0	425,202	425,202	1,000,000
28	72	0	441,955	441,955	1,000,000
29	73	0	459,163	459,163	1,000,000
30	74	0	476,885	476,885	1,000,000
Total		268,500			
31	75	0	495,114	495,114	1,000,000
32	76	0	513,137	513,137	1,000,000
33	77	0	530,985	530,985	1,000,000
34	78	0	548,388	548,388	1,000,000
35	79	0	565,551	565,551	1,000,000
36	80	0	582,316	582,316	1,000,000
37	81	0	598,144	598,144	1,000,000
38	82	0	615,998	615,998	1,000,000
39	83	0	632,925	632,925	1,000,000
40	84	0	649,795	649,795	1,000,000
Total		268,500			
41	85	0	666,610	666,610	1,000,000
42	86	0	683,340	683,340	1,000,000
43	87	0	699,918	699,918	1,000,000
44	88	0	716,276	716,276	1,000,000
45	89	0	732,371	732,371	1,000,000
46	90	0	748,163	748,163	1,000,000
47	91	0	763,378	763,378	1,000,000
48	92	0	777,833	777,833	1,000,000
49	93	0	791,597	791,597	1,000,000
50	94	0	804,666	804,666	1,000,000
Total		268,500			

This report is not complete and cannot be presented without the Basic Illustration. Please refer to the Basic Illustration for guaranteed elements and other important information. Non-guaranteed elements are not guaranteed.

*A zero in the Premium Outlay column does not mean the policy is paid up. Charges will continue to be deducted from the Accumulated Value as long as the policy remains in-force. The actual premium amounts and number of years of premium payments that are needed to maintain the illustrated non-guaranteed policy benefits will depend on the policy's non-guaranteed elements and on your actual use of the policy's options.

I-1U

For: Valued Client

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Page 2 of 11

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LIFE INSURANCE ILLUSTRATIONS:

LEGITIMATE PRACTICES

1. How the policy works?
2. How lower/higher interest/investment performance will impact the policy?
3. “What if …” Analysis cash flow Modeling/Planning

QUESTIONABLE PRACTICES

NOT useful for understanding:

1. Cost Competitiveness
2. Performance Reasonableness
3. Risk Appropriateness

In other words, the illustration is **NOT** a representation, **NOT** a forecast, **NOT** a prediction.

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What Fiduciaries need to Know About Life Insurance Guidance from: FINRA, the UPIA, NYS DFS, etc.

Help Your Clients Achieve Better Outcomes

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NY DFS Best Interest Rule (Reg 187)

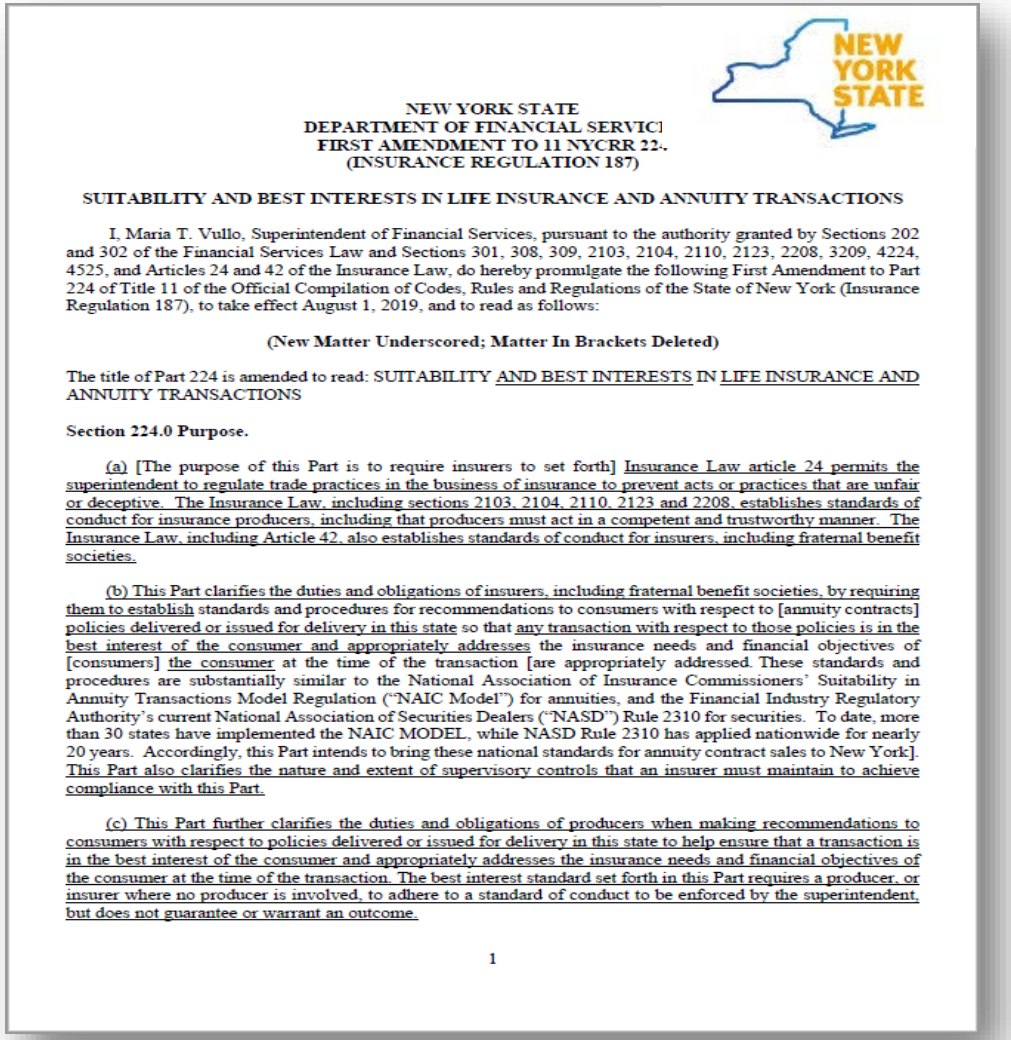
Redefines "Clients' Best Interest" for product recommendations for…

- Residents of New York (even if advisors are in another State)
- Former residents of New York but with ILIT(s) domiciled in New York
- ILIT Trustees in New York (even if ILIT is domiciled elsewhere)
- Financial Advisors in New York or with clients in New York

BEST INTEREST RULES – BENEFICIAL IN EVERY STATE

Redefine "Clients' Best Interest" for product recommendations similar to other fiduciary rules

- Considering only the interests of the consumer in making recommendations
- Reflecting the care, skill, prudence, and diligence [of] a prudent person
- Prominently disclos[ing] in writing limit[ations in] the range of policies recommended.



NEW YORK STATE
DEPARTMENT OF FINANCIAL SERVIC]
FIRST AMENDMENT TO 11 NYCRR 22-.
(INSURANCE REGULATION 187)

SUITABILITY AND BEST INTERESTS IN LIFE INSURANCE AND ANNUITY TRANSACTIONS

I, Maria T. Vullo, Superintendent of Financial Services, pursuant to the authority granted by Sections 202 and 302 of the Financial Services Law and Sections 301, 308, 309, 2103, 2104, 2110, 2123, 2208, 3209, 4224, 4525, and Articles 24 and 42 of the Insurance Law, do hereby promulgate the following First Amendment to Part 224 of Title 11 of the Official Compilation of Codes, Rules and Regulations of the State of New York (Insurance Regulation 187), to take effect August 1, 2019, and to read as follows:

(New Matter Underscored; Matter In Brackets Deleted)

The title of Part 224 is amended to read: SUITABILITY AND BEST INTERESTS IN LIFE INSURANCE AND ANNUITY TRANSACTIONS

Section 224.0 Purpose.

(a) [The purpose of this Part is to require insurers to set forth] Insurance Law article 24 permits the superintendent to regulate trade practices in the business of insurance to prevent acts or practices that are unfair or deceptive. The Insurance Law, including sections 2103, 2104, 2110, 2123 and 2208, establishes standards of conduct for insurance producers, including that producers must act in a competent and trustworthy manner. The Insurance Law, including Article 42, also establishes standards of conduct for insurers, including fraternal benefit societies.

(b) This Part clarifies the duties and obligations of insurers, including fraternal benefit societies, by requiring them to establish standards and procedures for recommendations to consumers with respect to [annuity contracts] policies delivered or issued for delivery in this state so that any transaction with respect to those policies is in the best interest of the consumer and appropriately addresses the insurance needs and financial objectives of [consumers] the consumer at the time of the transaction [are appropriately addressed. These standards and procedures are substantially similar to the National Association of Insurance Commissioners' Suitability in Annuity Transactions Model Regulation ("NAIC Model") for annuities, and the Financial Industry Regulatory Authority's current National Association of Securities Dealers ("NASD") Rule 2310 for securities. To date, more than 30 states have implemented the NAIC MODEL, while NASD Rule 2310 has applied nationwide for nearly 20 years. Accordingly, this Part intends to bring these national standards for annuity contract sales to New York]. This Part also clarifies the nature and extent of supervisory controls that an insurer must maintain to achieve compliance with this Part.

(c) This Part further clarifies the duties and obligations of producers when making recommendations to consumers with respect to policies delivered or issued for delivery in this state to help ensure that a transaction is in the best interest of the consumer and appropriately addresses the insurance needs and financial objectives of the consumer at the time of the transaction. The best interest standard set forth in this Part requires a producer, or insurer where no producer is involved, to adhere to a standard of conduct to be enforced by the superintendent, but does not guarantee or warrant an outcome.

1

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BEST INTEREST RULES – BENEFICIAL IN EVERY STATE

Redefine “Clients’ Best Interest” for product recommendations based on the evaluation of…

- All Products, Services & Transactions Available
- Relevant Suitability Information
- Justifiable Costs, Reasonable Performance & Appropriate Risk

Ethically, these rules apply in every state

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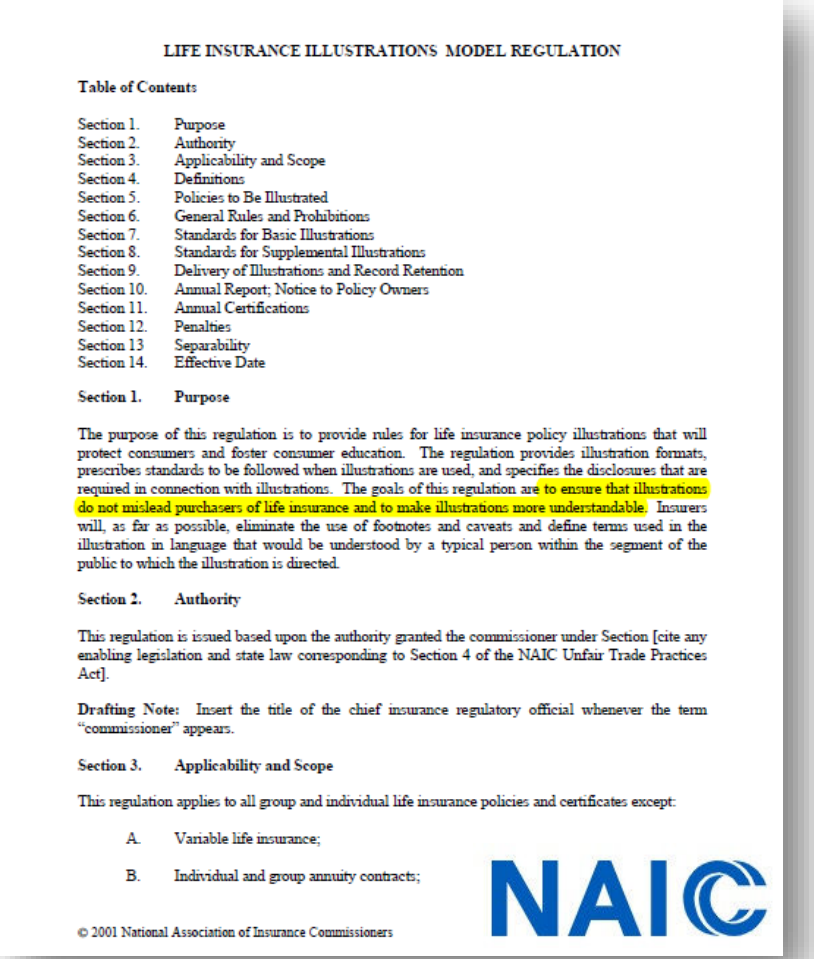
NAIC ILLUSTRATIONS MODEL REGULATION

Define(d) “Clients’ Best Interest” for product recommendations since 1995, but…

- Lack uniform practice (NAIC)
- NO disclosure of costs, performance, or risk

1995 - “The goals … are to ensure that illustrations do not mislead purchasers of insurance and to make illustrations more understandable.”

2015 - Adopted and updated to address “…lack of uniform practice [resulting in] … illustrations that use an [apparently] identical crediting approach yet illustrate differing rates.”



LIFE INSURANCE ILLUSTRATIONS MODEL REGULATION

Table of Contents

Section 1. Purpose
Section 2. Authority
Section 3. Applicability and Scope
Section 4. Definitions
Section 5. Policies to Be Illustrated
Section 6. General Rules and Prohibitions
Section 7. Standards for Basic Illustrations
Section 8. Standards for Supplemental Illustrations
Section 9. Delivery of Illustrations and Record Retention
Section 10. Annual Report; Notice to Policy Owners
Section 11. Annual Certifications
Section 12. Penalties
Section 13 Separability
Section 14. Effective Date

Section 1. Purpose

The purpose of this regulation is to provide rules for life insurance policy illustrations that will protect consumers and foster consumer education. The regulation provides illustration formats, prescribes standards to be followed when illustrations are used, and specifies the disclosures that are required in connection with illustrations. The goals of this regulation are to ensure that illustrations do not mislead purchasers of life insurance and to make illustrations more understandable. Insurers will, as far as possible, eliminate the use of footnotes and caveats and define terms used in the illustration in language that would be understood by a typical person within the segment of the public to which the illustration is directed.

Section 2. Authority

This regulation is issued based upon the authority granted the commissioner under Section [cite any enabling legislation and state law corresponding to Section 4 of the NAIC Unfair Trade Practices Act].

Drafting Note: Insert the title of the chief insurance regulatory official whenever the term “commissioner” appears.

Section 3. Applicability and Scope

This regulation applies to all group and individual life insurance policies and certificates except:

A. Variable life insurance;

B. Individual and group annuity contracts;

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NAIC

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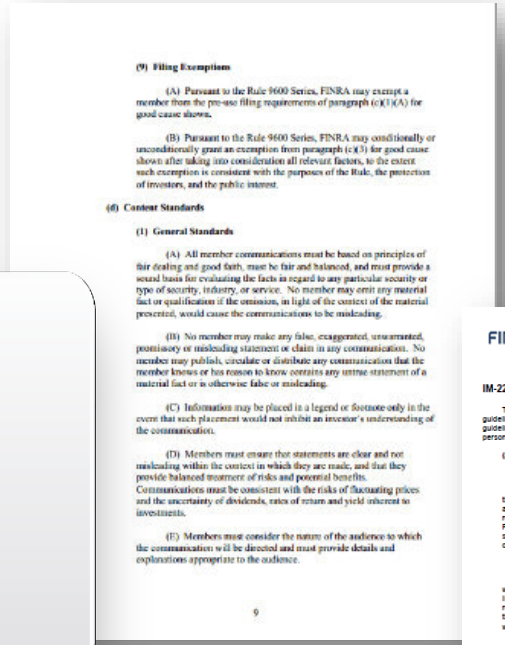
FINRA RULE 2210(d), FINRA RULE 2210-2(c)

FINRA Rule 2210(d): "Any comparison… must disclose all material differences…including investment objectives, costs and expenses, [etc]…[because] omission… would cause the communications to be misleading."

FINRA Rule 2211-(5)(C): "It is inappropriate to compare a … life insurance policy with another product based on hypothetical performance…"



(9) Filing Exemptions

(A) Pursuant to the Rule 9600 Series, FINRA may exempt a member from the pre-use filing requirements of paragraph (c)(1)(A) for good cause shown.

(B) Pursuant to the Rule 9600 Series, FINRA may conditionally or unconditionally grant an exemption from paragraph (c)(3) for good cause shown after taking into consideration all relevant factors, to the extent such exemption is consistent with the purposes of the Rule, the protection of investors, and the public interest.

(d) Content Standards

(1) General Standards

(A) All member communications must be based on principles of fair dealing and good faith, must be fair and balanced, and must provide a sound basis for evaluating the facts in regard to any particular security or type of security, industry, or service. No member may omit any material fact or qualification if the omission, in light of the context of the material presented, would cause the communications to be misleading.

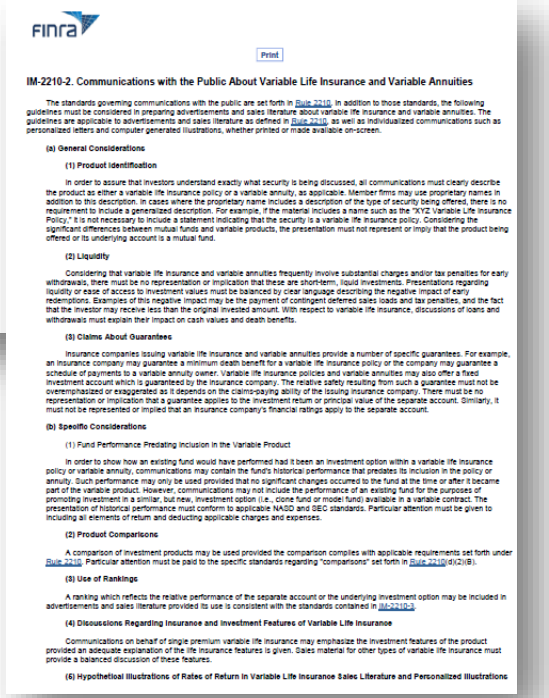
(B) No member may make any false, exaggerated, unwarranted, promissory or misleading statement or claim in any communication. No member may publish, circulate or distribute any communication that the member knows or has reason to know contains any untrue statement of a material fact or is otherwise false or misleading.

(C) Information may be placed in a legend or footnote only in the event that such placement would not inhibit an investor's understanding of the communication.

(D) Members must ensure that statements are clear and not misleading within the context in which they are made, and that they provide balanced treatment of risks and potential benefits. Communications must be consistent with the risks of fluctuating prices and the uncertainty of dividends, rates of return and yield inherent to investments.

(E) Members must consider the nature of the audience to which the communication will be directed and must provide details and explanations appropriate to the audience.

9



FINRA

Print

IM-2210-2. Communications with the Public About Variable Life Insurance and Variable Annuities

The standards governing communications with the public are set forth in Rule 2210. In addition to those standards, the following guidelines must be considered in preparing advertisements and sales literature about variable life insurance and variable annuities. The guidelines are applicable to advertisements and sales literature as defined in Rule 2210, as well as individualized communications such as personalized letters and computer generated illustrations, whether printed or made available on-screen.

(a) General Considerations

(1) Product Identification

In order to assure that investors understand exactly what security is being discussed, all communications must clearly describe the product as either a variable life insurance policy or a variable annuity, as applicable. Member firms may use proprietary names in addition to this description. In cases where the proprietary name includes a description of the type of security being offered, there is no requirement to include a generalized description. For example, if the material includes a name such as the "XYZ Variable Life Insurance Policy," it is not necessary to include a statement indicating that the security is a variable life insurance policy. Considering the significant differences between mutual funds and variable products, the presentation must not represent or imply that the product being offered or its underlying account is a mutual fund.

(2) Liquidity

Considering that variable life insurance and variable annuities frequently involve substantial charges and/or tax penalties for early withdrawals, there must be no representation or implication that these are short-term, liquid investments. Presentations regarding liquidity or ease of access to investment values must be balanced by clear language describing the negative impact of early redemptions. Examples of this negative impact may be the payment of contingent deferred sales loads and tax penalties, and the fact that the investor may receive less than the original invested amount. With respect to variable life insurance, discussions of loans and withdrawals must explain their impact on cash values and death benefits.

(3) Claims About Guarantees

Insurance companies issuing variable life insurance and variable annuities provide a number of specific guarantees. For example, an insurance company may guarantee a minimum death benefit for a variable life insurance policy or the company may guarantee a schedule of payments to a variable annuity owner. Variable life insurance policies and variable annuities may also offer a fixed investment account which is guaranteed by the insurance company. The relative safety resulting from such a guarantee must not be overemphasized or exaggerated as it depends on the claims-paying ability of the issuing insurance company. There must be no representation or implication that a guarantee applies to the investment return or principal value of the separate account. Similarly, it must not be represented or implied that an insurance company's financial ratings apply to the separate account.

(b) Specific Considerations

(1) Fund Performance Predating Inclusion in the Variable Product

In order to show how an existing fund would have performed had it been an investment option within a variable life insurance policy or variable annuity, communications may contain the fund's historical performance that predates its inclusion in the policy or annuity. Such performance may only be used provided that no significant changes occurred to the fund at the time or after it became part of the variable product. However, communications may not include the performance of an existing fund for the purposes of promoting investment in a similar, but new, investment option (i.e., clone fund or model fund) available in a variable contract. The presentation of historical performance must conform to applicable NASD and SEC standards. Particular attention must be given to including all elements of return and deducting applicable charges and expenses.

(2) Product Comparisons

A comparison of investment products may be used provided the comparison complies with applicable requirements set forth under Rule 2210. Particular attention must be paid to the specific standards regarding "comparisons" set forth in Rule 2210(d)(3)(B).

(3) Use of Rankings

A ranking which reflects the relative performance of the separate account or the underlying investment option may be included in advertisements and sales literature provided its use is consistent with the standards contained in IM-2210-3.

(4) Discussions Regarding Insurance and Investment Features of Variable Life Insurance

Communications on behalf of single premium variable life insurance may emphasize the investment features of the product provided an adequate explanation of the life insurance features is given. Sales material for other types of variable life insurance must provide a balanced discussion of these features.

(5) Hypothetical Illustrations of Rates of Return in Variable Life Insurance Sales Literature and Personalized Illustrations

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SOCIETY OF ACTUARIES

Final report of the task force for research on life insurance sales illustrations:
"Illustrations should not be used for comparative policy performance purposes because doing so is fundamentally inappropriate."

TRANSACTIONS OF SOCIETY OF ACTUARIES
1991-92 REPORTS

SOCIETY OF ACTUARIES

FINAL REPORT* OF THE TASK FO...
FOR RESEARCH ON LIFE INSURANCE SALES ILLUSTRATIONS
UNDER THE AUSPICES OF THE
COMMITTEE FOR RESEARCH ON SOCIAL CONCERNS

EXECUTIVE SUMMARY

Purpose

The Task Force for Research on Life Insurance Sales Illustrations reports to the Society's Committee for Research on Social Concerns. The Task Force was formed in recognition of the declining level of consumer confidence in the life insurance industry and, in particular, to investigate how sales illustration practices can add to, or detract from, consumer confidence.

In developing this report, the Task Force surveyed life insurance company illustration practices, reviewed available literature and regulatory requirements, held open forums at Society of Actuaries (SOA) and Canadian Institute of Actuaries (CIA) meetings, and considered the methodology applied to other financial products.

Situation Analysis

Sales illustrations have been developed to meet a variety of needs from a variety of consumers, all placing different requirements on an illustration. There are two major uses of illustrations:

- ***Type A Usage*** is intended to show the consumer the mechanics of the policy being purchased and how policy values or premium payments change over time. The emphasis is a matter of *how* and *what* rather than *how much*.
- ***Type B Usage*** tries to project likely or best estimates of future performance and compare cost or performance of different policies. It attempts to show *how much* on the premise that the *hows* and *whats* are comparable enough for this to be meaningful.

Illustrations handle Type A requirements well, especially if several illustrations are used to show different scenarios. Illustrations inherently do not

*Opinions expressed herein are those of the Task Force for Research on Life Insurance Sales Illustrations and of the Committee for Research on Social Concerns. This report does not purport to represent the views of the Society of Actuaries or of its Board of Governors.

†Judy A. Faucett (Chairperson), Benjamin J. Bock, Bruce E. Booker, John W. Keller, John R. Skar, Linden N. Cole, Staff Liaison, W. Steven Prince, CIA Liaison, and Michael J. Roscoe, AAA Liaison.

139

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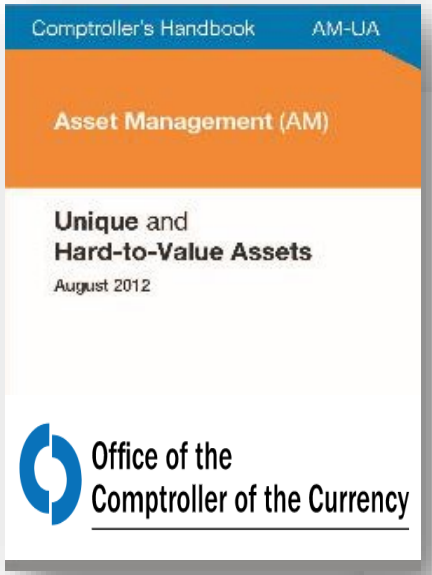
DEPARTMENT OF THE TREASURY- OCC



policy. Independent of these reviews, a fiduciary bank must have risk management systems and reviews that address the following.

- **Sufficiency of premiums**: The bank fiduciary must determine whether current premiums are sufficient to maintain the policy to maturity or to meet the insured's life expectancy.
- **Suitability of the insurance policy**: Consider replacing an insurance policy if the bank fiduciary identifies concerns with the condition of the insurance provider or if that provider does not meet the needs of the grantor or beneficiaries. Also assess any tax changes that could affect the suitability of the policy.
- **Carrier selection**: The bank fiduciary needs to evaluate the carrier's financial condition. To the extent insurance carrier ratings are available, they generally lag corporate and market events, and should be used principally as indicators of a firm's creditworthiness.
- **Appropriateness of investment strategy**: The bank fiduciary must evaluate the appropriateness of investments of any segregated account to support the cash value.

For policies with flexible premiums and nonguaranteed benefits, the trustee should obtain the original policy illustration, which shows planned premium strategies. This policy illustration is subject to a high degree of fluctuation. Periodically, the trustee should obtain an in-force illustration. This provides a measure of performance of a life insurance policy against what was initially illustrated. By obtaining an in-force illustration, the trustee can monitor the effectiveness of the policy to date and project how the policy may perform in the future and plan for any potential shortfall in premiums. This process assists the trustee in monitoring the economics of the policy.

Generally, while insurance companies are regulated by the state and maintain a mandatory level of reserves, specific assets are not identified to support an insurer's promise to pay on a policy. Policyholders are subject to the creditworthiness and liquidity constraints of the company. It is important that a bank fiduciary perform due diligence on an insurance company issuing a policy to ensure that it is sound, viable and able to meet future obligations.

Cash value on permanent life insurance policies may be included as part of the account's assets if the bank has done a thorough review of the insurance

Comptroller's Handbook 39 Unique and Hard-to-Value Assets

OCC Handbook: "This policy illustration is subject to a "**high degree of fluctuation**."

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UNIFORM PRUDENT INVESTOR ACT

Uniform Law Commission
Better Laws. Stronger States.

- **Prudent Process includes…**
  - **Duty to monitor- health status, default risk, etc.**

Duty to Monitor, Subsections (a) through (d) apply to both investing and managing trust assets. "Managing" embraces monitoring, that is, the trustee's continuing responsibility for oversight of the suitability of investments already made as well as the trustee's decisions respecting new investments.

the interests of participants and beneficiaries in their retirement income to unrelated objectives."

SECTION 6. IMPARTIALITY. If a trust has two or more beneficiaries, the trustee shall act impartially in investing and managing the trust assets, taking into account any differing interests of the beneficiaries.

Comment

The duty of impartiality derives from the duty of loyalty. When the trustee owes duties to more than one beneficiary, loyalty requires the trustee to respect the interests of all the beneficiaries. Prudence in investing and administration requires the trustee to take account of the interests of all the beneficiaries for whom the trustee is acting, especially the conflicts between the interests of beneficiaries interested in income and those interested in principal.

The language of Section 6 derives from Restatement of Trusts 2d § 183 (1959); see also id., § 232. Multiple beneficiaries may be beneficiaries in succession (such as life and remainder interests) or beneficiaries with simultaneous interests (as when the income interest in a trust is being divided among several beneficiaries).

The trustee's duty of impartiality commonly affects the conduct of investment and management functions in the sphere of principal and income allocations. This Act prescribes no regime for allocating receipts and expenses. The details of such allocations are commonly handled under specialized legislation, such as the Revised Uniform Principal and Income Act (1962) (which is presently under study by the Uniform Law Commission with a view toward further revision).

SECTION 7. INVESTMENT COSTS. In investing and managing trust assets, a trustee may only incur costs that are appropriate and reasonable in relation to the assets, the purposes of the trust, and the skills of the trustee.

Comment

Wasting beneficiaries' money is imprudent. In devising and implementing strategies for the investment and management of trust assets, trustees are obliged to minimize costs.

The language of Section 7 derives from Restatement of Trusts 2d § 188 (1959). The Restatement of Trusts 3d says: "Concerns over compensation and

14

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UNIFORM PRUDENT INVESTOR ACT

Uniform Law Commission
Better Laws. Stronger States.

- **Prudent Process includes…**
- **Investigate policy costs**

Duty to investigate: Subsection (d) carries forward the traditional responsibility of the fiduciary investor to examine information likely to bear importantly on the value or the security of an investment. Trustees held liable for losses in Estate of Collins 72 Cal. App. 3d 663, 139 Cal. Rprt. 644 (1977)

the interests of participants and beneficiaries in their retirement income to unrelated objectives."

SECTION 6. IMPARTIALITY. If a trust has two or more beneficiaries, the trustee shall act impartially in investing and managing the trust assets, taking into account any differing interests of the beneficiaries.

Comment

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UNIFORM PRUDENT INVESTOR ACT

- Prudent Process includes…
  - Investigate policy costs
  - Duty to diversify

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UNIFORM PRUDENT INVESTOR ACT

- Prudent Process includes…
  - Investigate policy costs
  - Duty to diversify

SECTION 3. DIVERSIFICATION. **A trustee shall diversify the investments of the trust unless the trustee reasonably determines that, because of special circumstances, the purposes of the trust are better served without diversifying**

the interests of participants and beneficiaries in their retirement income to unrelated objectives."

SECTION 6. IMPARTIALITY. If a trust has two or more beneficiaries, the trustee shall act impartially in investing and managing the trust assets, taking into account any differing interests of the beneficiaries.

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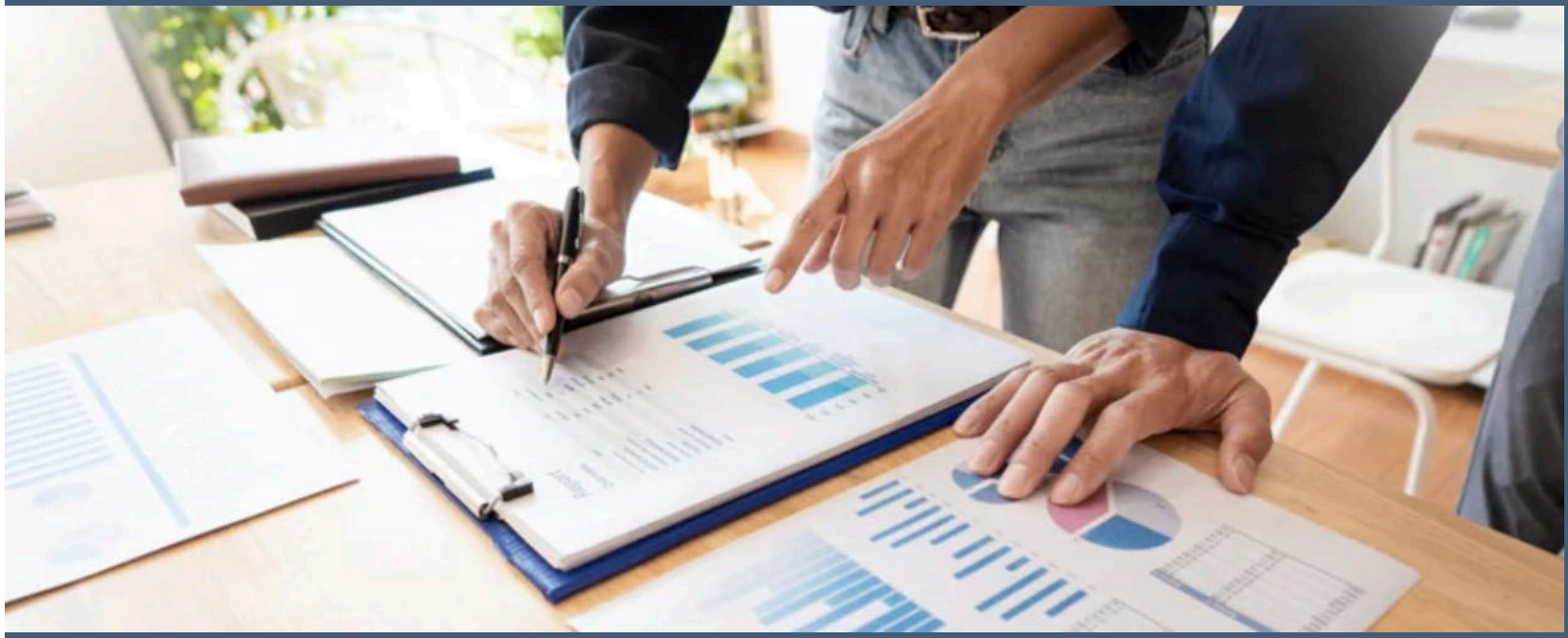
THE CENTER FOR **ECONOMIC JUSTICE**

CENTER FOR ECONOMIC AND SOCIAL JUSTICE

“The current illustration regime permits insurers to 'illustrate' investments in ways not permitted for any other type of investment." ... a faulty infrastructure that consistently produces misleading information to consumers."



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Source: Task force weighs ‘limited’ revision of life insurance illustrations model – InsuranceNewsNet

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WHAT DOES MORNINGSTAR HAVE TO SAY ABOUT COSTS/EXPENSES?

"The Predictive Power of Fees" Russ Kinnel- Director of Manager Research

Are Internal Costs and Expenses Important?

"How often did it pay to heed expense ratios? Every time."

"The expense ratio is the most proven predictor of future fund returns."

"If there's anything in the whole world ……. that you can take to the bank, it's that expense ratios help you make a better decision. In every single time period and data point tested, low-cost funds beat high-cost funds."

MORNINGSTAR

Predictive Power of Fees

Why Mutual Fund Fees Are So Important

Morningstar Manager Research
May 2016

Russel Kinnel
Director of Manager Research
+ 1 312 696 6155
russel.kinnel@morningstar.com

If you've been following Morningstar's research for long, you know how important we think expense ratios are to the fund selection equation. The expense ratio is the most proven predictor of future fund returns. I find that it is a dependable predictor when we run the data. That's also what academics, fund companies, and, of course, Jack Bogle, find when they run the data.

But it's been a couple of years since I provided the proof statement, so we have updated my data to show just how strong and dependable fees are as a predictor of future success. That's not to say investors should use them in isolation. There are many other things to consider, but investors should make expense ratios their first or second screen.

How We Ran the Test

To begin any test of predictive power, we use historical data so that we are using the data that investors would have had access to at the time. That includes funds that no longer exist. In fact, that's a key part of the story because higher-cost funds are much more likely to fail and be merged away. If you do not factor them in, you will see better performance from higher-cost funds than was the reality, as those that survived naturally are more likely to have produced better performance while so many failures have been culled.

We looked at a few different measures to test how expense ratios worked: total return over the ensuing period, load-adjusted returns, standard deviation, investor returns, and subsequent Morningstar Rating. In addition, we calculated a success ratio for all the above measures. The success ratio is our way of factoring in mutual funds that were merged away or liquidated over the ensuing time period. The other figures only include data on funds that survived the whole time period. But the success ratio asks, "What percentage of funds survived and outper-formed their category group?" Only funds that did both count toward the success ratio, as it is hard to argue that funds that no longer exist or underperformed were successful.

For our tests, we began by grouping funds into quin-tiles within their peer group and then rolled that up into an asset class. That means we ordered each Morningstar Category, such as large growth, high-yield muni, and so on, into quintiles. Then we grouped all the cheapest-quintile funds in an asset class, then the second-cheapest-quintile funds, and so on.

We also ran all of the above tests against a universe in which only one share class per fund was included. Some readers of past studies wondered whether fees were as strong for selecting between funds rather than among share classes of the same fund. So, to eliminate comparisons of multiple

Do you think costs/expenses are equally important in life insurance?

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Seeking the Courts Advice: Guidance From the First Adjudicated TOLI Lawsuit Can Help Fiduciaries.

Help Your Clients Achieve Better Outcomes

A Member Firm of M Financial Group

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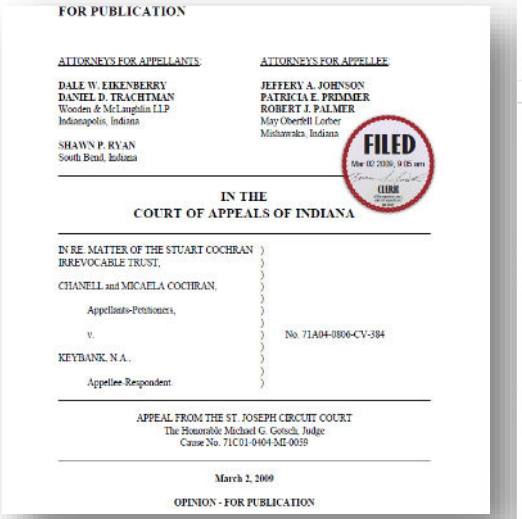
LITIGATION REGARDING LIFE INSURANCE

- Cochran v. Keybank
- French v. Wachovia
- Larry King v. Agent
- Micale v. ILIT Trustee
- Schneider v. Attorney
- Vagelos v. Stockbroker
- Nacchio v. Goldman Sachs



FOR PUBLICATION

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FILED

IN THE
COURT OF APPEALS OF INDIANA

IN RE: MATTER OF THE STUART COCHRAN IRREVOCABLE TRUST,

CHANELL and MICAELA COCHRAN,

Appellants-Petitioners,

v.

KEYBANK, N.A.,

Appellee-Respondent.

No. 71A04-0806-CV-384

APPEAL FROM THE ST. JOSEPH CIRCUIT COURT
The Honorable Michael G. Gotsch, Judge
Cause No. 71C01-0404-MI-0039

March 2, 2009

OPINION - FOR PUBLICATION

A Person Media Publication

Trusts&Estates

The Journal of Wealth Management for Estate-Planning Professionals—Since 1904

BRIEFING
10/ Tax Law Update • Family Businesses • Philanthropy

FEATURES
16/ Nursing the Sick ILIT
How a trustee can avoid liability if an irrevocable life insurance trust lacks assets

24/ The Trustee's Role in Directed Trusts
Share the responsibility with an advisor for discretionary and ministerial decisions

33/ A Shot Across the Bow
Guidance for trustees on how courts may apply the Uniform Prudent Investor Act to cases involving ILITs

SPECIAL REPORT
ESTATE PLANNING & TAXATION
40/ Maximizing the Benefits of FLPs
Make an Internal Revenue Code Section 754 election to increase tax benefits and avoid higher capital gains

44/ Family Business Succession Planning
A trust may be the way to go

50/ Securities Laws and Estate Planning: Where Do the Roads Cross?
Know the nuts and bolts of the rules that apply to stocks and bonds

LES GENS CHIC SONT L'HIVER À MONTE-CARLO

InvestmentNews

The Leading Information Source for Financial Advisors

What advisers can learn from a convicted felon's lawsuit against Goldman Sachs

Case highlights vulnerability of advisers when they don't use up-to-date methods to project costs

By Barry D. Flagg

Times are changing in the life insurance business. Age-old industry practices are being questioned by authorities and increasingly are a cause of litigation.

For instance, convicted felon Joseph Nacchio and his wife, Anne M. Esker, were recently awarded $14.2 million in a lawsuit against a division of Goldman Sachs for a breach of advisory duties that resulted in disappointing performance of their life insurance. The couple initially paid $4.5 million for $9.5 million in coverage, but they were forced to cancel the policies and paid $26 million in order to replace what they thought they had initially purchased. The jury awarded the couple $14.2 million, or the equivalent of $30 million minus the $16 million they should have paid.

CLIENT MISUNDERSTANDING

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ETHICAL ALTERNATIVES TO ILLUSTRATION COMPARISONS

- NO illustration comparisons in trust/client file.
- Insist on Detailed Expense Pages – see examples provided
  - Insurer, Excel, Independent Research
- At a MINIMUM, compare costs & performance SEPARATELY – see examples provided
- Benchmarking is well-established & common in the financial services industry.
  - S&P 500 Index, DJIA, MSCI, Life Insurance Industry Benchmarks- Veralytic Research
- Illustration comparisons are inconsistent with the duty to exercise care, skill, prudence, and diligence.
- Benchmarking costs SEPARATE from performance is…
  - Well-established, common & proven
  - Consistent with NY DFS Reg 187 and CFP Fiduciary Standard
  - FINRA Reviewed

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The Following Tools Are Used for Investments Held by Trusts:

- Independent Research from Morningstar, Value Line, Ibbotson, Lipper
- Benchmarks such as the S&P 500 Index, DJIA, MSCI
- Monte Carlo simulations for sequence of return risk

The Following Tools are Used For Life Insurance Assets Held by Trusts:

- Independent Research from Morningstar, EBIX and Veralytic
- Benchmarks from Veralytic
- Monte Carlo simulations from LISA for sequence of return risk

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Why Fiduciaries Need Patented Independent Research for Life Insurance? Learn How To Recognize Misleading Illustrations

Help Your Clients Achieve Better Outcomes

A Member Firm of M Financial Group

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LIFE INSURANCE ILLUSTRATIONS: **QUESTIONABLE PRACTICES**

- Life Insurance illustrations comingle costs and performance
- Reg 187, UPIA, FINRA require justifiable “costs”, “reasonable performance” & appropriate “risk”
- This is not a solicitation, for discussion purposes only

[redacted] Life Insurance Company (U.S.A.)

A LIFE INSURANCE POLICY ILLUSTRATION
A Flexible Premium Universal Life Insurance Policy
Guaranteed and Nonguaranteed Values

[redacted] UL [redacted]

Illustration Assumptions

James Farber
Male - Super Preferred NonSmoker
Age: 60

Initial Death Benefit $8,000,000
Face Amount $8,000,000
Initial Planned Premium: $181,047.00 / Billing Mode: Annual
Death Benefit Option 1; Cash Value Accumulation Test
State: South Dakota

			End of Year Guaranteed Assumptions 2.00% Minimum Rate, Maximum Charges				End of Year Non-Guaranteed Assumptions 4.95% Initial Current Rate, Current Charges			
Policy Year	EOY Age	Planned Premium	Policy Value	Net Surrender Value	Net Death Benefit	IRR on Death Benefit	Policy Value	Net Surrender Value	Net Death Benefit	IRR on Death Benefit
1	61	181,047	112,725	0	8,181,047	4,418.74%	120,361	0	8,181,047	4,418.74%
2	62	181,047	224,563	12,350	8,362,094	531.45%	239,709	27,497	8,362,094	531.45%
3	63	181,047	335,522	119,358	8,543,141	222.55%	361,918	145,755	8,543,141	222.55%
4	64	181,047	425,303	206,025	8,724,188	130.63%	466,567	247,288	8,724,188	130.63%
5	65	181,047	508,004	313,800	8,905,235	89.09%	567,575	373,371	8,905,235	89.09%
6	66	181,047	541,539	378,328	9,086,282	66.05%	670,857	507,646	9,086,282	66.05%
7	67	181,047	565,292	436,613	9,267,329	51.63%	773,899	645,220	9,267,329	51.63%
8	68	181,047	578,114	487,506	9,448,376	41.86%	876,199	785,591	9,448,376	41.86%
9	69	181,047	578,398	529,369	9,629,423	34.85%	977,128	928,098	9,629,423	34.85%
10	70	181,047	585,709	585,709	9,810,470	29.61%	1,075,252	1,075,252	9,810,470	29.61%
Totals:		1,810,470								
11	71	181,047	667,743	667,743	9,991,517	25.57%	1,172,156	1,172,156	9,991,517	25.57%
12	72	181,047	747,111	747,111	10,172,564	22.37%	1,264,846	1,264,846	10,172,564	22.37%
13	73	0	731,101	731,101	10,172,564	19.82%	1,201,494	1,201,494	10,172,564	19.82%
14	74	0	707,201	707,201	10,172,564	17.76%	1,151,697	1,151,697	10,172,564	17.76%
15	75	0	687,207	687,207	8,000,000	13.57%	1,215,725	1,215,725	8,000,000	13.57%
16	76	0	657,788	657,788	8,000,000	12.36%	1,279,898	1,279,898	8,000,000	12.36%
17	77	0	555,575	555,575	8,000,000	11.34%	1,345,667	1,345,667	8,000,000	11.34%
18	78	0	391,321	391,321	8,000,000	10.47%	1,412,892	1,412,892	8,000,000	10.47%
19	79	0	199,622	199,622	8,000,000	9.72%	1,481,478	1,481,478	8,000,000	9.72%
20	80	0	0	0	8,000,000	9.07%	1,545,179	1,545,179	8,000,000	9.07%
Totals:		2,172,564								
21	81	0	0	0	8,000,000	8.50%	1,604,587	1,604,587	8,000,000	8.50%
22	82	0	0	0	8,000,000	7.99%	1,663,210	1,663,210	8,000,000	7.99%
23	83	0	0	0	8,000,000	7.54%	1,720,755	1,720,755	8,000,000	7.54%
24	84	0	0	0	8,000,000	7.14%	1,776,414	1,776,414	8,000,000	7.14%
25	85	0	0	0	8,000,000	6.77%	1,828,608	1,828,608	8,000,000	6.77%
26	86	0	0	0	8,000,000	6.45%	1,876,508	1,876,508	8,000,000	6.45%
27	87	0	0	0	8,000,000	6.15%	1,921,342	1,921,342	8,000,000	6.15%
28	88	0	##	##	##	##	1,962,855	1,962,855	8,000,000	5.87%
29	89	0					1,999,674	1,999,674	8,000,000	5.62%
30	90	0					2,030,916	2,030,916	8,000,000	5.39%
Totals:		2,172,564								

1. $1,828,608-$1,776,614= $51,934 actual gain
2. $1,828,608X.0495=$90,516 expected gain
3. $90,516-$51,994=$38,582 expected costs

Based on sample hypothetical illustration

The IRR on death benefit is equivalent to an interest rate at which an amount equal to the illustrated premiums could have been invested outside the policy to arrive at the net death benefit of the policy.
Indicates that the policy has lapsed under the illustrated assumption. Additional premium would be required to maintain policy benefits.

This is your Basic Illustration and is valid only if all illustration pages are included.

LIFE INSURANCE ILLUSTRATIONS: **QUESTIONABLE PRACTICES**

- Life Insurance illustrations comingle costs and performance
- Reg 187, UPIA, FINRA require justifiable “costs”, “reasonable performance” & appropriate “risk”
- This is not a solicitation, for discussion purposes only

[redacted] Life Insurance Company (U.S.A.)

A LIFE INSURANCE POLICY ILLUSTRATION
A Flexible Premium Universal Life Insurance Policy
Guaranteed and Nonguaranteed Values

[redacted] UL [redacted]

Illustration Assumptions

James Farber
Male - Super Preferred NonSmoker
Age: 60

Initial Death Benefit $8,000,000
Face Amount $8,000,000
Initial Planned Premium: $181,047.00 / Billing Mode: Annual

Based on Current Charges and an Initial Current Rate of 4.95%

			2.00% Minimum Rate, Maximum Charges				4.95% Initial Current Rate, Current Charges			
Policy Year	EOY Age	Planned Premium	Policy Value	Net Surrender Value	Net Death Benefit	IRR on Death Benefit	Policy Value	Net Surrender Value	Net Death Benefit	IRR on Death Benefit
1	61	181,047	112,725	0	8,181,047	4,418.74%	120,361	0	8,181,047	4,418.74%
2	62	181,047	224,563	12,350	8,362,094	531.45%	239,709	27,497	8,362,094	531.45%
3	63	181,047	335,522	119,358	8,543,141	222.55%	361,918	145,755	8,543,141	222.55%
4	64	181,047	425,303	206,025	8,724,188	130.63%	466,567	247,288	8,724,188	130.63%
5	65	181,047	508,004	313,800	8,905,235	89.09%	567,575	373,371	8,905,235	89.09%
6	66	181,047	541,539	378,328	9,086,282	66.05%	670,857	507,646	9,086,282	66.05%
7	67	181,047	565,292	436,613	9,267,329	51.63%	773,899	645,220	9,267,329	51.63%
8	68	181,047	578,114	487,506	9,448,376	41.86%	876,199	785,591	9,448,376	41.86%
9	69	181,047	578,398	529,369	9,629,423	34.85%	977,128	928,098	9,629,423	34.85%
10	70	181,047	585,709	585,709	9,810,470	29.61%	1,075,252	1,075,252	9,810,470	29.61%
Totals:		1,810,470								
11	71	181,047	667,743	667,743	9,991,517	25.57%	1,172,156	1,172,156	9,991,517	25.57%
12	72	181,047	747,111	747,111	10,172,564	22.37%	1,264,846	1,264,846	10,172,564	22.37%
13	73	0	731,101	731,101	10,172,564	19.82%	1,201,494	1,201,494	10,172,564	19.82%
14	74	0	707,201	707,201	10,172,564	17.76%	1,151,697	1,151,697	10,172,564	17.76%
15	75	0	687,207	687,207	8,000,000	13.57%	1,215,725	1,215,725	8,000,000	13.57%
16	76	0	657,788	657,788	8,000,000	12.36%	1,279,898	1,279,898	8,000,000	12.36%
17	77	0	555,575	555,575	8,000,000	11.34%	1,345,667	1,345,667	8,000,000	11.34%
18	78	0	391,321	391,321	8,000,000	10.47%	1,412,892	1,412,892	8,000,000	10.47%
22	82	0	0	0	8,000,000	7.99%	1,663,210	1,663,210	8,000,000	7.99%
23	83	0	0	0	8,000,000	7.54%	1,720,755	1,720,755	8,000,000	7.54%
24	84	0	0	0	8,000,000	7.14%	1,776,414	1,776,414	8,000,000	7.14%
25	85	0	0	0	8,000,000	6.77%	1,828,608	1,828,608	8,000,000	6.77%
28	88	0	##	##	##	##	1,962,855	1,962,855	8,000,000	5.87%
29	89						1,999,674	1,999,674	8,000,000	5.62%
30	90									
Totals:										

1. $1,828,608-$1,776,614= $51,934 actual gain
2. $1,828,608X.0495=$90,516 expected gain
3. $90,516-$51,994=$38,582 expected costs

Based on sample hypothetical illustration

The IRR
outside

Indicates that the policy has lapsed under the illustrated assumption. Additional premium would be required to maintain policy benefits.

This is your Basic Illustration and is valid only if all illustration pages are included.

FINANCIAL
A ONEDIGITAL COMPANY

LIFE INSURANCE ILLUSTRATIONS: **QUESTIONABLE PRACTICES**

- Annual account summaries and detailed expense pages- Do NOT comingle cost and performance

$348,731 X 19.07%= $1,828,608

[redacted] Life Insurance Company (U.S.A.)

A LIFE INSURANCE POLICY ILLUSTRATION
A Flexible Premium Universal Life Insurance Policy
Annual Account Summary

[redacted] UL [redacted]

Illustration Assumptions

James Farber
Male - Super Preferred NonSmoker
Age: 60

Initial Death Benefit $8,000,000
Face Amount $8,000,000
Initial Planned Premium: $181,047.00 / Billing Mode: Annual
Death Benefit Option 1; Cash Value Accumulation Test
State: South Dakota
Based on Current Charges and an Initial Current Rate of 4.95%

Policy Year	Planned Premium	Premium Charge	Admin/ Contract Charges	Insurance Charges	Amount Credited	Policy Value	Surrender Charge	Net Surrender Value
1	181,047	32,588	33,274	1,253	6,430	120,361	207,414	0
2	181,047	32,588	33,274	8,044	12,207	239,709	212,212	27,497
3	181,047	32,588	33,274	11,011	18,036	361,918	216,164	145,755
4	181,047	32,588	53,475	13,808	23,473	466,567	219,279	247,288
5	181,047	32,588	58,907	16,369	28,425	567,575	194,204	373,371
6	181,047	32,588	60,731	19,867	35,421	670,857	163,211	507,646
7	181,047	32,588	62,555	23,564	40,703	773,899	128,679	645,220
8	181,047	32,588	64,379	27,738	45,959	876,199	90,608	785,591
9	181,047	32,588	66,204	32,486	51,159	977,128	49,029	928,098
10	181,047	32,588	68,028	38,557	56,250	1,075,252	0	1,075,252
Totals:	1,810,470	325,885	534,099	193,297	318,063			
11	181,047	32,588	69,852	42,944	61,241	1,172,156	0	1,172,156
12	181,047	32,588	71,676	50,179	66,087	1,264,846	0	1,264,846
13	0	0	68,069	58,307	63,024	1,201,494	0	1,201,494
14	0	0	64,462	67,402	82,067	1,151,697	0	1,151,697
15	0	0	60,855	59,211	184,094	1,215,725	0	1,215,725
16	0	0	57,247	70,337	191,757	1,279,898	0	1,279,898
17	0	0	53,640	79,345	198,754	1,345,667	0	1,345,667
18	0	0	50,033	89,586	206,844	1,412,892	0	1,412,892
19	0	0	49,786	101,095	219,466	1,481,478	0	1,481,478
20	0	0	49,786	126,066	239,553	1,545,179	0	1,545,179
Totals:	2,172,564	391,062	1,129,504	937,769	1,830,950			
21	0	0	49,786	150,978	260,171	1,604,587	0	1,604,587
22	0	0	49,786	170,244	278,653	1,663,210	0	1,663,210
23	0	0	49,786	191,970	299,300	1,720,755	0	1,720,755
24	0	0	49,786	216,563	322,008	1,776,414	0	1,776,414
25	0	0	49,786	246,751	348,731	1,828,608	0	1,828,608
26	0	0	49,786	281,308	378,993	1,876,508	0	1,876,508
27	0	0	49,786	317,371	411,990	1,921,342	0	1,921,342
28	0	0	49,786	361,362	452,660	1,962,855	0	1,962,855
29	0	0	49,786	424,709	511,313	1,999,674	0	1,999,674
30	0	0	49,786	498,992	580,020	2,030,916	0	2,030,916
Totals:	2,172,564	391,062	1,627,360	3,798,016	5,674,790			

The prospect/client believes that this conservative general account product requires earnings of $90,516 to function as illustrated on page 8, the product actually requires earnings over 3x greater.
Lesson Learned: Separate Cost From Performance!

Indicates that the policy has lapsed under the illustrated assumption. Additional premium would be required to maintain policy benefits.

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LIFE INSURANCE ILLUSTRATIONS: **QUESTIONABLE PRACTICES**

- Annual account summaries and detailed expense pages- Do NOT comingle cost and performance

$348,731 X 19.07%= $1,828,608

[redacted] Life Insurance Company (U.S.A.)

A LIFE INSURANCE POLICY ILLUSTRATION
A Flexible Premium Universal Life Insurance Policy
Annual Account Summary

[redacted] UL [redacted]

Illustration Assumptions
James Farber
Male - Super Preferred NonSmoker
Age: 60

Initial Death Benefit $8,000,000
Face Amount $8,000,000
Initial Planned Premium: $181,047.00 / Billing Mode: Annual
Death Benefit Option 1; Cash Value Accumulation Test

Based on Current Charges and an Initial Current Rate of 4.95%

Policy Year	Planned Premium	Premium Charge	Admin/ Contract Charges	Insurance Charges	Amount Credited	Policy Value	Surrender Charge	Net Surrender Value
1	181,047	32,588	33,274	1,253	6,430	120,361	207,414	0
2	181,047	32,588	33,274	8,044	12,207	239,709	212,212	27,497
3	181,047	32,588	33,274	11,011	18,036	361,918	216,164	145,755
4	181,047	32,588	53,475	13,808	23,473	466,567	219,279	247,288
5	181,047	32,588	58,907	16,969	28,425	567,575	194,204	373,371
6	181,047	32,588	60,731	19,867	35,421	670,857	163,211	507,646
7	181,047	32,588	62,555	23,564	40,703	773,899	128,679	645,220
8	181,047	32,588	64,379	27,738	45,959	876,199	90,608	785,591
9	181,047	32,588	66,204	32,486	51,159	977,128	49,029	928,098
10	181,047	32,588	68,028	38,557	56,250	1,075,252	0	1,075,252
Totals:	1,810,470	325,885	534,099	193,297	318,063			
11	181,047	32,588	69,852	42,944	61,241	1,172,156	0	1,172,156
12	181,047	32,588	71,676	50,179	66,087	1,264,846	0	1,264,846
20	0	0	49,786	126,066	239,553	1,545,179	0	1,545,179
25	0	0	49,786	246,751	348,731	1,828,608	0	1,828,608
23	0	0	49,786	191,970	299,300	1,720,755	0	1,720,755
24	0	0	49,786	216,563	322,008	1,776,414	0	1,776,414
25	0	0	49,786	246,751	348,731	1,828,608	0	1,828,608
26	0	0	49,786	281,308	378,993	1,876,508	0	1,876,508
27	0	0	49,786	317,371	411,990	1,921,342	0	1,921,342
28	0	0	49,786	361,362	452,660	1,962,855	0	1,962,855
29	0	0	49,786	424,709	511,313	1,999,674	0	1,999,674
30	0	0	49,786	498,992	580,020	2,030,916	0	2,030,916

The prospect/client believes that this conservative general account product requires earnings of $90,516 to function as illustrated on page 8, the product actually requires earnings over 3x greater.
Lesson Learned: Separate Cost From Performance!

This is your Basic Illustration and is valid only if all illustration pages are included.

LIFE INSURANCE ILLUSTRATIONS: Questionable Practices

Non-Guaranteed Policy Values: Ledger

This illustration assumes non-guaranteed policy charges and non-guaranteed crediting rates

				Non-Guaranteed Values (EOY) @ 5.00% [1]	
Yr	Age	Premium Outlay* (1)	Accumulated Value (2)	Cash Surrender Value (3)	Death Benefit (4)
1	45	12,925	4,941	0	1,000,000
2	46	12,925	10,881	5,952	1,000,000
3	47	12,925	17,891	13,454	1,000,000
4	48	12,925	25,997	22,053	1,000,000
5	49	12,925	35,367	31,916	1,000,000
6	50	12,925	45,762	42,804	1,000,000
7	51	12,925	57,259	54,794	1,000,000
8	52	12,925	69,941	67,968	1,000,000
9	53	12,925	83,893	82,907	1,000,000
10	54	12,925	98,793	98,793	1,000,000
Total		129,250			
11	55	12,925	116,776	116,776	1,000,000
12	56	12,925	135,554	135,554	1,000,000
13	57	12,925	155,167	155,167	1,000,000
14	58	12,925	175,641	175,641	1,000,000
15	59	12,925	196,979	196,979	1,000,000
16	60	12,925	219,059	219,059	1,000,000
17	61	12,925	242,107	242,107	1,000,000
18	62	12,925	266,141	266,141	1,000,000
19	63	12,925	291,215	291,215	1,000,000
20	64	12,925	317,403	317,403	1,000,000
Total		258,500			

Policy Charges

All assumptions are based on non-guaranteed values unless otherwise stated.

		What You Pay	What We Deduct					What Is Added	What Your Policy Values Are			
Yr	Age	Premium Outlay*	Non-Guaranteed Premium Loads	Admin and Rider Charges	Non-Guaranteed Coverage Charge	Non-Guaranteed Cost of Insurance	Total Charges	Interest Credit[1]	Accumulated Value	Policy Surrender Charge	Cash Surrender Value	Alternate Accum Value
11	55	12,925	-763	-90	-8,748	-896	-10,496	15,554	116,776	0	116,776	93,934
12	56	12,925	-763	-90	-8,748	-1,102	-10,703	16,556	135,554	0	135,554	107,013
13	57	12,925	-763	-90	-8,748	-1,332	-10,933	17,620	155,167	0	155,167	120,121
14	58	12,925	-763	-90	-8,748	-1,560	-11,160	18,710	175,641	0	175,641	133,262
15	59	12,925	-763	-90	-8,748	-1,848	-11,449	19,862	196,979	0	196,979	146,374
16	60	12,925	-763	-90	-8,748	-2,280	-11,881	21,036	219,059	0	219,059	159,311
17	61	12,925	-763	-90	-8,748	-2,562	-12,162	22,285	242,107	0	242,107	172,223
18	62	12,925	-763	-90	-8,748	-2,863	-12,463	23,572	266,141	0	266,141	185,089
19	63	12,925	-763	-90	-8,748	-3,177	-12,778	24,926	291,215	0	291,215	197,894
20	64	12,925	-763	-90	-8,748	-3,478	-13,079	26,342	317,403	0	317,403	210,651
Total		258,500	-15,252	-1,800	-162,711	-32,225	-211,987	270,890				

- Illustrated Rate of Return = 5.0%
  Conservative Risk Profile

- Rate of Return REQUIRED
  $116,776 * 14% = $16,556
  AGGRESSIVE Risk Profile

This report is not complete and cannot be presented without the Basic Illustration. Please refer to the Basic Illustration for guaranteed elements and other important information. Non-guaranteed elements are not guaranteed.

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The Dos and Don’ts of Life Insurance.
The Need for Independent Life Insurance Research for Fiduciaries

Help Your Clients Achieve Better Outcomes

A Member Firm of M Financial Group

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A PRUDENT PROCESS FOR LIFE INSURANCE PROTECTS YOUR CLIENTS FROM HIGH COSTS, UNDISCLOSED BONUSES AND UNREASONABLE RETURN ASSUMPTIONS.

› FINRA RULES › 2000. DUTIES AND CONFLICTS
› 2200. COMMUNICATIONS AND DISCLOSURES

FINRA

2211. Communications with the Public About Variable Life Insurance and Variable Annuities

(ii) An illustration may **use any combination of assumed investment returns up to and including a gross rate of 12%**, provided that one of the returns is a 0% gross rate. Although the maximum assumed rate of 12% may be acceptable, **members are urged to assure that the maximum rate illustrated is reasonable** considering market conditions and the available investment options.

Is 14% a reasonable return?

Policy/Benchmark	Est Yr 1 Cash Value / Premium Ratio	Surrender Charge	Yrs Applied	Average Decrease %/Yr	Death Benefit @ Endowment/Maturity	Crediting Rate %	Bonus Rate %	Ultimate Rate %
Policy Under Evaluation	0.00%	100.00%	9	11.11%	$6,668,822	14.33	0.00	14.33
Benchmark for Institutionally-Priced Policies	80.00%	0.00%	N/A	N/A	$106,514,900	14.33	0.00	14.33
Benchmark of All Policies	0.00%	88.00%	11	8.00%	$104,169,600	14.33	0.00	14.33

Policy/Benchmark	Est Yr 1 Cash Value / Premium Ratio	Surrender Charge	Yrs Applied	Average Decrease %/Yr	Death Benefit @ Endowment/Maturity	Crediting Rate %	Bonus Rate %	Ultimate Rate %
Policy Under Evaluation	0.00%	100.00%	9	11.11%	$8,000,000	4.95	4.56	9.51
Benchmark for Institutionally-Priced Policies	80.00%	0.00%	N/A	N/A	$8,000,000	4.95	4.56	9.51
Benchmark of All Policies	0.00%	88.00%	11	8.00%	Lapse @ Y29	4.95	4.56	9.51

Is a 4.56% undisclosed bonus misleading?

Research Courtesy of

Veralytic

U.S. Patent #7,698,158

U.S. Patent #6,456,979

YB FINANCIAL
A ONEDIGITAL COMPANY

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SAMPLE MORNINGSTAR FUND REPORT FOR VARIABLE LIFE

PACIFIC LIFE

Release Date
12-31-2022

DFA VA U.S. Targeted Value

Available through Pacific Life's Variable Universal Life Insurance Products

Benchmark
Russell 2000 Value TR USD

Investment Strategy from underlying investment's prospectus

The investment seeks long-term capital appreciation.

The fund, using a market capitalization weighted approach, purchases a broad and diverse group of readily marketable securities of U.S. small and mid cap companies that the Advisor determines to be value stocks with higher profitability. As a non-fundamental policy, it will invest at least 80% of its net assets in securities of U.S. companies. The fund may purchase or sell futures contracts and options on futures contracts for U.S. equity securities and indices, to increase or decrease equity market exposure based on actual or expected cash inflows to or outflows from the Portfolio.

Morningstar Category: Small Value
Small-value portfolios invest in small U.S. companies with valuations and growth rates below other small-cap peers. Stocks in the bottom 10% of the capitalization of the U.S. equity market are defined as small cap. Value is defined based on low valuations (low price ratios and high dividend yields) and slow growth (low growth rates for earnings, sales, book value, and cash flow).

Fees and Expenses as of 02-28-22

Prospectus Net Expense Ratio	0.29%
Prospectus Gross Expense Ratio	*0.29%*

Waiver Data	Type	Exp. Date	%
	—	—	—

Operations

Portfolio Inception Date:	10-03-95
Separate Acct Start Date:	09-01-14

Portfolio Manager(s)
Jed Fogdall. Since 2012.
Joel Schneider. Since 2015.
Marc Leblond. Since 2020.

Management Company	Dimensional Fund Advisors LP
Subadvisor	—

Morningstar Sustainability

Morningstar Sustainability Rating as of 11-30-22
Average

Global Category
Out of 1,654 US Equity Small Cap investments analyzed

Historical Corporate Sustainability Score as of 11-30-22
26 based on 97% of AUM

Historical Corporate % Rank in Global Category
48

Sustainability Mandate
No

The Morningstar Sustainability Score is based on company-level analysis from Sustainalytics. See disclosure for details.

Performance

	YTD	1 Year	3 Year	5 Year	10 Year	Since Inception
Portfolio Return %	-4.21	-4.21	11.64	7.48	11.05	10.42
Benchmark Return %	-14.48	-14.48	4.70	4.13	8.48	—
Category Average %	-10.16	-10.16	7.06	4.77	8.67	—

	3 Year	5 Year	10 Year	Overall Rating
Morningstar Rating™	★★★★	★★★★	★★★★	★★★★
# of Funds in Category	453	426	322	453

Performance Disclosure: The performance data quoted represents past performance and does not guarantee future results. The investment return and principal value of an investment will fluctuate; thus an investor's shares, when redeemed, may be worth more or less than their original cost.
There may be multiple fund share classes listed. Not all share classes that appear in this Report are available in all VUL insurance products. Please refer to your VUL insurance product prospectus for the applicable funds and share classes.
Current performance may be lower or higher than return data quoted herein. For more current information including month-end performance, please call 800-800-7681 or visit www.pacificlife.com. Please refer to the performance section of the disclosure page for more information.

Portfolio Analysis

Composition as of 11-30-22

	% Assets
U.S. Stocks	97.4
Non-U.S. Stocks	2.4
Bonds	0.0
Cash	0.2
Other	0.0

Morningstar Equity Style Box™ as of 11-30-22

	% Mkt Cap
Giant	0.00
Large	0.72
Medium	23.09
Small	47.04
Micro	29.15

Top 10 Holdings as of 11-30-22

	% Assets
Reliance Steel & Aluminum Co	0.77
First Solar Inc	0.68
First Horizon Corp	0.63
Arrow Electronics Inc	0.56
BorgWarner Inc	0.55
HF Sinclair Corp	0.54
Murphy Oil Corp	0.52
Amkor Technology Inc	0.48
PDC Energy Inc	0.47
PulteGroup Inc	0.47
Total Number of Stock Holdings	1283
Total Number of Bond Holdings	0
Annual Turnover Ratio %	23.00
Total Fund Assets ($mil)	518.90

Morningstar Equity Sectors as of 11-30-22

	% Fund
Cyclical	49.58
Basic Materials	7.25
Consumer Cyclical	14.52
Financial Services	26.74
Real Estate	1.07
Sensitive	38.95
Communication Services	2.86
Energy	8.52
Industrials	17.40
Technology	10.17
Defensive	11.45
Consumer Defensive	4.79
Healthcare	6.09
Utilities	0.57

Notes

Variable universal life (VUL) insurance offers the policyowner the flexibility to structure the desired death benefit, as well as the premium payments according to individual needs and objectives. The policyowner also has the ability to allocate these premium payments among a variety of investment options. Pacific Life's VUL insurance products offer a wide variety of variable investment options. Insurance products are issued by Pacific Life Insurance Company in all states except New York, and in New York by Pacific Life & Annuity Company. Product availability and features may vary by state. Portfolio statistics may differ from the annual report.

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Page 1 of 6

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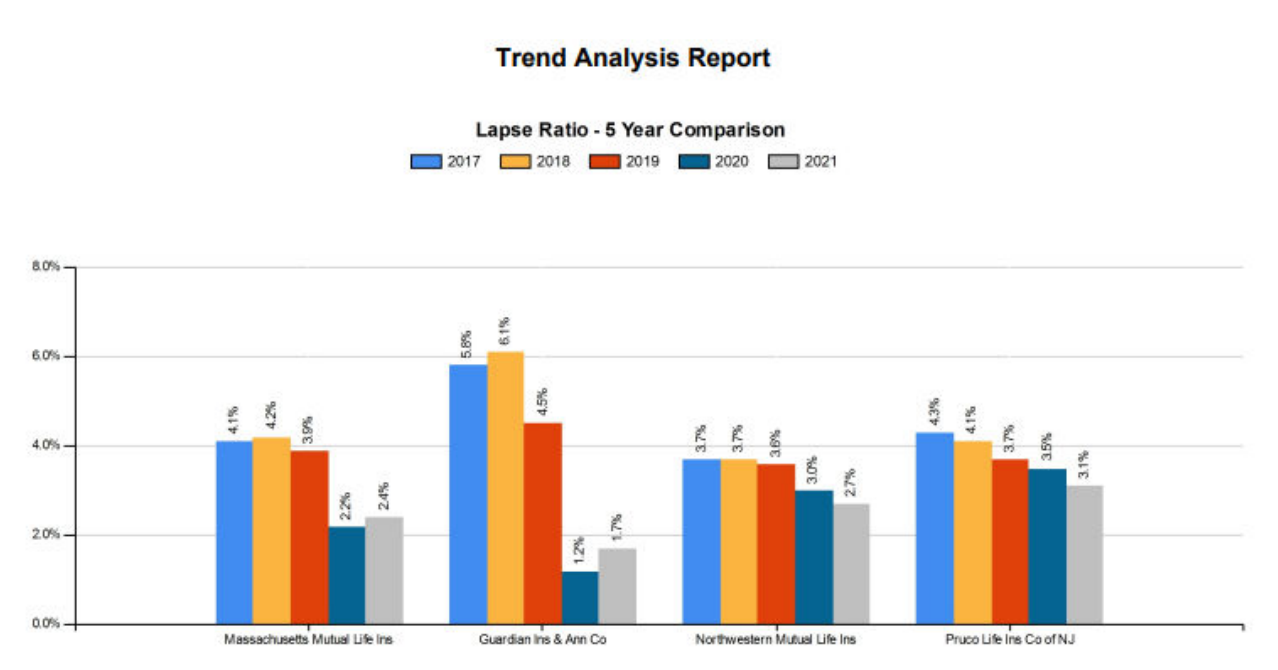
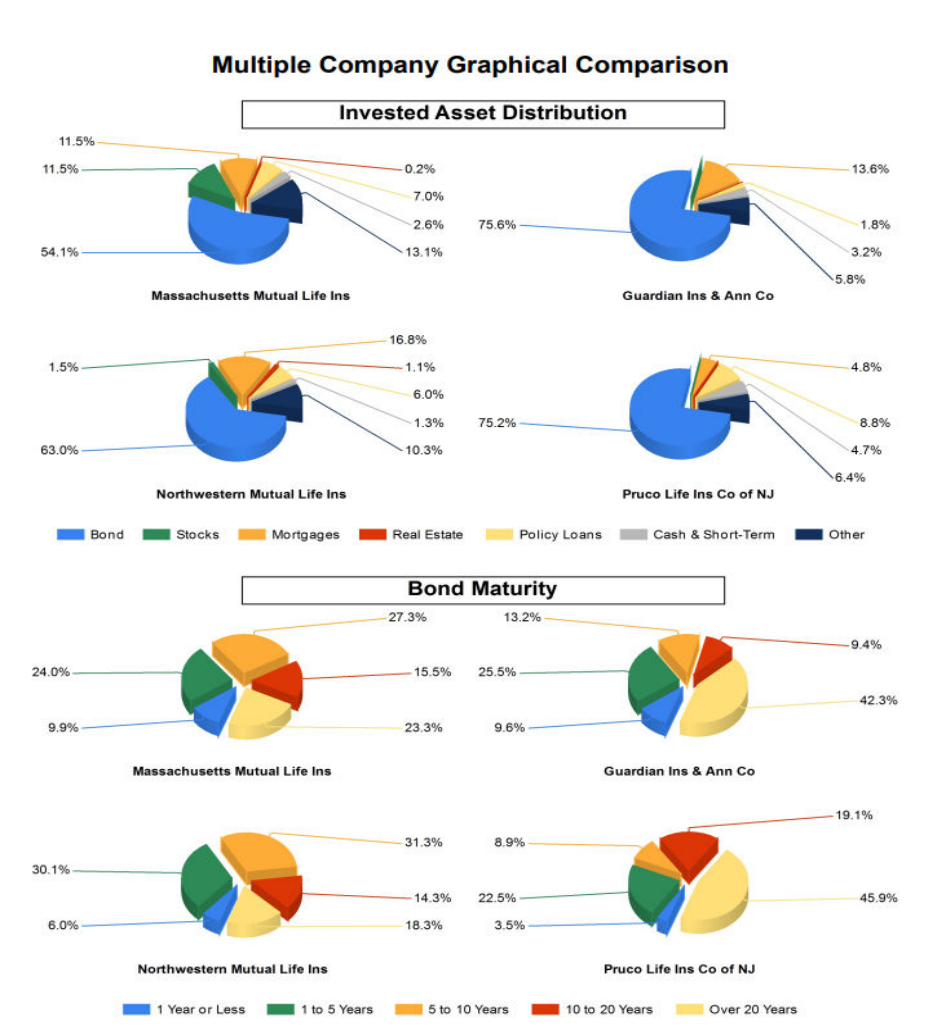
SAMPLE EBIX LIFE INSURANCE COMPANY RESEARCH





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Pain Statements From Fiduciaries Regarding Life Insurance

Fiduciaries have told us that they are:

- uncomfortable with the lack of transparency in the life insurance industry and confused by complicated illustrations
- frustrated with the inability to determine which policy or illustration leads to a better outcome for their clients
- worried about the fiduciary risk of referring business to non-fiduciaries or individuals who do not act under a clients' best interest definition

Which one resonates with you?

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MALE AGE 55 : GENERAL ACCOUNT BENCHMARKS

THE Five Benchmarks for Life Insurance Suitability

1. **Financial Strength & Claims-Paying Ability: (1 star)**
   ★
   The insurer's financial strength and claims-paying ability ranks in the top decile (i.e., among the top 10%) of all rated insurers. While high ratings for financial strength and claims-paying ability do not necessarily, in and of themselves, render a policy appropriate, high ratings ***and*** low cost is considered more appropriate than otherwise. (Carrier Strength is reported in "Carrier Due Care" located in the lower left corner of page 2 of the CPE Report. This section reports the insurer's ratings and rankings by the four leading ratings services and the insurer's percentile ranking using a composite index. Ratings methods and the significance of these rankings are discussed in detail on pages 2 and 3 of Section 4, *CPE User Guide*, of this report.)

2. **Cost Competitiveness: (1 star)**
   ★
   The policy under evaluation illustrates an overall cost structure and premium that is more competitive than the relevant benchmark representative of an average, but competitively priced product. While a low overall cost structure and low illustrated premiums do not necessarily, in and of themselves, render the policy appropriate, low premiums that are the result of a low cost structure attributable to some demonstrable operating, underwriting and/or marketing advantage are considered more appropriate than otherwise. To evaluate Cost Competitiveness, the CPE system considers Funding Strategy and Pricing Style (reported in "Product Profile" located at the top left corner of page 1 of the CPE Report), as well as Premium Cost Competitiveness (reported in "Premium Comparison" located at the upper right corner of page 1 of the CPE Report). (The significance of Cost Competitiveness is discussed in detail on pages 3-5 of Section 4, *CPE User Guide*, of this report.)

3. **Pricing Stability: (1 star)**
   ★
   Pricing of all life insurance policies are a function of three (3) variables: 1) cost of insurance (COI) charges, 2) policy expenses, and 3) the illustrated/actual earnings rate on policy cash values. Pricing for the policy under evaluation is adequate and reasonable to the extent that cost of insurance (COI) charges and policy expenses appear to be based on actual claims and operating experience according to disclosures included in the illustration of the policy under evaluation. The insurer's retention capacity allows the insurer to exercise substantial control over pricing for the policy under evaluation, and, therefore, pricing for this policy is least vulnerable to changes in the reinsurance market. In addition, the pricing of the policy under evaluation is based on interest assumptions which are in line with historical returns for the asset classes corresponding to the asset types in which policy cash values are invested. While the CPE has no way of predicting whether a policy will perform as illustrated, the CPE does consider whether the values illustrated are consistent with the insurer's historical experience, whether this experience has been fully disclosed, and how potential changes in experience might impact future policy performance. (The significance of Pricing Stability is discussed in detail on pages 5 and 6 of Section 4, *CPE User Guide*, of this report.)

THE Five Benchmarks for Life Insurance Suitability

4. **Relative Policy Value: (1 star)**

★

Cash value liquidity for this policy is greater than the representative benchmarks. While liquidity can be less relevant in certain plan designs, policies with higher cash values and greater liquidity than relevant benchmarks are generally considered more appropriate than policies with lower cash values and more limited access to policy cash values. (Relative Cash Value comparisons are summarized in "Hypothetical Policy Cash Value Account Growth" located near the bottom of page 1 of the CPE Report. The significance of Relative Cash Value is discussed on pages 6 and 7 of Section 4, *CPE User Guide*, of this report.)

5. **Historical Performance: (1/2 star)**

½

The cash value allocation options for the product under evaluation are considered acceptable in that the historical net yield on the insurer's General Account Portfolio supporting illustrated policy cash values is roughly the same as the average historical net yield for all insurers (to the extent that allocating *all* policy cash values to non-equity, fixed-income-type assets is consistent with the risk/return profile of the policy owner). Insurers are required by law to invest cash values for permanent products (other than variable) predominantly in declared-rate investments such as bonds and mortgages. While the illustrated policy crediting rate may be higher or lower that the insurer's net portfolio yield at a given point in time, over time the actual policy crediting rate must correlate with the yield on the insurer's General Account Portfolio. Thus, permanent products (other than variable) whose cash values are invested in a General Account with *higher* historical net yields are generally considered more appropriate than policies whose cash values are invested in a General Account with *lower* historical net yields. (The CPE compares the illustrated net portfolio yield with average net portfolio yields for all insurers and summarizes comparisons in "Product Profile" located in the upper left corner of page 1 of the CPE Report. The significance of Cash Value Allocation Options is discussed on pages 7 and 8 of Section 4, *CPE User Guide*, of this report).

SAMPLE INDEPENDENT PRICING AND PERFORMANCE RESEARCH SNAPSHOT

MetLife Life Paid-Up at Age 98

TheInsuranceAdvisor.com Category
Institutional

Product Profile

Product Rating: (4 1/2 stars out of 5 stars) ★★★★½
Product Type: WL
Premium Type: Fixed
Min. Face Amount: $10,000
Optimal Funding Strategy: Mixed

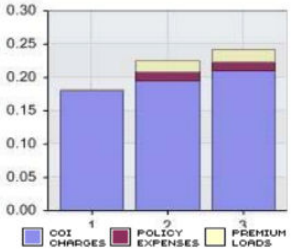
Pricing Style:
Policy pricing is a function of 3 factors: Cost of Insurance Charges (COIs), Expenses & Earnings. Product suitability is therefore categorized by the structure of and the underlying experience for these pricing components. (See The Pricing Advisor section below or at www.TheInsuranceAdvisor.com for more information.)

	Max. Accum	Mixed	Min. Prem
Retail			
Institutional		■	
Experience-Rated			

Policy Under Evaluation		Avg for All Policies
5.89%	5-yr Avg. Net Portfolio Yield*	5.72%

* Source: VitalSigns®

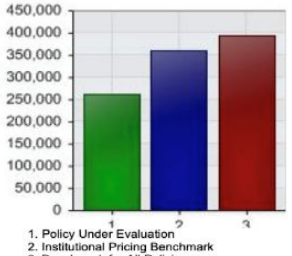
Policy Expense Breakdown



1. Policy Under Evaluation
2. Institutionally Priced Policies
3. Retail Policies

Policy Expense Breakdown measures the present value cost per $ of Death Benefit and the individual cost components, assuming identical funding amounts and funding patterns for a policy issued to a 54 year old male Non-Smoker Preferred + risk.

Premium Comparison - Face Amt: $12,213,423



1. Policy Under Evaluation
2. Institutional Pricing Benchmark
3. Benchmark for All Policies

Premium Comparison calculates the minimum level annual premium required over 7 years to endow the policy, assuming a 6.25% average net policy earnings rate and current expense assumptions for a policy issued to a 54 year old male Non-Smoker Preferred + risk.

Cost of Insurance (COI) Charges

	Policy Under Evaluation	Institutional Pricing Benchmark	Benchmark for All Policies
Weighted-Average Annual COI	$1,041,373	$1,052,914	$1,065,197

Policy Expenses

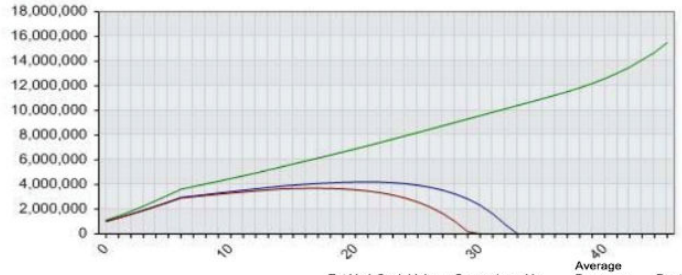
% of Cash Value	Policy Under Evaluation	Institutional Pricing Benchmark	Benchmark for All Policies
M&E Risk %	0.00	0.00	0.00
Other %	0.00	0.00	0.00
Total %	0.00	0.00	0.00
Loan Spread %	N/A	1.00	2.00
Fixed Charges Per Policy Yr	$0	$11,941	$11,941

Premium Loads

% of Premium	Policy Under Evaluation	Institutional Pricing Benchmark	Benchmark for All Policies
State Tax %	0.00	2.35	2.35
Fed DAC Tax %	0.00	1.50	1.50
Carrier % Load(s):	0.00	0.00	0.00
Sales/Service % Load(s):	0.00	3.65	3.65
Total %	0.00	7.50	7.50

Hypothetical Policy Cash Value Account Growth

Planned Annual Premium: $260,330



Policy Under Evaluation
Institutional Pricing Benchmark
Benchmark for All Policies

The purpose of this graph is to show how different policy charges could effect policy value and death benefit. This graph is hypothetical and may not be used to predict or project actual policy performance or tax treatment.

Policy/Benchmark	Est Yr 1 Cash Value / Premium Ratio	Surrender Charge	Yrs Applied	Average Decrease %/Yr	Death Benefit @ Endowment/Maturity	Crediting Rate %	Bonus Rate %	Ultimate Rate %
Policy Under Evaluation	117.87%	0.00%	N/A	N/A	$15,482,459	6.25	0.00	6.25
Benchmark for Institutionally-Priced Policies	80.00%	0.00%	N/A	N/A	Lapse @ Y34	6.25	0.00	6.25
Benchmark for All Policies	0.00%	88.00%	11	8.0000%	Lapse @ Y31	6.25	0.00	6.25

Research Courtesy of

Veralytic

U.S. Patent #6,456,979

U.S. Patent #7,698,158

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SAMPLE INDEPENDENT PRICING AND PERFORMANCE RESEARCH SNAPSHOT

New York Life Whole Life

TheInsuranceAdvisor.com Category
Institutional

Product Profile

Product Rating: (3 1/2 stars out of 5 stars) ★★★½

Product Type:	WL
Premium Type:	Fixed
Min. Face Amount:	$10,000
Optimal Funding Strategy:	Mixed

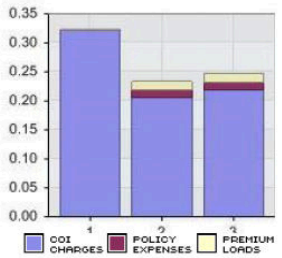
Pricing Style:
Policy pricing is a function of 3 factors: Cost of Insurance Charges (COIs), Expenses & Earnings. Product suitability is therefore categorized by the structure of and the underlying experience for these pricing components. (See The Pricing Advisor section below or at www.TheInsuranceAdvisor.com for more information.)

	Max. Accum	Mixed	Min. Prem
Retail			
Institutional		■	
Experience-Rated			

Policy Under Evaluation		Avg for All Policies
5.76%	5-yr Avg. Net Portfolio Yield*	5.72%

* Source: VitalSigns®

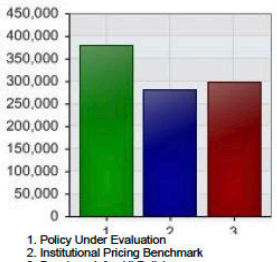
Policy Expense Breakdown



1. Policy Under Evaluation
2. Institutionally Priced Policies
3. Retail Policies

Policy Expense Breakdown measures the present value cost per $ of Death Benefit and the individual cost components, assuming identical funding amounts and funding patterns for a policy issued to a 55 year old male Non-Smoker Preferred risk.

Premium Comparison - Face Amt: $1,085,979



1. Policy Under Evaluation
2. Institutional Pricing Benchmark
3. Benchmark for All Policies

Premium Comparison calculates the minimum level annual premium required over 1 years to endow the policy, assuming a 6.79% average net policy earnings rate and current expense assumptions for a policy issued to a 55 year old male Non-Smoker Preferred risk.

Cost of Insurance (COI) Charges

	Policy Under Evaluation	Institutional Pricing Benchmark	Benchmark for All Policies
Weighted-Average Annual COI	$125,161	$115,674	$116,736

Policy Expenses

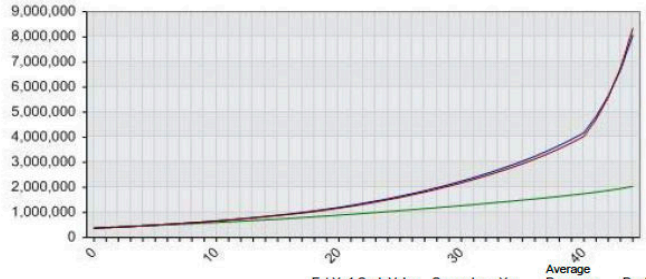
% of Cash Value	Policy Under Evaluation	Institutional Pricing Benchmark	Benchmark for All Policies
M&E Risk %	0.00	0.00	0.00
Other %	0.00	0.00	0.00
Total %	0.00	0.00	0.00
Loan Spread %	0.92	1.00	2.00
Fixed Charges Per Policy Yr	$0	$1,283	$1,283

Premium Loads

% of Premium	Policy Under Evaluation	Institutional Pricing Benchmark	Benchmark for All Policies
State Tax %	0.00	2.35	2.35
Fed DAC Tax %	0.00	1.50	1.50
Carrier % Load(s):	0.00	0.00	0.00
Sales/Service % Load(s):	0.00	3.65	3.65
Total %	0.00	7.50	7.50

Hypothetical Policy Cash Value Account Growth

Planned Annual Premium: $379,827



Policy Under Evaluation
Institutional Pricing Benchmark
Benchmark for All Policies

The purpose of this graph is to show how different policy charges could effect policy value and death benefit. This graph is hypothetical and may not be used to predict or project actual policy performance or tax treatment.

Policy/Benchmark	Est Yr 1 Cash Value / Premium Ratio	Surrender Charge	Yrs Applied	Average Decrease %/Yr	Death Benefit @ Endowment/Maturity	Crediting Rate %	Bonus Rate %	Ultimate Rate %
Policy Under Evaluation	104.37%	0.00%	N/A	N/A	$2,042,788	6.79	0.00	6.79
Benchmark for Institutionally-Priced Policies	80.00%	0.00%	N/A	N/A	$2,042,788	6.79	0.00	6.79
Benchmark for All Policies	0.00%	88.00%	11	8.0000%	$2,042,788	6.79	0.00	6.79

Research Courtesy of

Veralytic

U.S. Patent #7,698,158
U.S. Patent #6,456,979

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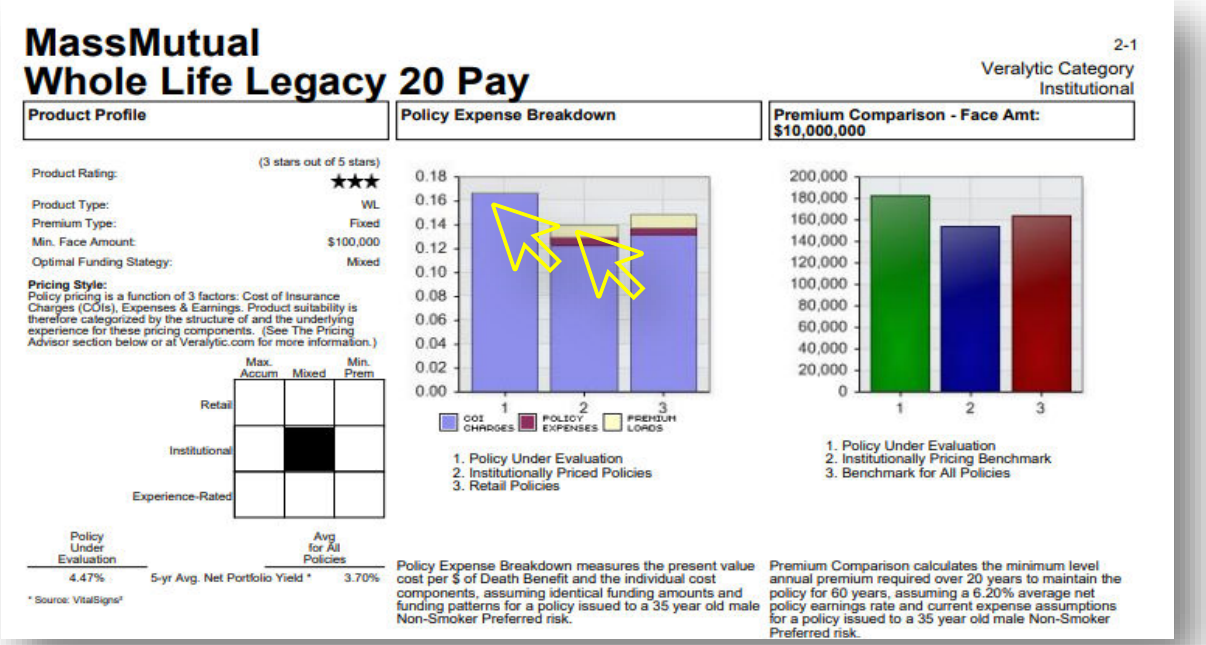
MALE AGE 35: GENERAL ACCOUNT BENCHMARK AND VARIABLE BENCHMARK

INFORCE POLICY: INDEPENDENT EVALUATION, AGE 35M

Research Courtesy of

Veralytic

- Client is insured with MassMutual Whole Life
- Internal costs of $0.16 per dollar of death benefit on a present value basis.
- Best available rates and terms are 40% less than the Veralytic benchmark.[1]
- 60% X $0.14= $0.084
  - Potential Savings: $0.08 X $10,000,000 = $800,000 PV adjusted



MassMutual
Whole Life Legacy 20 Pay

2-1
Veralytic Category
Institutional

Product Profile

Product Rating:	(3 stars out of 5 stars) ★★★
Product Type:	WL
Premium Type:	Fixed
Min. Face Amount:	$100,000
Optimal Funding Stategy:	Mixed

Pricing Style:
Policy pricing is a function of 3 factors: Cost of Insurance Charges (COIs), Expenses & Earnings. Product suitability is therefore categorized by the structure of and the underlying experience for these pricing components. (See The Pricing Advisor section below or at Veralytic.com for more information.)

	Max. Accum	Mixed	Min. Prem
Retail			
Institutional		■	
Experience-Rated			

Policy Under Evaluation		Avg for All Policies
4.47%	5-yr Avg. Net Portfolio Yield *	3.70%

* Source: VitalSigns[2]

Policy Expense Breakdown

1. Policy Under Evaluation
2. Institutionally Priced Policies
3. Retail Policies

Policy Expense Breakdown measures the present value cost per $ of Death Benefit and the individual cost components, assuming identical funding amounts and funding patterns for a policy issued to a 35 year old male Non-Smoker Preferred risk.

Premium Comparison - Face Amt: $10,000,000

1. Policy Under Evaluation
2. Institutionally Pricing Benchmark
3. Benchmark for All Policies

Premium Comparison calculates the minimum level annual premium required over 20 years to maintain the policy for 60 years, assuming a 6.20% average net policy earnings rate and current expense assumptions for a policy issued to a 35 year old male Non-Smoker Preferred risk.

[1]Source: Trust & Estates Mag

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WHERE CAN THE OWNER APPLY THE SAVINGS?

- Independent research says there is $800,000 adjusted for time value of money @6.5%.
- How can the policy owner benefit from this savings?
  - Increase cash value
  - Increase policy duration
  - Reduce premium or buy more death benefit
- Knowing what to do with the research findings, this is what we found.

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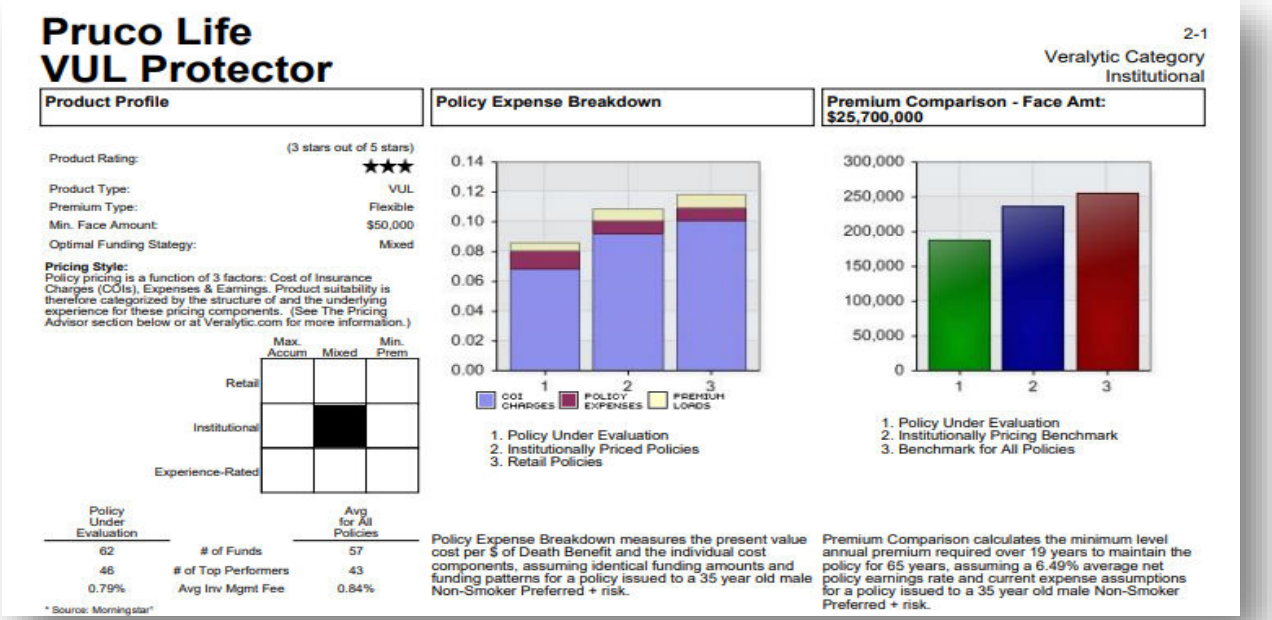
HOW TO UTILIZE THE COST SAVINGS

Buy $15,700,000 more coverage. Guaranteed.

Research Courtesy of

Veralytic

- Current plan: Pay $180,000 for 19 years for $10M, annually increasing face amount @$0.16 per dollar of death benefit on a PV basis
- Proposed plan: Pay $180,000 for 19 years for $25.7M @$0.08 per dollar of death benefit on a PV basis
- This was a trust owned policy with no prudent process for the initial policy selected



Pruco Life
VUL Protector

2-1
Veralytic Category
Institutional

Product Profile

Product Rating:	(3 stars out of 5 stars) ★★★
Product Type:	VUL
Premium Type:	Flexible
Min. Face Amount:	$50,000
Optimal Funding Stategy:	Mixed

Pricing Style:
Policy pricing is a function of 3 factors: Cost of Insurance Charges (COIs), Expenses & Earnings. Product suitability is therefore categorized by the structure of and the underlying experience for these pricing components. (See The Pricing Advisor section below or at Veralytic.com for more information.)

	Max. Accum	Mixed	Min. Prem
Retail			
Institutional		■	
Experience-Rated			

Policy Under Evaluation		Avg for All Policies
62	# of Funds	57
46	# of Top Performers	43
0.79%	Avg Inv Mgmt Fee	0.84%

* Source: Morningstar*

Policy Expense Breakdown

Policy Expense Breakdown measures the present value cost per $ of Death Benefit and the individual cost components, assuming identical funding amounts and funding patterns for a policy issued to a 35 year old male Non-Smoker Preferred + risk.

Premium Comparison - Face Amt: $25,700,000

Premium Comparison calculates the minimum level annual premium required over 19 years to maintain the policy for 65 years, assuming a 6.49% average net policy earnings rate and current expense assumptions for a policy issued to a 35 year old male Non-Smoker Preferred + risk.

Whole life is a conservative product, GVUL is a conservative or aggressive product depending upon investment choice.

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INFORCE POLICY VS MARKETPLACE ALTERNATIVES

Existing Policy
2020 Dividend Scale

Mass Mutual
Policy Number 2.[redacted]
Whole Life Legacy 20 Pay
Whole Life

Underwriting:	Select Preferred NT
Rate Assump:	2020 Dividend Scale
1035 Exch	Not Applicable
DB Guarantee	Lifetime ($10M)
Face Amount	$10,000,000

Yr	EOY Age	New Premium	Net Cash Surrender Value	Death Benefit	IRR on DB
2	37	$182,500	$91,827	$10,162,588	4296%
3	38	182,500	257,643	10,255,679	527.7%
4	39	182,500	431,494	10,357,952	223.9%
5	40	182,500	613,846	10,469,512	132.6%
6	41	182,500	805,198	10,590,937	91.0%
7	42	182,500	1,008,261	10,731,495	67.8%
8	43	182,500	1,223,364	10,887,898	53.3%
9	44	182,500	1,451,444	11,057,765	43.4%
10	45	182,500	1,693,120	11,241,644	36.3%
11	46	182,500	1,949,776	11,440,903	31.0%
12	47	182,500	2,221,714	11,653,279	26.9%
13	48	182,500	2,509,311	11,877,037	23.7%
14	49	182,500	2,813,618	12,112,521	21.1%
15	50	182,500	3,135,503	12,358,822	18.9%
16	51	182,500	3,475,118	12,615,335	17.1%
17	52	182,500	3,833,231	12,881,873	15.6%
18	53	182,500	4,211,079	13,160,045	14.3%
19	54	182,500	4,609,581	13,449,352	13.2%
20	55	0	5,029,535	13,749,413	12.3%
25	60	0	6,552,033	15,271,380	9.5%
30	65	0	8,499,280	17,039,113	7.8%
35	70	0	10,952,811	19,090,533	6.8%
40	75	0	13,985,038	21,455,368	6.1%
45	80	0	17,594,824	24,152,458	5.6%
50	85	0	21,772,130	27,167,958	5.2%
55	90	0	26,360,316	30,625,179	4.9%
60	95	0	31,228,693	34,463,430	4.7%
65	100	0	38,041,248	38,041,248	4.4%
70	105	0	50,171,249	50,171,249	4.5%

Summary:

- **Paying $182,500 annually for 18 years.**
- **DB grows from $10M to $24M at LE based on non-guaranteed dividend**

Notes:

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5) Premiums and face amounts will be subject to final underwriting, carrier selection, state of issue and retention limits. The guaranteed period assumes that the premiums are paid on time and no loans or withdrawals are taken from the policy. The illustrations for new insurance assume a 1035 exchange from your existing policy based on the account value as of 06/16/21. The actual amount of the 1035 transfer could be more or less than what is shown and any variation in the 1035 amount could materially change the above projections.

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INFORCE POLICY VS MARKETPLACE ALTERNATIVES

	Alternative Policy VUL with Maximum Lifetime GDB
	Prudential *Not Applicable* *VUL Protector* Variable Universal Life with NLG
Underwriting	Preferred Best
Rate Assump:	7.00% Gross / 6.44% Net
1035 Exch	$48,700
DB Guarantee	Lifetime ($25.7M)
Face Amount	$25,700,000

Yr	EOY Age	New Premium	Net Cash Surrender Value	Proj Death Benefit	Guar Death Benefit	IRR on Proj DB
2	37	$182,500	$0	$25,700,000	$25.7M	11016%
3	38	182,500	70,551	25,700,000	$25.7M	915.6%
4	39	182,500	252,348	25,700,000	$25.7M	350.7%
5	40	182,500	444,779	25,700,000	$25.7M	199.5%
6	41	182,500	648,536	25,700,000	$25.7M	134.5%
7	42	182,500	876,412	25,700,000	$25.7M	99.4%
8	43	182,500	1,125,172	25,700,000	$25.7M	77.7%
9	44	182,500	1,350,902	25,700,000	$25.7M	63.2%
10	45	182,500	1,595,544	25,700,000	$25.7M	52.8%
11	46	182,500	1,868,059	25,700,000	$25.7M	45.1%
12	47	182,500	2,186,698	25,700,000	$25.7M	39.1%
13	48	182,500	2,486,384	25,700,000	$25.7M	34.4%
14	49	182,500	2,785,970	25,700,000	$25.7M	30.5%
15	50	182,500	3,112,418	25,700,000	$25.7M	27.4%
16	51	182,500	3,478,342	25,700,000	$25.7M	24.7%
17	52	182,500	3,835,331	25,700,000	$25.7M	22.5%
18	53	182,500	4,209,214	25,700,000	$25.7M	20.5%
19	54	182,500	4,604,469	25,700,000	$25.7M	18.9%
20	55	0	5,022,313	25,700,000	$25.7M	17.5%
25	60	0	6,569,791	25,700,000	$25.7M	12.6%
30	65	0	8,559,039	25,700,000	$25.7M	9.8%
35	70	0	10,992,998	25,700,000	$25.7M	8.0%
40	75	0	14,413,740	25,700,000	$25.7M	6.7%
45	80	0	19,110,247	25,700,000	$25.7M	5.8%
50	85	0	25,657,547	29,506,179	$25.7M	5.4%
55	90	0	34,446,351	37,890,986	$25.7M	5.4%
60	95	0	46,436,854	49,687,434	$25.7M	5.4%
65	100	0	62,969,857	64,858,953	$25.7M	5.4%
70	105	0	86,155,551	87,017,107	$25.7M	5.5%

Summary:

- **Paying $182,500 annually for 18 years.**
- **DB $25.7M**
- **Why? Because internal costs were reduced from $0.16 to $0.08 per $1 of death benefit on a PV basis**

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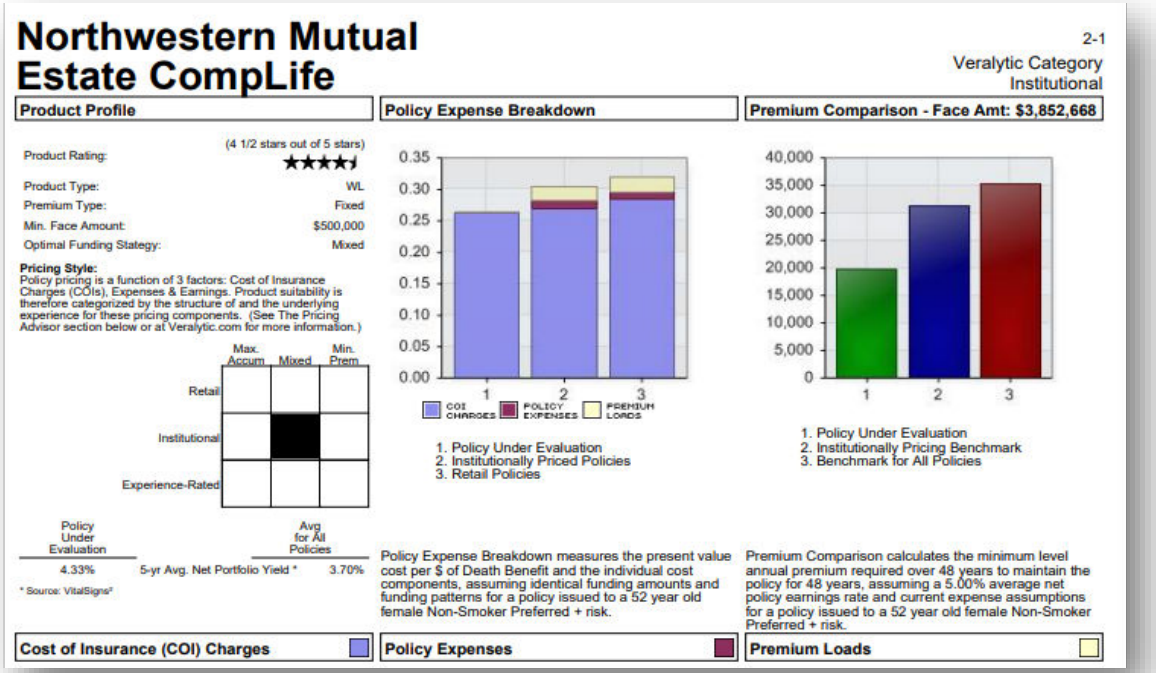
FEMALE AGE 52 GENERAL ACCOUNT BENCHMARK & VARIABLE BENCHMARK

INFORCE POLICY: INDEPENDENT EVALUATION, AGE 52F

- Client is insured with NorthwestMutual whole life.
- Internal costs of $0.26 per dollar of death benefit on a present value basis.
- Best available rates and terms are as low as 40% less than the Veralytic benchmark.[1]



Research Courtesy of

Veralytic

[1]Source: Trust & Estates Mag

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WHERE THE POLICYOWNER CAN APPLY SAVINGS?

- How could the policyowner use the cost savings?
  - Increase cash value
  - Increase policy duration
  - Reduce premium or buy more death benefit
- Knowing what to do with the research findings, this is what we found.

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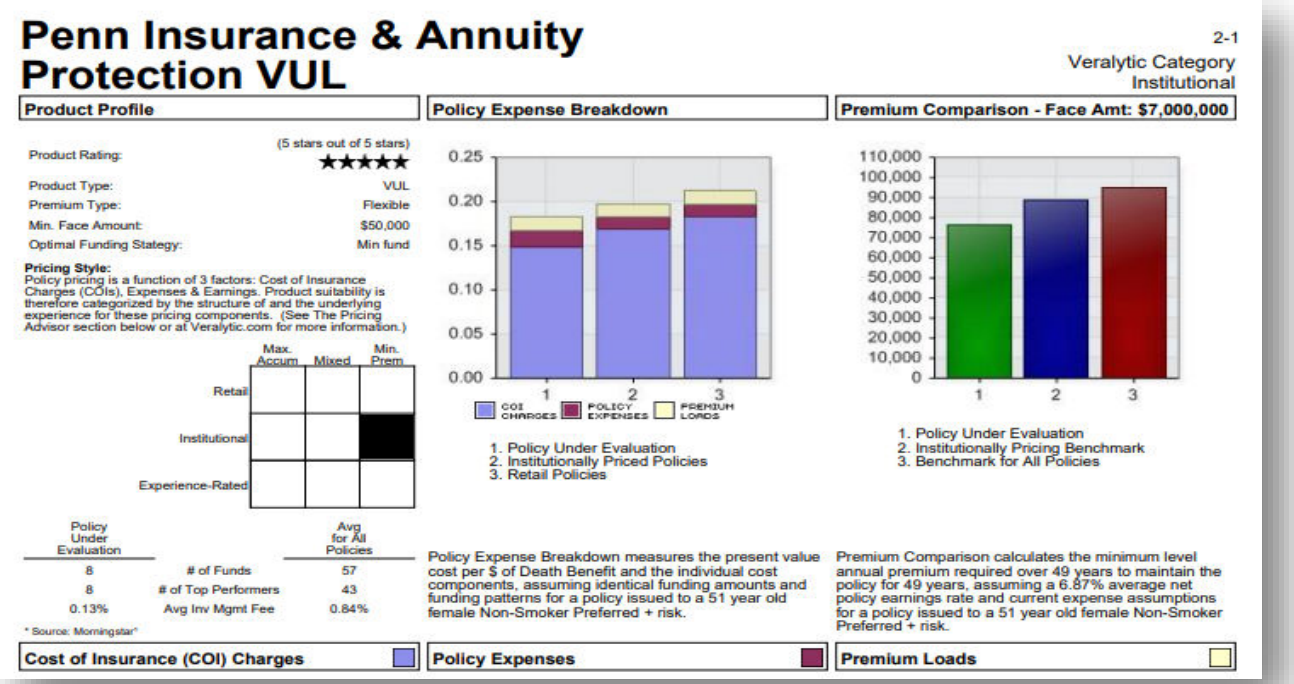
HOW TO UTILIZE THE COST SAVINGS



Penn Insurance & Annuity Protection VUL

2-1
Veralytic Category
Institutional

Product Profile

Product Rating: (5 stars out of 5 stars) ★★★★★
Product Type: VUL
Premium Type: Flexible
Min. Face Amount: $50,000
Optimal Funding Stategy: Min fund

Pricing Style:
Policy pricing is a function of 3 factors: Cost of Insurance Charges (COIs), Expenses & Earnings. Product suitability is therefore categorized by the structure of and the underlying experience for these pricing components. (See The Pricing Advisor section below or at Veralytic.com for more information.)

	Max. Accum	Mixed	Min. Prem
Retail			
Institutional			■
Experience-Rated			

Policy Under Evaluation		Avg for All Policies
8	# of Funds	57
8	# of Top Performers	43
0.13%	Avg Inv Mgmt Fee	0.84%

* Source: Morningstar*

Policy Expense Breakdown

1. Policy Under Evaluation
2. Institutionally Priced Policies
3. Retail Policies

Policy Expense Breakdown measures the present value cost per $ of Death Benefit and the individual cost components, assuming identical funding amounts and funding patterns for a policy issued to a 51 year old female Non-Smoker Preferred + risk.

Premium Comparison - Face Amt: $7,000,000

1. Policy Under Evaluation
2. Institutionally Pricing Benchmark
3. Benchmark for All Policies

Premium Comparison calculates the minimum level annual premium required over 49 years to maintain the policy for 49 years, assuming a 6.87% average net policy earnings rate and current expense assumptions for a policy issued to a 51 year old female Non-Smoker Preferred + risk.

Cost of Insurance (COI) Charges ■ **Policy Expenses** ■ **Premium Loads** ■

- Current plan: Pay $19,648 for life year for $3.8M, annually increasing face amount @$0.26 per $1 of death benefit on a PV basis
- Option 1: Pay less premium – buy $3.8M for lower premium
- Option 2: Buy more death benefit – buy $7M Guaranteed for $19,648 premium for life plus IRC 1035 of $947,000 @$0.17 per dollar of death benefit on a PV basis

Research Courtesy of

Veralytic

Whole life is a conservative product, GVUL is a conservative or aggressive product depending upon investment choice.

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INFORCE POLICY VS MARKETPLACE ALTERNATIVES

- Summary:
- Paying $19,648 annually
- DB grows from $3.8M to $6.7M at LE based on non-guaranteed dividend

Not a MEC

Existing Policy - NWML All Pay

Northwestern Mutual
Policy Number [redacted]
Estate CompLife (Single Life)
Whole Life

Underwriting:	Premier
Rate Assump:	Current Dividend Scale
1035 Exch / LS	$947,000
DB Guarantee	Lifetime
Death Benefit	$3,000,000

Yr	EOY Age	New Prem	Net Cash Surr Value	Proj Death Benefit	Guar Death Benefit	IRR on Proj DB
12	51	$0	$1,010,356	$3,852,668	$3.0M	307%
13	52	19,648	1,076,690	3,916,550	$3.1M	102.3%
14	53	19,648	1,146,131	3,982,952	$3.1M	60.3%
15	54	19,648	1,218,973	4,052,245	$3.1M	42.7%
16	55	19,648	1,295,305	4,124,295	$3.2M	33.1%
17	56	19,648	1,375,216	4,199,219	$3.2M	27.1%
18	57	19,648	1,458,535	4,276,191	$3.2M	22.9%
19	58	19,648	1,545,368	4,355,189	$3.3M	19.9%
20	59	19,648	1,635,798	4,435,949	$3.3M	17.6%
21	60	19,648	1,730,002	4,518,450	$3.3M	15.8%
22	61	19,648	1,828,148	4,602,804	$3.3M	14.4%
23	62	19,648	1,930,418	4,689,298	$3.4M	13.2%
24	63	19,648	2,036,967	4,777,711	$3.4M	12.2%
25	64	19,648	2,147,453	4,867,152	$3.4M	11.4%
26	65	19,648	2,262,002	4,957,723	$3.4M	10.6%
27	66	19,648	2,381,011	5,050,152	$3.4M	10.0%
28	67	19,648	2,504,633	5,144,528	$3.5M	9.5%
29	68	19,648	2,632,898	5,240,945	$3.5M	9.0%
30	69	19,648	2,765,900	5,339,427	$3.5M	8.5%
31	70	19,648	2,903,698	5,439,957	$3.5M	8.2%
36	75	19,648	3,665,746	5,978,563	$3.6M	6.7%
41	80	19,648	4,551,081	6,577,461	$3.6M	5.8%
46	85	19,648	5,542,464	7,257,229	$3.7M	5.1%
51	90	19,648	6,585,627	8,000,385	$3.7M	4.7%
56	95	19,648	7,700,557	8,794,586	$3.7M	4.3%
61	100	19,648	8,862,525	9,750,033	$3.8M	4.0%
66	105	19,648	10,120,149	10,782,014	$3.8M	3.8%

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6) Values shown based on policy issued in the state of N.J. Product approval in CT expected in August 2021

INFORCE POLICY VS MARKETPLACE ALTERNATIVES

- Summary:
- Paying $19,648 annually plus IRC 1035
- DB grows from $7M to $7.1M at LE
- How was the DB increased? Internal costs were reduced from $0.26 to $0.17 per $1 of death benefit on a PV basis

Not a MEC

VUL Policy - Match NWML Premium

Penn Mutual
Not Applicable
Protection VUL
Variable Universal Life w/NLG

Underwriting:	Preferred Plus
Rate Assump:	7.00% Gross / 6.87% Net
1035 Exch / LS	$947,000
DB Guarantee	Lifetime
Death Benefit	$7,000,000

Yr	EOY Age	New Prem	Net Cash Surr Value	Proj Death Benefit	Guar Death Benefit	IRR on Proj DB
12	51	$0	$685,099	$7,000,000	$7.0M	639%
13	52	19,648	738,825	7,000,000	$7.0M	170.8%
14	53	19,648	793,130	7,000,000	$7.0M	93.8%
15	54	19,648	851,323	7,000,000	$7.0M	63.9%
16	55	19,648	911,672	7,000,000	$7.0M	48.2%
17	56	19,648	974,293	7,000,000	$7.0M	38.6%
18	57	19,648	1,039,364	7,000,000	$7.0M	32.1%
19	58	19,648	1,107,004	7,000,000	$7.0M	27.5%
20	59	19,648	1,177,137	7,000,000	$7.0M	23.9%
21	60	19,648	1,249,614	7,000,000	$7.0M	21.2%
22	61	19,648	1,357,859	7,000,000	$7.0M	19.0%
23	62	19,648	1,471,433	7,000,000	$7.0M	17.2%
24	63	19,648	1,596,537	7,000,000	$7.0M	15.7%
25	64	19,648	1,737,583	7,000,000	$7.0M	14.4%
26	65	19,648	1,885,071	7,000,000	$7.0M	13.3%
27	66	19,648	2,039,150	7,000,000	$7.0M	12.4%
28	67	19,648	2,175,043	7,000,000	$7.0M	11.6%
29	68	19,648	2,318,503	7,000,000	$7.0M	10.8%
30	69	19,648	2,469,735	7,000,000	$7.0M	10.2%
31	70	19,648	2,628,787	7,000,000	$7.0M	9.6%
36	75	19,648	3,557,609	7,000,000	$7.0M	7.4%
41	80	19,648	4,781,419	7,109,637	$7.0M	6.1%
46	85	19,648	6,363,518	8,434,338	$7.0M	5.6%
51	90	19,648	8,313,402	10,060,621	$7.0M	5.3%
56	95	19,648	10,741,109	12,048,299	$7.0M	5.1%
61	100	19,648	14,178,659	14,662,070	$7.0M	5.0%
66	105	19,648	18,781,939	19,422,296	$7.0M	5.0%

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CALL TO ACTION

- M= meet, this doesn’t mean that we are doing business, simply means that you have more questions
- I= introduction to someone in your network that you would like to introduce me to in order for them to learn more
- S= speaking opportunity to benefit that group
- A= what was your “aha” moment today?
- T&E= send a copy of the Trust & Estates Article

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- This information has been taken from sources, which we believe to be reliable, but there is no guarantee as to its accuracy.
- Variable life insurance products are long-term investments and may not be suitable for all investors. An investment in variable life insurance is subject to fluctuating values of the underlying investment options and it entails risk, including the possible loss of principal.
- Variable Universal Life insurance combines the protection and tax advantages of life insurance with the investment potential of a comprehensive selection of variable investment options. The insurance component provides death benefit coverage and the variable component gives you the flexibility to potentially increase the policy's cash value.
- This is a hypothetical illustration and is not indicative of the performance of any particular investment. The performance of your account will vary and you may receive more or less than the amount invested.
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What Fiduciaries Need to Know about Dollar Sequence of Return Risk With Permanent Life Insurance in Relationship to their Clients' Best Interests.

March 2024

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Did You Hear About the Actuary Who Drowned While Trying to Cross a River with an Average Depth of ¼”?

FINANCIAL
A ONEDIGITAL COMPANY

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Did You Hear About the Actuary Who Drowned While Trying to Cross a River with an Average Depth of ¼”?

Rivers don’t have average depths and life insurance doesn’t have level returns.

Rivers have varying depths and life insurance has varied returns.

We use Stochastic Analysis of life insurance illustrations. What are the odds of success when returns vary?

sto·chas·tic {stə kastik}
randomly determined; having a random probability distribution or pattern that may be analyzed statistically but may not be predicted precisely.

Stochastic simulation for life insurance randomizes return expectations for multiple sets of future outcomes. The result is a probabilistic outcome of the success or failure of the policy for a lifetime.

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Stochastic Analysis is Available for:

- Permanent Life Insurance
  - In force policies and proposed insurance
- Variable Life, Indexed Universal Life and Private Placement Life Insurance (PPLI)
- Death Benefit oriented (protection)
- Accumulation oriented (accumulation)
    - With and without potential tax-free income solves
- Single Life and Survivorship Life

Note: Universal Life and WL have variability but not volatility

Examine: varying crediting rate, Caps, costs, confidence levels, life expectancy, etc.

Case Study 1: Indexed Universal Life- Protection- Illustration

Universal Life Flexible Premium Adjustable Life Plan
Initial Annual Premium: $8,244.39
Initial Death Benefit: $1,000,000.00
Riders: None

Narrative Summary
Prepared For: Sample
Male Age 45, Preferred
Premium Allocation: 100% Indexed, 0% Fixed

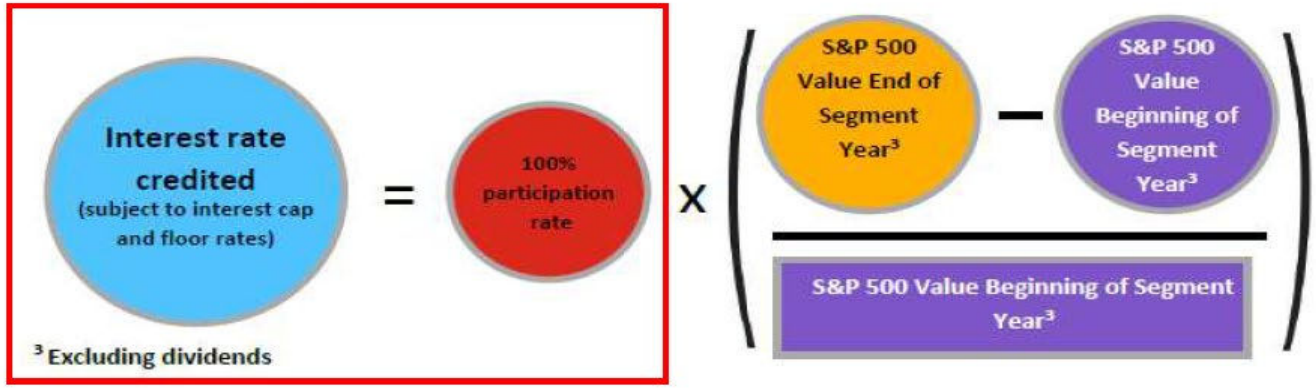
Indexed Account

When you decide to allocate part of your premium payment to the Indexed Account, an "Index Segment" is created. Each Segment accrues interest based on the positive performance of the S&P 500 Index (exclusive of dividends and subject to cap and floor rates) between the allocation date and the end of the segment term, which occurs one year after funds are allocated in the segment. This process is referred to as "annual point-to-point."

Index Segments are created on the 15th of every month, so the Indexed Account may have up to 12 different Indexed Segments in various stages of maturity at any given time. The total Indexed Account value is the sum of these Indexed Segments.

Although the Indexed Account can earn interest based on the positive performance of the S&P 500, Protective Index Choice UL is not a security or investment and you are not investing directly in the stock market.

If the S&P 500 Index becomes unavailable or if the index calculation is substantially changed, we will notify you of the external financial index.



We are looking at an illustration:

- Male age 45 Preferred
- Indexed Universal Life Ins*
- 100% index, long term horizon
- Cap of 9% - 3% guarantee
- Floor of 0%
- S&P 500 index, no dividends
- Participation rate 100%
- Premium $8,244 annually
- $1,000,000 face amount
- Guarantee period 28 years (A73)
- Illustrated at 5.77% to age 100

- What are the odds of success?

- I don't sell IUL
- I don't understand it
- Your clients will not understand it
- The insurer controls all the levers: cap, COI, participation rate, etc.
- If your clients want IUL we can make it a better design

Case Study 1: Indexed Universal Life- Protection- Illustration

Additional Key Terms

"Age" is the issue age plus the number of years the policy is assumed to have been in force. This is the age at the end of the policy year.

"Allocation Date" The allocation date will be the 15th day of each calendar month. If the 15th is a non-Business Day, then the next Business Day will be an Allocation Date.

"Cap Rate" is the maximum interest rate allowed for a Segment. It is the maximum rate of interest the policy will earn, regardless of changes to the designated index. The cap rate credited to your policy value can be changed at the sole discretion of the Company but not below the guaranteed cap rate of 3.00%. The illustrated cap rate is 9.00%.

"Floor Rate" The minimum interest rate allowed for a Segment. The floor for each Segment will not be less than 0.00%.

"Indexed Account" The Indexed Account is made up of 12 Indexed Segments, for which Indexed Interest is based on the performance of external financial index S&P 500, exclusive of dividends.

"Indexed Segment" A division of the Indexed Account. There is a separate Segment for each Allocation Date in the Policy Year.

"Indexed Segment Term" A period of one calendar year beginning on the Allocation Date. Each Segment has its own Segment Term.

"Non-Guaranteed Elements" are the premiums, benefits, values, credits or charges that are not guaranteed or cannot be determined at issue.

"Participation Rate" The participation rate determines what percent of the gain in the designated index will be credited to the policy. The participation rate for each Segment will never be less than its minimum guaranteed participation rate shown on the policy schedule page. A higher participation rate does not necessarily mean a higher crediting rate. Your crediting rate will depend on the S&P 500 performance (excluding dividends) and the cap and floor rate.

Case Study 1: Indexed Universal Life- Protection- Illustration

Universal Life Flexible Premium Adjustable Life Plan
Initial Annual Premium: $8,244.39
Initial Death Benefit: $1,000,000.00
Riders: None

Tabular Detail
Prepared For: Sample
Male Age 45, Preferred
Premium Allocation: 100% Indexed, 0% Fixed

				Guaranteed Assumptions				Non-Guaranteed Assumptions				Non-Guaranteed Assumptions			
				Fixed Account 1.00% Guaranteed Interest Rate Floor Indexed Interest Rate 0.00% Maximum Policy Charges				Fixed Account 3.25% Current Interest Rate Alternate Indexed Interest Rate 3.25% Current Policy Charges				Fixed Account 3.25% Current Interest Rate Illustrated Indexed Interest Rate 5.77% Current Policy Charges			
Age	Year	Premium Outlay*	Cumulative Premium	Policy Value [1]	Surrender Value	Death Benefit	Notes [2]	Policy Value [1]	Surrender Value	Death Benefit	Notes [2]	Policy Value [1]	Surrender Value	Death Benefit	Notes [2]
46	1	8,244.39	8,244	3,415	0	1,000,000		6,040	0	1,000,000		6,205	0	1,000,000	
47	2	8,244.39	16,489	6,752	0	1,000,000		12,147	0	1,000,000		12,637	0	1,000,000	
48	3	8,244.39	24,733	10,037	0	1,000,000		18,323	0	1,000,000		19,310	0	1,000,000	
49	4	8,244.39	32,978	13,257	0	1,000,000		24,562	0	1,000,000		26,228	0	1,000,000	
50	5	8,244.39	41,222	16,390	0	1,000,000		30,961	0	1,000,000		33,504	504	1,000,000	
51	6	8,244.39	49,466	19,423	0	1,000,000		37,589	5,339	1,000,000		41,221	8,971	1,000,000	
52	7	8,244.39	57,711	22,300	0	1,000,000		44,383	12,893	1,000,000		49,337	17,847	1,000,000	
53	8	8,244.39	65,955	24,973	0	1,000,000		51,340	20,610	1,000,000		57,866	27,136	1,000,000	
54	9	8,244.39	74,200	27,409	0	1,000,000		58,491	28,531	1,000,000		66,859	36,899	1,000,000	
55	10	8,244.39	82,444	29,608	418	1,000,000		65,833	36,643	1,000,000		76,332	47,142	1,000,000	
56	11	8,244.39	90,688	31,559	3,139	1,000,000		73,323	44,903	1,000,000		86,264	57,844	1,000,000	
57	12	8,244.39	98,933	33,285	5,635	1,000,000		80,933	53,283	1,000,000		96,652	69,002	1,000,000	
58	13	8,244.39	107,177	34,798	7,928	1,000,000		88,671	61,801	1,000,000		107,525	80,655	1,000,000	
59	14	8,244.39	115,421	36,086	9,996	1,000,000		96,532	70,442	1,000,000		118,904	92,814	1,000,000	
60	15	8,244.39	123,666	37,114	11,814	1,000,000		104,533	79,233	1,000,000		130,834	105,534	1,000,000	
61	16	8,244.39	131,910	37,801	17,561	1,000,000		112,595	92,355	1,000,000		143,266	123,026	1,000,000	
62	17	8,244.39	140,155	38,042	22,862	1,000,000		120,746	105,566	1,000,000		156,257	141,077	1,000,000	
63	18	8,244.39	148,399	37,732	27,612	1,000,000		129,045	118,925	1,000,000		169,899	159,779	1,000,000	
64	19	8,244.39	156,643	36,797	31,737	1,000,000		137,638	132,578	1,000,000		184,367	179,307	1,000,000	
65	20	8,244.39	164,888	35,153	35,153	1,000,000		146,503	146,503	1,000,000		199,683	199,683	1,000,000	

Non-guaranteed assumptions assume that scales for interest and cost of insurance rates will continue unchanged by the Company for all years shown. This is not likely to occur because interest and cost of insurance rates are subject to change by the Company based on various factors such as claims and investment experience, persistency, expenses, taxes, and the overall economic environment. Actual results may be more or less favorable than those shown.

Case Study 1: Indexed Universal Life- Protection- Illustration

Universal Life Flexible Premium Adjustable Life Plan
Initial Annual Premium: $8,244.39
Initial Death Benefit: $1,000,000.00
Riders: None

Tabular Detail
Prepared For: Sample
Male Age 45, Preferred
Premium Allocation: 100% Indexed, 0% Fixed

				Guaranteed Assumptions				Non-Guaranteed Assumptions				Non-Guaranteed Assumptions			
				Fixed Account 1.00% Guaranteed Interest Rate Floor Indexed Interest Rate 0.00% Maximum Policy Charges				Fixed Account 3.25% Current Interest Rate Alternate Indexed Interest Rate 3.25% Current Policy Charges				Fixed Account 3.25% Current Interest Rate Illustrated Indexed Interest Rate 5.77% Current Policy Charges			
Age	Year	Premium Outlay*	Cumulative Premium	Policy Value [1]	Surrender Value	Death Benefit	Notes [2]	Policy Value [1]	Surrender Value	Death Benefit [2]	Notes	Policy Value [1]	Surrender Value	Death Benefit [2]	Notes
66	21	0.00	164,888	21,566	21,566	1,000,000	*	148,641	148,641	1,000,000	*	208,706	208,706	1,000,000	*
67	22	0.00	164,888	7,028	7,028	1,000,000	*	150,564	150,564	1,000,000	*	218,001	218,001	1,000,000	*
68	23	0.00	164,888	0	0	1,000,000	*	152,285	152,285	1,000,000	*	227,612	227,612	1,000,000	*
69	24	0.00	164,888	0	0	1,000,000	*	153,685	153,685	1,000,000	*	237,458	237,458	1,000,000	*
70	25	0.00	164,888	0	0	1,000,000	*	155,364	155,364	1,000,000	*	248,120	248,120	1,000,000	*
71	26	0.00	164,888	0	0	1,000,000	*	156,720	156,720	1,000,000	*	259,094	259,094	1,000,000	*
72	27	0.00	164,888	0	0	1,000,000	*	157,683	157,683	1,000,000	*	270,353	270,353	1,000,000	*
73	28	0.00	164,888	0	0	1,000,000	*	158,165	158,165	1,000,000	*	281,862	281,862	1,000,000	*
74	29	0.00	164,888	0	0	0	*P	158,047	158,047	1,000,000	*P	293,564	293,564	1,000,000	*P
75	30	0.00	164,888	0	0	0		157,221	157,221	1,000,000	*	305,415	305,415	1,000,000	*
76	31	0.00	164,888	0	0	0		155,555	155,555	1,000,000	*	317,360	317,360	1,000,000	*
77	32	0.00	164,888	0	0	0		152,939	152,939	1,000,000	*	329,368	329,368	1,000,000	*
78	33	0.00	164,888	0	0	0		149,246	149,246	1,000,000	*	341,400	341,400	1,000,000	*
79	34	0.00	164,888	0	0	0		144,306	144,306	1,000,000	*	353,394	353,394	1,000,000	*
80	35	0.00	164,888	0	0	0		137,903	137,903	1,000,000	*	365,266	365,266	1,000,000	*
81	36	0.00	164,888	0	0	0		129,624	129,624	1,000,000	*	376,794	376,794	1,000,000	*
82	37	0.00	164,888	0	0	0		119,070	119,070	1,000,000	*	387,792	387,792	1,000,000	*
83	38	0.00	164,888	0	0	0		105,821	105,821	1,000,000	*	398,082	398,082	1,000,000	*
84	39	0.00	164,888	0	0	0		88,840	88,840	1,000,000	*	407,092	407,092	1,000,000	*
85	40	0.00	164,888	0	0	0		67,228	67,228	1,000,000	*	414,394	414,394	1,000,000	*

Non-guaranteed assumptions assume that scales for interest and cost of insurance rates will continue unchanged by the Company for all years shown. This is not likely to occur because interest and cost of insurance rates are subject to change by the Company based on various factors such as claims and investment experience, persistency, expenses, taxes, and the overall economic environment. Actual results may be more or less favorable than those shown.

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Universal Life Flexible Premium Adjustable Life Plan
Initial Annual Premium: $8,244.39
Initial Death Benefit: $1,000,000.00
Riders: None

Tabular Detail
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Male Age 45, Preferred
Premium Allocation: 100% Indexed, 0% Fixed

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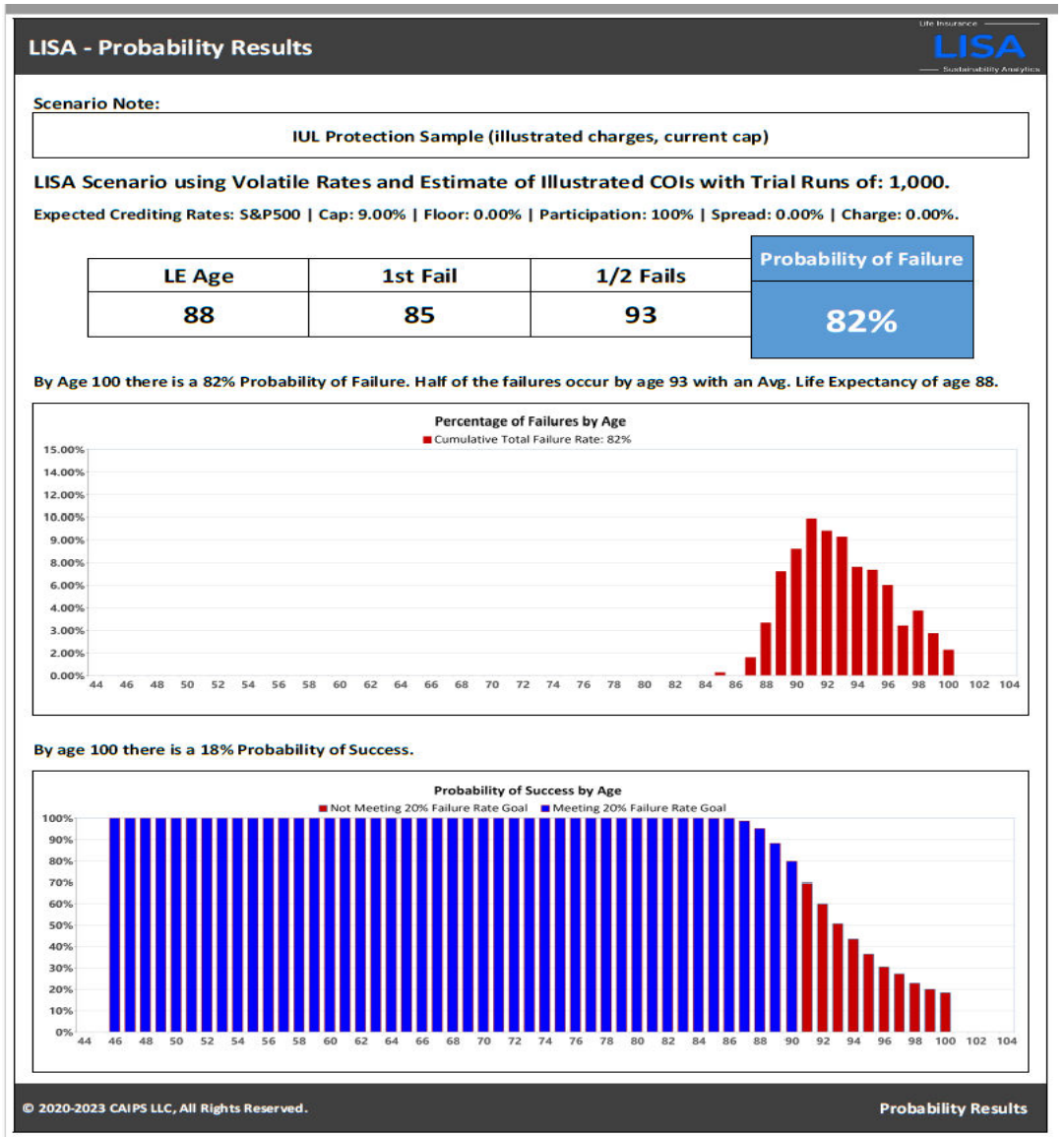
Age	Year	Premium Outlay*	Cumulative Premium	Policy Value [1]	Surrender Value	Death Benefit	Notes [2]	Policy Value [1]	Surrender Value	Death Benefit	Notes [2]	Policy Value [1]	Surrender Value	Death Benefit	Notes [2]
86	41	0.00	164,888	0	0	0		39,558	39,558	1,000,000	*	419,279	419,279	1,000,000	*
87	42	0.00	164,888	0	0	0		4,172	4,172	1,000,000	*	420,970	420,970	1,000,000	*
88	43	0.00	164,888	0	0	0		0	0	0	*	418,474	418,474	1,000,000	*
89	44	0.00	164,888	0	0	0		0	0	0	*	411,030	411,030	1,000,000	*
90	45	0.00	164,888	0	0	0		0	0	0	*	397,410	397,410	1,000,000	*
91	46	0.00	164,888	0	0	0		0	0	0	*	376,048	376,048	1,000,000	*
92	47	0.00	164,888	0	0	0		0	0	0	*	351,884	351,884	1,000,000	*
93	48	0.00	164,888	0	0	0		0	0	0	*	324,553	324,553	1,000,000	*
94	49	0.00	164,888	0	0	0		0	0	0	*	293,639	293,639	1,000,000	*
95	50	0.00	164,888	0	0	0		0	0	0	*	258,671	258,671	1,000,000	*
96	51	0.00	164,888	0	0	0		0	0	0	*	219,118	219,118	1,000,000	*
97	52	0.00	164,888	0	0	0		0	0	0	*	174,379	174,379	1,000,000	*
98	53	0.00	164,888	0	0	0		0	0	0	*	123,774	123,774	1,000,000	*
99	54	0.00	164,888	0	0	0		0	0	0	*	66,535	66,535	1,000,000	*
100	55	0.00	164,888	0	0	0		0	0	0	*	1,790	1,790	1,000,000	*
101	56	0.00	164,888	0	0	0		0	0	0	*	0	0	0	*
				Policy Terminates: yr 29				**Policy Terminates: yr 43**				**Policy Terminates: yr 56**			
				Lapse Protection ends: yr 29, mo 7				**Lapse Protection ends: yr 29, mo 7**				**Lapse Protection ends: yr 29, mo 7**			

[1] Whenever the policy value is shown as zero, it may be zero or less than zero.
[2] Reference the Additional Information section, following the Tabular Detail section, for definitions of Notes.

Non-guaranteed assumptions assume that scales for interest and cost of insurance rates will continue unchanged by the Company for all years shown. This is not likely to occur because interest and cost of insurance rates are subject to change by the Company based on various factors such as claims and investment experience, persistency, expenses, taxes, and the overall economic environment. Actual results may be more or less favorable than those shown.

What odds of failure is your client willing to accept?

Case Study 1: Indexed Universal Life-Protection- Analysis



LISA - Probability Results

Scenario Note:

IUL Protection Sample (illustrated charges, current cap)

LISA Scenario using Volatile Rates and Estimate of Illustrated COIs with Trial Runs of: 1,000.

Expected Crediting Rates: S&P500 | Cap: 9.00% | Floor: 0.00% | Participation: 100% | Spread: 0.00% | Charge: 0.00%.

LE Age	1st Fail	1/2 Fails	Probability of Failure
88	85	93	82%

By Age 100 there is a 82% Probability of Failure. Half of the failures occur by age 93 with an Avg. Life Expectancy of age 88.

By age 100 there is a 18% Probability of Success.

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- The proposed illustration was run at an illustrative constant rate of 5.77%.
- The policy illustrates through age 100.
- Would the typical UHNW client be comfortable with 18% odds of success based on 1000 trials? Defined as inforce through age 100?
- How many of your clients already own policies that may fail?
- How many clients will purchase policies in the future?
- Would they want to know about solutions now?
- Fix current policy
- Find a superior policy

Why Do These Failures Occur?

- Return Rate Volatility can lead to financial failures in the future as costs increase and there is reduced cash value. As a result, crediting is unable to keep up with the charges of the policy.

- Or the owner is trying to pull out too much money from the policy.

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Policy Year	Planned Premium	Premium Charge	Admin/ Contract Charges	Insurance Charges	Amount Credited	Policy Value
1	181,047	32,588	33,274	1,253	6,430	120,361
2	181,047	32,588	33,274	8,044	12,207	239,709
3	181,047	32,588	33,274	11,011	18,036	361,918
4	181,047	32,588	53,475	13,808	23,473	466,567
5	181,047	32,588	58,907	16,969	28,425	567,575
6	181,047	32,588	60,731	19,867	35,421	670,857
7	181,047	32,588	62,555	23,564	40,703	773,899
8	181,047	32,588	64,379	27,738	45,959	876,199
9	181,047	32,588	66,204	32,486	51,159	977,128
10	181,047	32,588	68,028	38,557	56,250	1,075,252
Totals:	1,810,470	325,885	534,099	193,297	318,063	
11	181,047	32,588	69,852	42,944	61,241	1,172,156
12	181,047	32,588	71,676	50,179	66,087	1,264,846
13	0	0	68,069	58,307	63,024	1,201,494
14	0	0	64,462	67,402	82,067	1,151,697
15	0	0	60,855	59,211	184,094	1,215,725
16	0	0	57,247	70,337	191,757	1,279,898
17	0	0	53,640	79,345	198,754	1,345,667
18	0	0	50,033	89,586	206,844	1,412,892
19	0	0	49,786	101,095	219,466	1,481,478
20	0	0	49,786	126,066	239,553	1,545,179
Totals:	2,172,564	391,062	1,129,504	937,769	1,830,950	
21	0	0	49,786	150,978	260,171	1,604,587
22	0	0	49,786	170,244	278,653	1,663,210
23	0	0	49,786	191,970	299,300	1,720,755
24	0	0	49,786	216,563	322,008	1,776,414
25	0	0	49,786	246,751	348,731	1,828,608
26	0	0	49,786	281,308	378,993	1,876,508
27	0	0	49,786	317,371	411,990	1,921,342
28	0	0	49,786	361,362	452,660	1,962,855
29	0	0	49,786	424,709	511,313	1,999,674
30	0	0	49,786	498,992	580,020	2,030,916
31	0	0	49,786	610,241	672,660	2,043,558
32	0	0	49,786	713,636	764,291	2,044,419
33	0	0	49,786	823,972	859,851	2,030,513
34	0	0	49,786	917,128	933,669	1,997,268
35	0	0	49,786	1,017,648	1,009,965	1,939,800
36	0	0	49,786	1,119,916	1,081,145	1,851,243
37	0	0	49,786	1,232,449	1,147,956	1,716,964
38	0	0	49,786	1,374,365	1,072,696	1,365,509
39	0	0	49,786	1,596,502	1,076,278	795,499
40	0	0	49,786	1,896,347	1,151,647	1,013

WHY DO THESE FAILURES OCCUR?

- In the 34th year the costs begin to exceed the credits.
- In the 32nd to 33rd year, the cash value of $2.044M begins to plummet to $0 in just 8 years. This is called the death spiral.
- Variances in the amount credited may cause the cash value to plummet earlier or later in the illustration.
- Without sufficient cash value or expensive remediation this policy will expire worthless.
- Remediation in the later years may cost $100,000+ annually

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Why Do These Policy Failures Occur?

- In the 34th year the costs begin to exceed the credits.
- In the 32nd to 33rd year, the cash value of $2.044M begins to plummet to $0 in just 8 years. This is called "the death spiral".

Policy Year	Planned Premium	Premium Charge	Admin/ Contract Charges	Insurance Charges	Amount Credited	Policy Value	Surrender Charge	Net Surrender Value
31	0	0	49,786	610,241	672,660	2,043,550	0	2,043,550
32	0	0	49,786	713,636	764,291	2,044,419	0	2,044,419
33	0	0	49,786	823,972	859,851	2,030,513	0	2,030,513
34	0	0	49,786	917,128	933,669	1,997,268	0	1,997,268
35	0	0	49,786	1,017,648	1,009,965	1,939,800	0	1,939,800
36	0	0	49,786	1,119,916	1,081,145	1,851,243	0	1,851,243
37	0	0	49,786	1,232,449	1,147,956	1,716,964	0	1,716,964
38	0	0	49,786	1,374,365	1,072,696	1,365,509	0	1,365,509
39	0	0	49,786	1,596,502	1,076,278	795,499	0	795,499
40	0	0	49,786	1,896,347	1,151,647	1,013	0	1,013
Totals:	2,172,564	391,062	2,125,216	15,100,220	15,444,947			

CALL TO ACTION

- M= meet, this doesn’t mean that we are doing business, simply means that you have more questions
- I= introduction to someone in your network that you would like to introduce me to in order for them to learn more
- S= speaking opportunity to benefit that group
- A= what was your “aha” moment today?
- T&E= send a copy of the Trust & Estates Article. Cochran v KeyBank.
- V- video series on clients best interests for life insurance- what fiduciaries need to know about life insurance illustrations in relation to their fiduciary duties

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LISA Disclosures

Disclosure

A LISA Report uses stochastic modeling techniques including running hundreds of possible outcomes while randomizing certain input variables. For example, crediting rates are randomized based on a distribution of returns from a rolling 20 years of monthly data. For VUL policies, the debt and equity portions of the portfolio allocations are based on monthly returns of generally accepted benchmarks - broad baskets of US fixed income and US equity securities, respectively. IUL policies use annual returns of the selected underlying indexed market based securities excluding dividends.

Benchmark LISA Reports: policy costs and charges are based on industry averages for the particular policy type, for example, VUL for Protection is based on a basket of VUL products that are death benefit only focused.

Benchmark cost of insurance charges are based on the Society of Actuaries - 2001 Valuation Basic Tables (VBT) of insured lives mortality and further incorporates age, gender, health rating and table rating specifics as inputted. Customized LISA Reports: policy costs, charges and cost of insurance charges are based on the actual policy illustration's values as uploaded by the application user and incorporated into our set-up of the illustration for creating a Customized LISA Report and running Customized LISA Report Scenarios.

Disclaimer

A LISA Report is an analysis of an illustration based on, but only approximating, the illustration used for the input data. A LISA Report does not evaluate the merits of any life insurance carrier or any specific life insurance policy product. There is no representation or guarantee of the accuracy of projections shown in any LISA Report.

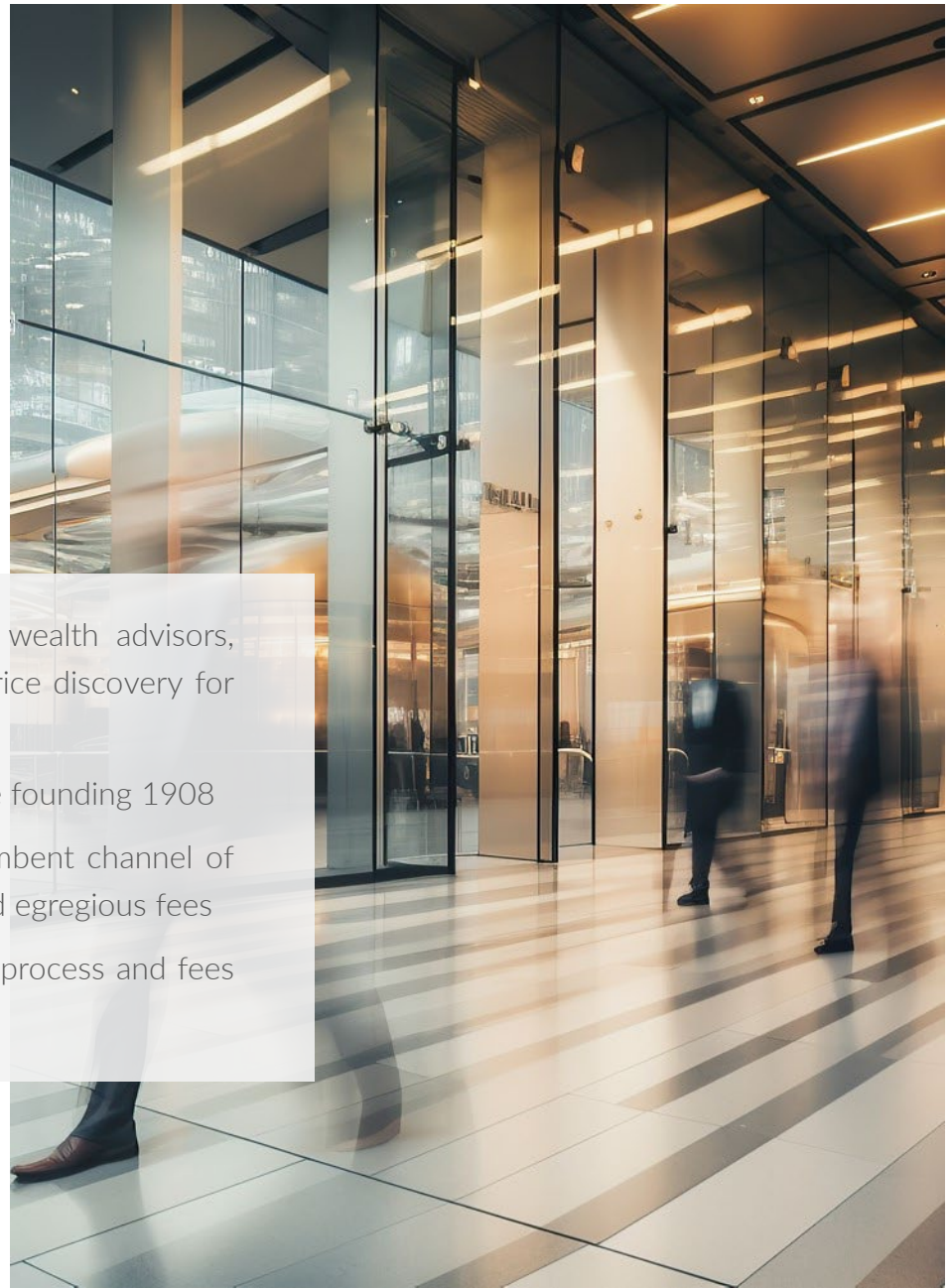
A LISA Report is an analysis of an illustration based on the illustration data inputted by the user. LISA does not evaluate the merits of any life insurance carrier or any specific life insurance policy product. Neither CAIPS LLC or www.LifeInsuranceAnalytics.com represent to or guarantee the accuracy of projections shown in any LISA Report. A LISA Report is an educational tool intended to contextualize and analyze the potential outcomes of life insurance policy illustrations that are subject to non-guaranteed elements, including but not limited to, the crediting rates that are applied to the accumulation of policy values. Actual policy performance will be different (better or worse) than what is projected by a LISA Report. No guarantees are made, or should be assumed, that any IRS qualification of the life insurance policy is evaluated, that any purchase or replacement of a policy or any modifications made to an existing policy (for example, changes made to premiums, draws, or crediting options selected) based, even partially, on running a LISA Report and/or running LISA Report scenarios will achieve the outcomes as projected and portrayed.

INTRODUCTION

Uniquely effective approach to price discovery for in-force life insurance

The first and only life settlement solution that meets the highest standard of client care for fiduciaries, conscientious wealth advisors and life insurance professionals.

- 1908 Advisors (1908) delivers true fiduciary counsel to fiduciary and fee-only wealth advisors, fiduciary and BI-minded life insurance professionals, to ensuring comprehensive price discovery for the sale of unwanted and surplus life insurance (life settlements)
- Founders spent seven years as private equity buyers of in-force life insurance before founding 1908
- Founded in 2016 to address three issues that they saw as buyers from the incumbent channel of brokers – ineffective and opaque price discovery, inefficient market engagement, and egregious fees
- A much faster, less intrusive, completely transparent, and effective price discovery process and fees that are in line with other professional capital markets engagements – 7.5% vs. 33%



Home Sellers Win $1.8 Billion After Jury Finds Conspiracy Among Realtors

The influential National Association of Realtors and several brokerages were ordered to pay damages to home sellers who said they were forced to pay excessive fees to real estate agents.

WE ARE DISRUPTING A BADLY BROKEN MARKET

Fees that would make any real fiduciary blush…or scream

- Hundreds of millions of dollars paid to life settlement brokers every year in excess fees
- Life settlement brokers have charged the same fees for 15+ years
- Virtually no difference from broker to broker – there is an industry association of which all the major brokers are members and advance their common interests
- Claiming, without defining and explicitly exempting their fees, to be "fiduciaries" for policy sellers
- Invariably charge between 25% - 33% of the value of the transaction
- Often misleadingly describe the fee as "8%…"

Copied from large broker contract…

1. [redacted] and your referring advisor, if any, represents only you and shall act according to your instructions and in your best interest notwithstanding the manner in which [redacted] and your referring advisor/broker, if any, iscompensated.

9. Total compensation payable to [redacted] and your referring advisor, if any, shall collectively not exceed a maximum of 8% of the Net Death Benefit (NDB) of your policy. Proceeds of your life settlement are represented by the Net Purchase Price (NPP) as follows: NPP = Gross Purchase Price (GPP) as paid by the life settlement provider reduced by the total compensation as described above.

1908 by the numbers

YEAR FOUNDED

2016

After 7 years with a large private equity buyer, purchasing policies from the incumbent channel of brokers.

GREATER PROCEEDS

>30%

On the difference in fees alone, we deliver 30% greater proceeds to your clients. As we typically generate higher winning bids, likely even more.

TOP-50 RIAs SERVED

10+

Top RIAs (HNW & UHNW) managing >$700B in AUM. We do not publicly share the firms we work with, but we are happy to provide references, upon request.

INSURANCE FIRMS SERVED

10+

Several of the largest, most sophisticated and client-focused insurance agencies/brokers in the country, who previously engaged life settlement brokers.

DAYS TO COMPLETE PRICE DISCOVERY/CLOSE

20/60

We expeditiously engage the market and compel efficient and effective bidding, getting you and your client to actionable bids in weeks, not months...and then quickly to close/fund.

OUR FEE

7.5%*

Our transparent, clearly described fee is less than 1/4 what brokers charge, leaving your client with far greater proceeds, even if you want to collect a fee for service for your role in the transaction.

SUBSTANTIAL FINANCIAL IMPLICATIONS FOR CLIENTS

78 year old male, moderately impaired
$10,000,000 GUL
$1,500,000 CSV
$3,800,000 top bid

BROKER FEE & NET:
($3,800,000 - $1,500,000) X 33% = **$759,000**
Net benefit to Seller = **$1,541,000**

1908 FEE & NET:
($3,800,000 - $1,500,000) X 7.5% = **$172,500**
Net benefit to Seller = **$2,127,500**

* Beware of brokers who cite a fee that looks similar to this – they are communicating a % of face value of the policy…which equates to 25% - 33% of the value of the transaction.

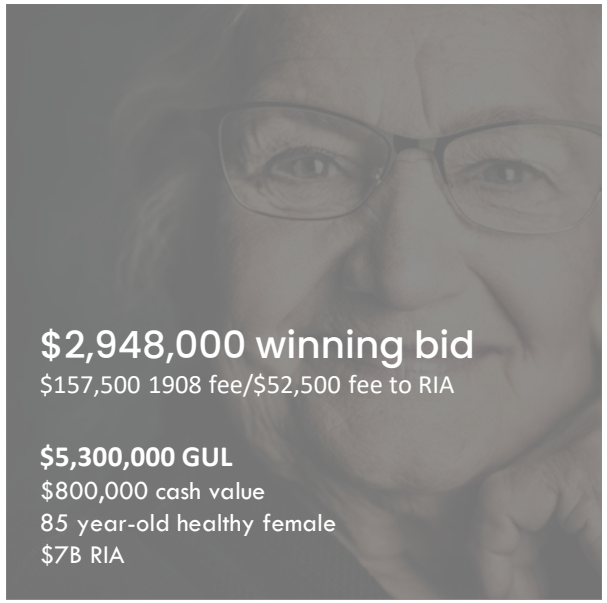
RESULTS: 1908 CASE STUDIES

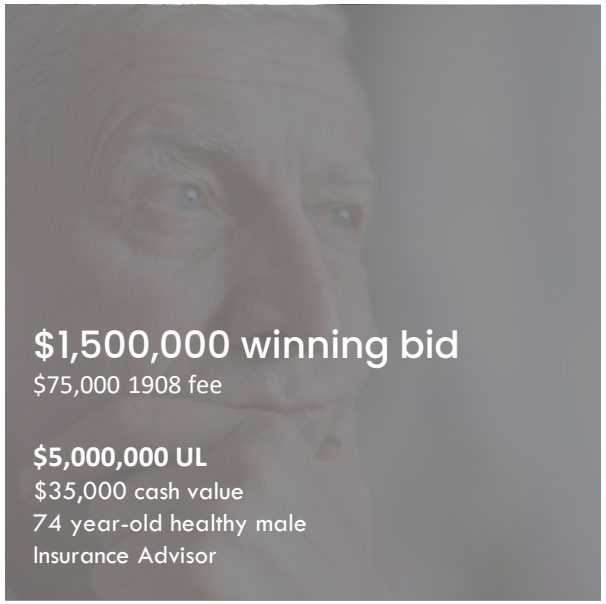
Simply better psychic and financial outcomes for policy sellers

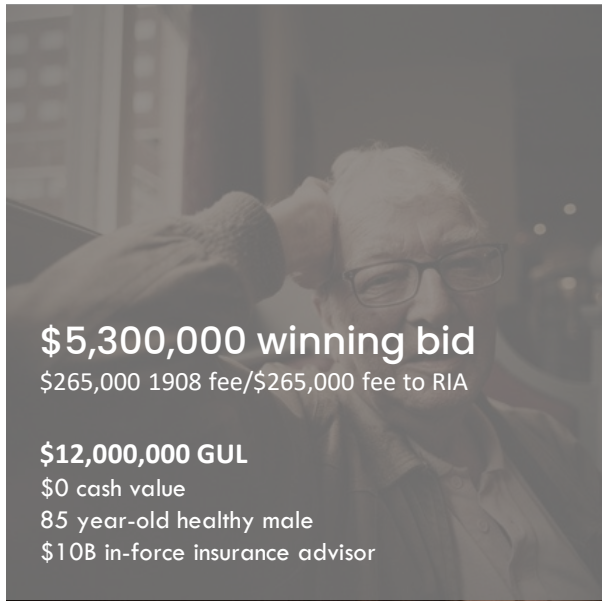
- An efficient, expeditious, professional engagement
- Absolute confidence in a transparent process in which you are actively involved
- Comfort that counterparties are all vetted and reputable
- An audit trail to illustrate that not only have you extracted the maximum value from the market for your client's asset, but the fees are transparent, defensible, and rational

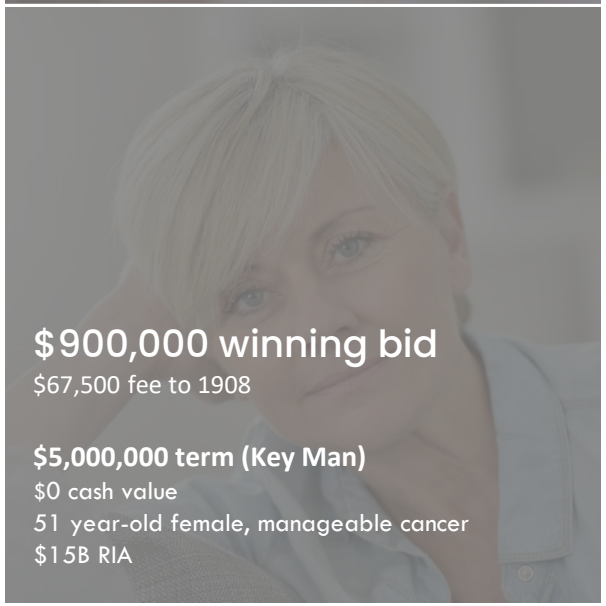
MORE CASES

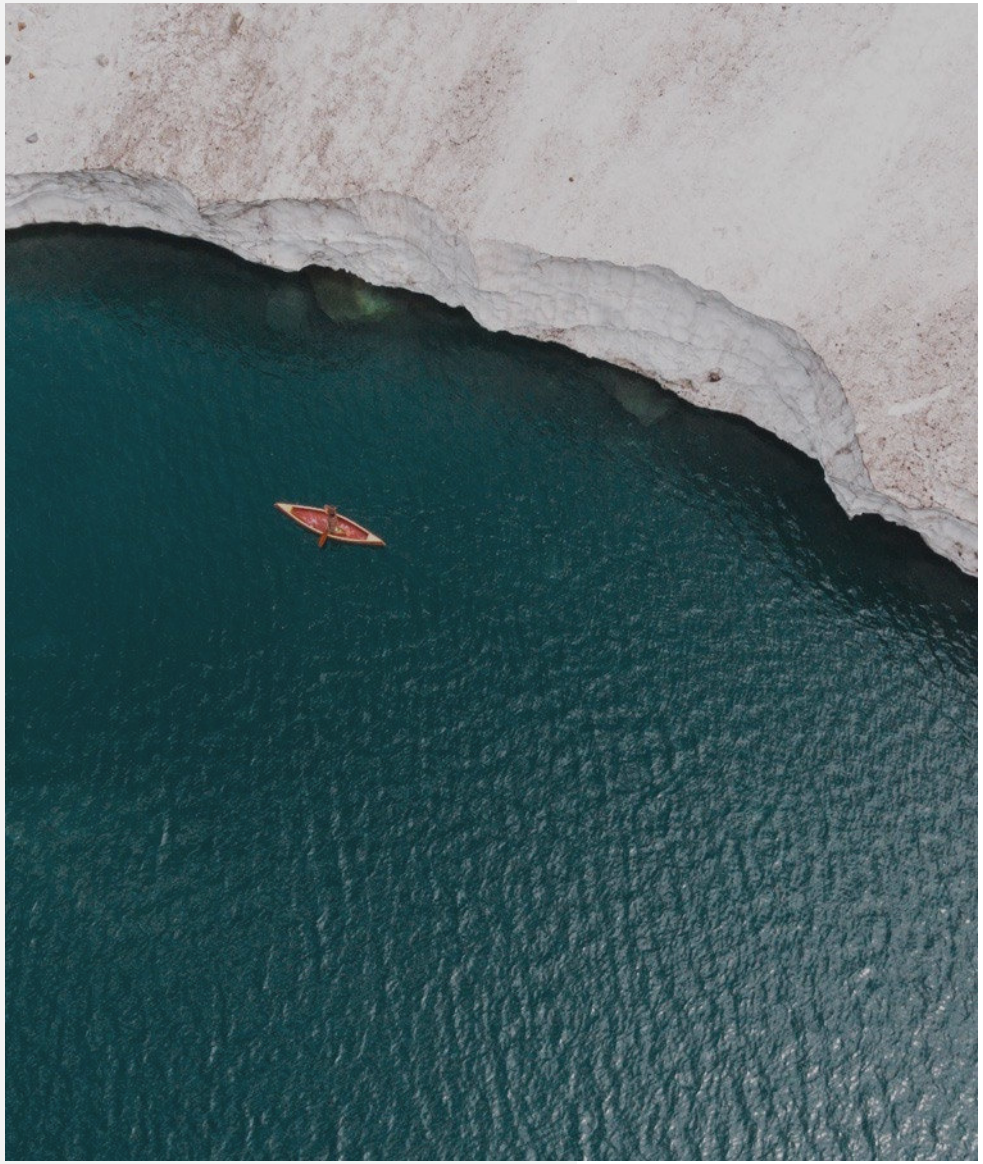
Higher winning bids and lower auction fee ensures that your clients receive substantially higher net proceeds







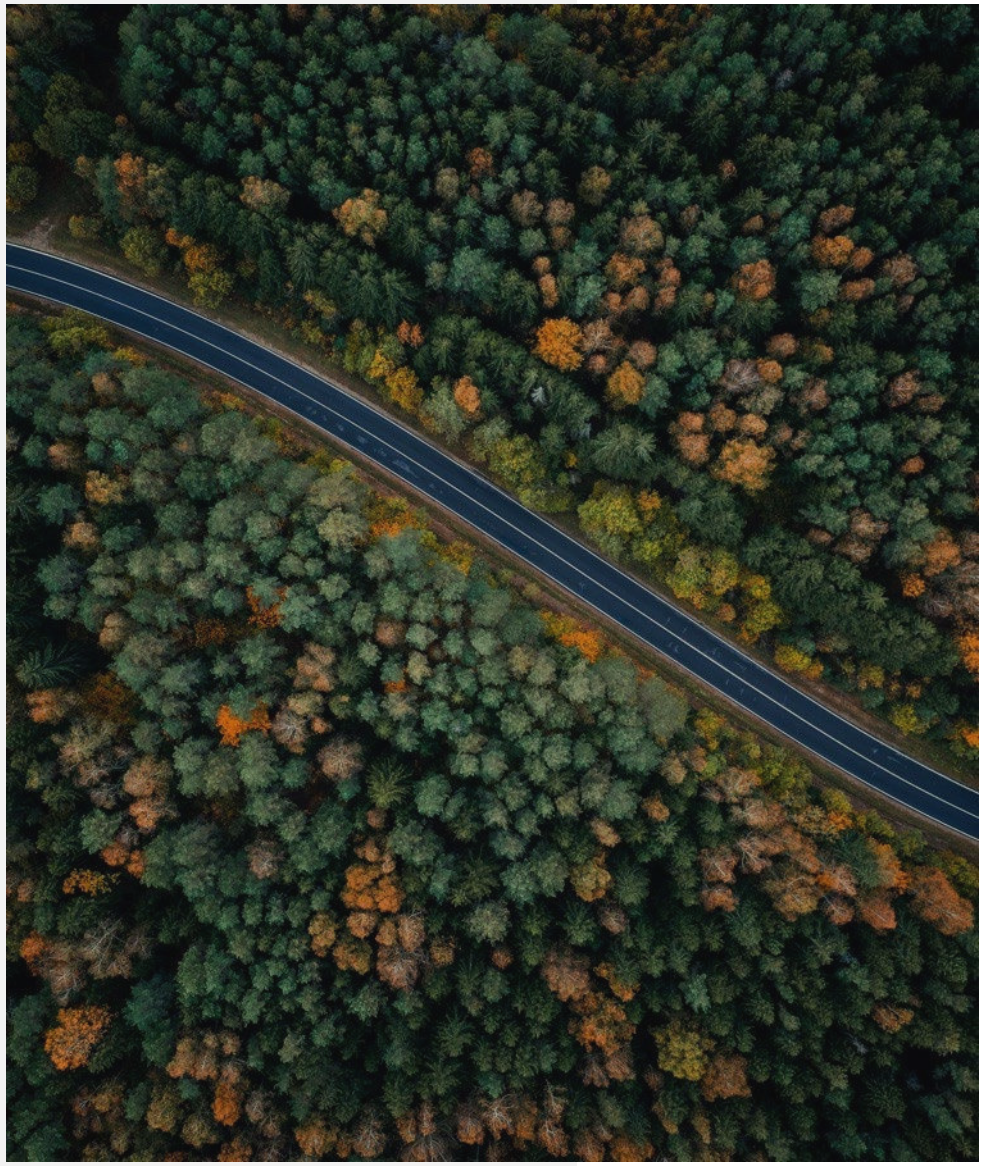




SIMPLE PHILOSOPHY: DO THE RIGHT THING

Different by philosophy and approach

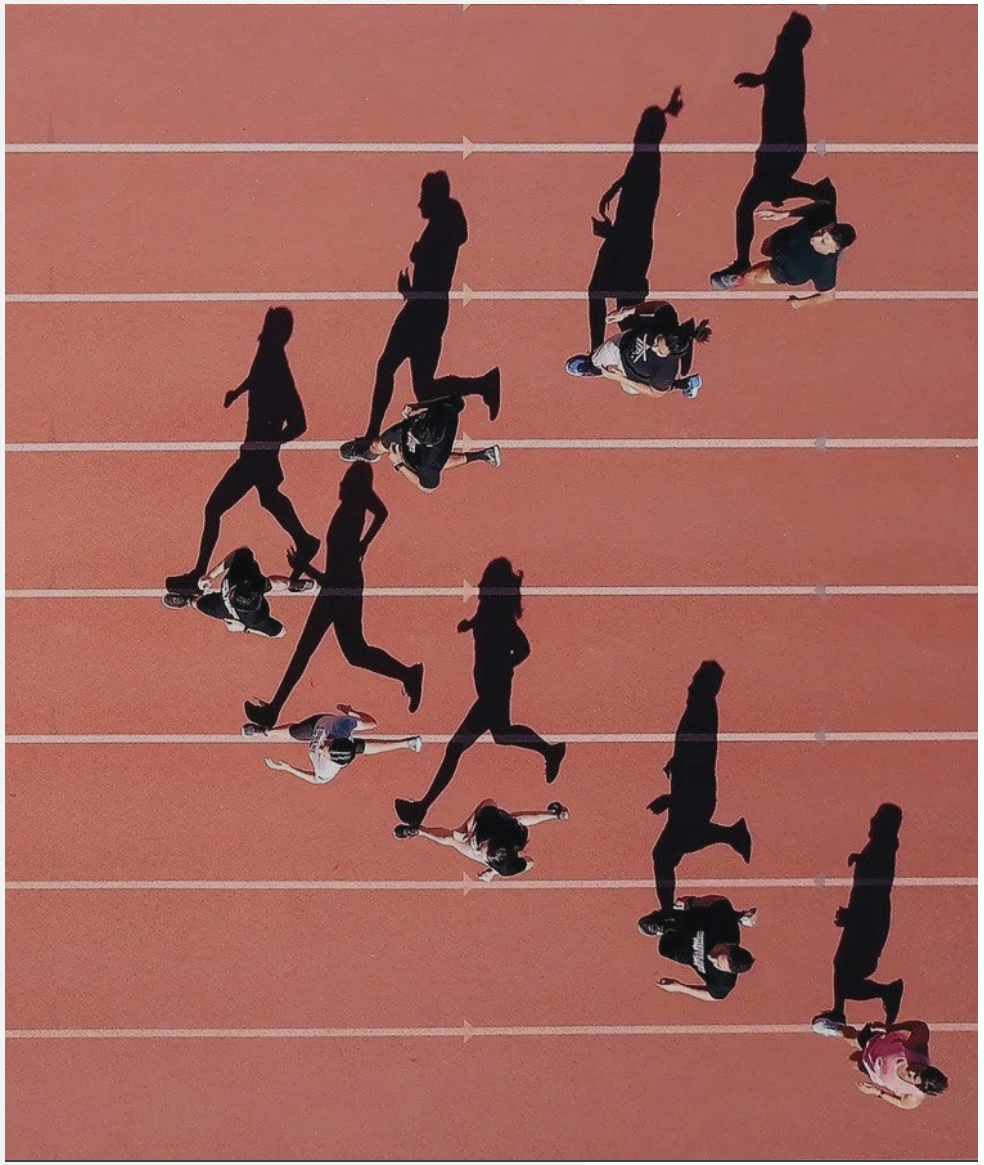
- We are an advisor to you, while you remain an advisor to your client, not a passive third party to a brokered transaction
- We receive fair economics for the value that we help extract, not what we can defend by citing what the law permits us to extract
- Complete end-to-end transparency – you are invited to the bid room to see all bidder inquiries and bids
- Smarter price discovery predicated on how buyers actually value in-force life insurance policies (”private value” vs “common value”) → it’s not alchemy, pretending it is destroys value
- We do not waste clients’ time or insult their intelligence with misleading descriptions of superfluous activities to justify an otherwise indefensible commission
- We prioritize privacy and security - all document-sharing and storage takes place on an encrypted ShareFile platform; no e-mail.



SIMPLE, TRANSPARENT PROCESS

Simplicity is the ultimate sophistication

- Price discovery process is respectful of your and your client's time, effort, and, honestly, intelligence
- Our job is simple – engage the universe of relevant buyers, provide an efficient means to review and value policies, and then compel them to bid to their true maximum value for the policy, not just enough to beat the second highest bidder
- Smarter, blind, best-and-final, ("private value") auction ensures higher gross winning bids – and much more quickly - than brokers' muti-round, open-bidding "common value" auctions
- Engagements deliver actionable bids in 20 days (from receipt of necessary documentation) vs. >60 with brokers
  - Two-week underwriting period
  - One-week, one-round, blind, best and final auction
- Consummation and funding ~60 days vs ~130 with brokers



SMARTER, MORE EFFECTIVE PRICE DISCOVERY

Consistently higher winning bids

- Brokers' process rewards bargain hunting and the winning bid is rarely, and only by coincidence, the winner's true maximum value, but rather the value that they bid as the second highest bidder reaches its maximum value and drops out
- 1908 blind, best-and-final auction (for game theory nerds like us, "private value" auctions) ensures faster outcomes and substantially higher winning bids by recognizing that:
  - Each bidder's private value is unique and independent of others' valuations, and
  - In an asset-constrained market, bidders will bid to their true value rather than risk losing in a strategy to get it at a bargain price (less than their "private value") if there is a cost to bargain hunting

EXPERIENCE MATTERS

The most broadly and deeply experienced team in the industry

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