IUL Cheat Sheet

Indexed Universal Life in plain English: what it is, how it works, what it costs, and the questions to ask

1. What is IUL?

Permanent life insurance that pays a death benefit and builds **cash value**. Part of each premium pays for insurance and fees. The rest earns interest credited based on a stock index (like the S&P 500). **You are not invested in the market**; the index is only used to calculate the credit.

2. Cap & 0% floor

- **Cap:** the most you can be credited in a period, even when the index does better. The carrier can change it.
- **Participation rate:** the share of the index gain that counts.
- **0% floor (fees still apply):** a down index year credits 0%, not a loss. But policy charges still come out, so the cash value can still go down.

3. Costs & fees

- Cost of insurance, which usually goes up with age
- Premium load, plus admin and policy fees
- Rider charges (if you add riders)
- Fees are highest in the early years. Ask for them in writing.

4. Surrender charges

If you cancel or take out too much in the first ~10–15 years, you may pay a **surrender charge**. IUL works best as a **long-term** commitment, not short-term savings.

5. Policy loans

You can borrow against your cash value. That can give **tax-advantaged access via policy loans when structured properly**. Loans charge interest and reduce the death benefit. If the policy lapses with a loan outstanding, you could owe taxes.

6. Works alongside other plans

Many people keep their 401(k) or IRA and use IUL as an **added** layer for protection and flexibility. Each tool has its own rules, costs and benefits, so compare them side by side.

✔ Who it may fit

- Needs lifelong life insurance coverage
- Can fund it steadily for many years
- Already saving in other places and wants more flexibility
- Wants some upside potential with a 0% floor (fees still apply)

✖ Who it may not fit

- Needs the money within a few years
- Has a tight or unpredictable budget
- Only needs cheap coverage for a set period (term life may fit better)
- Has high-interest debt or no emergency fund yet

? Questions to ask before you buy

- What are the current cap and participation rate, and can they change?
- What are all the fees, year by year?
- How long do surrender charges last, and how much are they?
- How do policy loans work, and what's the loan interest rate?
- What happens if I pay less or miss a payment?
- Can I see an illustration at lower crediting rates, not only the best case?
- How strong is the carrier's financial rating?
- How will I be kept from overfunding (MEC) or letting the policy lapse?

Questions? Free 15-minute weekend Zoom → **tomtalksiul.com**

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Not tax/legal advice. Guarantees depend on the carrier's claims-paying ability. IUL is not a stock market investment. This is general education only, not a recommendation. Policy features vary by carrier and state.