

Benefit Fact Sheet

What is it?

VUL is a permanent life insurance policy that allows for tax-favored treatment of discretionary investment earnings. Investment options are self-directed by the policy owner, and plan administration is similar to a 401(k) plan. Investment income may be withdrawn at any time, and the policy pays proceeds upon death of the policy's insured.

Why offer it?

- Takes advantage of special life insurance tax treatment so that certain investment income can be tax-deferred when earned and tax-exempt when withdrawn.
- Premiums paid to purchase death benefit, plus the amount of your investment, count as "basis" in the policy and offset future earnings withdrawals.
- A way to cover the "benefit gap" between retirement savings objectives and maxed-out retirement vehicles (i.e. 401(k)).

What types of employers offer it?

Typically offered by professional service organizations or partnerships where there are many high-income employees or partners. (Generally employers with 50+ high-income employees).

What size employers offer it?

Usually requires 50+ participants in order to obtain some level of guaranteed issue.

What are the critical underwriting or participation requirements?

- 50+ participants (often a carve-out from a larger group).
- 95% of eligible must enroll to get guarantee issue.
- The minimum death benefit is usually \$100,000.
- Actual coverage limits will depend on the size of the group, policy provisions, and the insurance carrier's underwriting standards.
- Investments are made after tax, and are totally voluntary.
- Investment earnings are withdrawn tax-free, up to "basis."
- Investment earnings withdrawn in excess of basis are taxed at ordinary income rates, not capital gains rates.

What's new in this area?

- Most modern VUL plans have no surrender charges. This allows employers to more easily move to an alternative provider if cost, service or investment performance requires a change.

How much does it cost?

Death benefits are age-rated and premiums are comparable to age-rated term insurance plans.

Informational link(s)

- [Variable Life Insurance](#) (MetLife)
- [Details of VUL Plans](#) (The Investment FAQ)

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Pros and cons

Pros

- 100% portable upon termination
- Shelters investment income

Cons

- More complex to communicate
- More complex to administer
- Not applicable for all employees

Notes

Examples

(These examples do not take into account the tax-deferred treatment of dividends and interest that apply to GVUL investments. If applied, the actual return under the GVUL would be greater than illustrated).

Employee A pays \$1,000 per year for \$1 million in term insurance through his employer's group term insurance plan. The premium increases 3.5% each year based on his age and at the end of 10 years he has contributed about \$12,000 in premium. Separately, Employee A has invested \$2,000 per year into a various mutual funds and his \$20,000 investment has grown to \$32,000 in value. Employee A wants to buy a house and sells his mutual fund holdings to help with the down payment. Since he has capital gains of \$12,000, he pays a 20% capital gain tax on his earnings and he ends up with \$29,600 in cash.

Employee B pays \$1,000 per year for \$1 million in term insurance through her employer's variable universal insurance (VUL) plan. The death benefit premium increases 3.5% each year based on her age and at the end of 10 years she has contributed about \$12,000 in premium. Employee B elected to use the investment option within the VUL plan and invested \$2,000 per year into the various mutual funds offered by the VUL plan. Employee B's \$20,000 investment has grown to \$32,000 in value. Employee B wants to buy a house and sells her VUL mutual fund holdings to help with the down payment. Employee B's basis in the VUL policy is \$32,000, which is the sum of all contributions (\$12,000 death benefit premium + \$20,000 investments). She is allowed to withdraw all her basis without taxation and as such she ends up with the full \$32,000 to apply to her down payment.

Employee B ends up with a 25% higher return than Employee A (\$12,000 vs. \$9,600) because all of her gain is tax-free.

This Fact Sheet is designed to provide a general overview of the benefit program, service, or regulatory act it describes. The information included in this document is not a substitute for legal or professional opinion relative to a plan sponsor's particular fact pattern. Your ArlenGroup consultant can answer more specific questions relative to its application for your organization. A menu of additional topics is available online at: www.arlengroup.com/facts.