Valley View Consultants, Inc.

A HCE Plan Administration and Service Center

Charles M. "Mark" Whitelaw
Mark@ValleyViewConsultants.com
www.ValleyViewConsultants.com

Cash Value Life Insurance Disclosure Acknowledgement

Cash Value Life Insurance products come in multiple forms and designed for different objectives. We have identified your policy's key provisions for your awareness and acknowledgement.

Fund Fees Crediting Methodology	Surrender Charges vs. Surrender Refunds
General vs. HCE Risk Pools	Premium Loads Admin Fees

Overview

Term life insurance is a fixed premium policy for a fixed term of protection – typically 10 – 30 years – a term that expires prior to average life expectancy.

Cash value life insurance provides the opportunity to fund the policy to age 121. Common to all cash value products is the principle of "buy term and invest the rest":

- Policy and risk expenses applied monthly or annually based on the Net Amount at Risk (Total Death Benefit less Cash Value).
- Cash values whose crediting is based on declared dividends, declared crediting or policyowner allocation of Indexed alternatives or Separate Accounts (funds).

Cash value life insurance pricing is a mix of four elements. How the issuer's price and mix these elements make it difficult to differentiate the "perceived" differentiation in products from "real" differentiation.

As a result, all cash value policies:

- Are "buy and manage" assets. Policyowner has ongoing monitoring and management responsibilities.
- Are subject to risk rate changes, fluctuating market returns, premium sufficiency and issuer profit objectives and methodologies.

Note: Not all agents have access to types of life insurance products – non-variable vs. variable– Retail vs. Institutional. Agent recommendations may not be based on most suitable, but what the agent wants to sell.

Market Class of Policy Pricing Methodology

- ☐ **Retail Protection** – Priced for ongoing policy replacement if medical science continues to let us live longer.
- ☑ **Institutional Fund Management** – Priced as a fund investment alternative for higher/highly compensated individuals and priced for retention, reducing costs, if medical science continues to let us live longer.

Defined Benefit or Defined Contribution Structure

- ☐ **Retail Defined Benefit (DB)** – Defined death benefit and the premium is calculated based on age, sex, risk rate and cash value objectives.
- ☑ **Institutional Defined Contribution (DC)** – Defined contribution / premium and the amount of death benefit protection is the minimum non-MEC (Modified Endowment Contact) amount based on age, sex, risk rate, and cash value maximization / protection reduction objectives.

Risk Rate Exposure

- ☐ **General Population** – Risk rates are based on the issuer experience of all risk classes, the ongoing retention / surrender of different risk class individuals and general U.S health experience / wellness of different economic and employment classes.
- ☑ **Upper Income "white-collar" Employees** – Risk rates are based on the issuer experience of a segmented risk pool limited to higher/highly compensated "white-collar" individuals and the specific U.S. health experience / wellness of this economic and employment class.
- ☐ **Market Return Exposure** – If the market return on the policy series investments are less than the policy guaranteed crediting rate the issuer may increase the policy risk rates to restore their profit objectives.

Distribution Sales Compensation & Recapture Exposure

- ☐ **Lump-sum Compensation** – Full or partial recapture if policy is surrendered in year 1.
- ☑ **Five-year Spread Compensation** – Full or partial recapture if policy is surrendered in the first 4 years.

Cash Value Crediting

- ☐ **Whole Life Dividends** – Whole Life's core pricing is based on maximum policy/risk costs and the minimum guaranteed interest rate. At the policy anniversary the issuer declares a dividend that represents their current risk experience vs guaranteed maximums and their policy series investment return vs. guaranteed minimum.
- ☐ **Universal Life Declared Interest** – At the policy anniversary the issuer will declare an interest rate the cash values will receive prior to monthly policy and risk charges.
- ☐ **Indexed Universal Life Methodology** – You declare the allocation between declared interest and Indexed crediting methodologies and periods. Crediting will vary based on the chosen methodology / period while policy and risk charges are applied monthly.
- ☑ **Variable Universal Life Separate Accounts** – You declare the asset allocation from over 50 highly diversified Separate Account (fund) investment objectives. Values change daily with policy and risk charges applied monthly.

Cash Surrender Value

- ☐ **Whole Life** – Guaranteed cash value plus dividends.
- ☐ **Retail Universal Life, Indexed Universal Life & Variable Universal Life** – Cash Value account value less a potential Surrender Charge. Retail policies typically have a 10-20 surrender charge.
- ☑ **Institutionally-priced Variable Universal Life** – Cash value account plus potential surrender refund. Institutional policies typically have a 4 to 10 year surrender refund provision resulting in 98%-105% initial cash surrender values.
- ☐ **Retail Cash Value Enhancement Rider** – Some retail life insurance policies offer a rider on high premium policies, typically $50,000+, owned by employers or trustees that increases the cash surrender value in the first 3 to 5 years resulting in 60%-85% initial cash surrender values. This rider typically results in lower long-term cash values compared to not using the rider. Note: This rider should not be confused with the alternative pricing structure utilized in Institutionally-priced policies that integrate surrender refunds to maximize initial cash surrender values.

Issuer Profit Model

- ☐ **Retail Policy "Replacement" Model** – Retail policies are designed for maximum death benefit protection. The issuer manages its risk exposure by not passing through current risk rates to in-force policies. The owner must periodically demonstrate their insurability and replace their policy, possibly incurring a surrender charge, to access current market risk rates. The issuer profits from surrender charges, risk rate gains and reduced claim exposure from people surrendering their policy.
- ☑ **Institutional Policy "Retention" Model** – Institutional policies are designed for reducing death benefit protection / costs to maximize cash value accumulation and resultant total death benefits at average life expectancy and beyond. The issuer manages its risk exposure by limiting insureds to upper income "white-collar" risks, a more "wellness" oriented population, and passing through reducing risk rates to in-force policies to incent policy retention. The issuer profits from the M&E (Mortality & Expense) fee on cash values under management for their Separate Account portfolio oversight and management.

I acknowledge that this Cash Value Life Insurance summary of key provisions is for general education and awareness purposes only. It was prepared in the interest of increased disclosure of the life insurance marketplace and the policy I have selected.

______________________________________ ______________________

Acknowledgement Date