Episode 24: One of a kind: All about the new Indexed Whole Life product

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John Grevas: Hello everyone. Welcome to another episode of Momentum. As always, I'm your host John Grevas and today we are going to be talking about something that I think is really exciting personally.

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John Grevas: I hope all of you do as well and that's because Ohio National is going to be introducing something that nobody else in the insurance industry offers: an indexed whole life product. And to give us all the details on what that means, what you can expect, what it's going to do for your clients, I am joined by our frequent guest, friend of the show, Ohio National's Vice President of Product Marketing, Karl Kreunen.

Karl Kreunen: Yeah, thanks John. I'm really excited to be here this time.

John Grevas: I figured you would be today of all episodes that you have ever been on. I figured this was going to be a big one for you. So, let's just get right into it. Can you explain to our audience what exactly an indexed whole life product is?

Karl Kreunen: I sure can. It's an excess interest whole life product that uses indexes as opposed to interest rates in order to credit interest. Now, for those of you who were not around in 1988 to know what an excess interest whole life product is, let me break that down for you. It is effectively a whole life policy. Ours is a 10 pay product and so it's just like our regular 10 pay policy, right? You pay ten premiums. They're guaranteed. You have a guaranteed cash value inside of the product. We call it tabular cash value sometimes, or guaranteed cash value also have a product that's got a guaranteed death benefit if you pay those ten annual premiums. They're fixed in nature, so if I have a $10,000 premium today, I have a $10,000 premium next, next year that I have to pay just like I would with any other whole life product. Ok. So, that's number one. But, instead of having a dividend and guaranteed cash value that you add together in order to create the cash value inside the policy, while we do have guaranteed cash, what we also have is an account value, just like you'd find in an indexed universal life contract. And we'll take the premium and we'll put it in the account value and we'll take off whatever premium loads we need to and then once it's in the account value, it'll operate just like an IUL policy. It'll buy a segment that'll start on the 15th of the month, just like it does in our IUL contract and the in one of the indexes that we already have. And, then it will hold that segment all the way until one year from now, when it, matures and then the interest will be credited based upon the cap and the performance of the policy. So, in that way it looks like an IUL. Another way it looks like an IUL is how you get distributions with a whole life policy, a traditional participating whole life policy, you can withdraw your dividends. You could loan against both dividends and cash value. And,

and then that's it because we're we have a non-direct recognition structure. You have a variable loan rate and then your product does whatever it does. With an indexed whole life contract where you access cash is similar to the way you would do it with an IUL. You can certainly take a partial surrender. But, more commonly, what you'll find what people do is take one of two different loan types alone. A standard loan or an index loan. So, you've got that aspect of the IUL as well. The combination of the two is really quite powerful because you have the guarantees that lots of clients are looking for, and lots of agents are looking for in a whole life policy, but you have the performance possibilities of an IUL contract that aren't necessarily there with a traditional whole life policy.

John Grevas: So, what you've said, Karl, you know, describing this as having aspects of both whole life and IUL, what role do you think this this product would fill? In, you know, uh, client financial planning? What purposes would they be using this product for?

Karl Kreunen: For well, this product was built with a 2% non-forfeiture rate. And you know, we, we went through the last 12 months talking about non-forfeiture rates, but just as a quick recap, the lower the non-forfeiture rate, the higher your MEC premiums, the higher your DEFRA premiums, and the more your policy is really oriented towards cash flow. In addition to protection, as opposed to being a pure protection play. So, that's exactly what this contract is. We use a 2% non-forfeiture rate. We have high premiums and allow people to put a lot of money into a policy on a per thousand basis. And it is designed to not only provide good protection for people, but also to provide cash flow in significant amounts at retirement, or some other point in the future. I mean, it could be used, the cash can be used like you would with any other type of policy. So, if you were a fan of buying a whole life policy, a traditional 10 pay whole life, this could be a policy that you would look, look for if your client is also looking to use the assets inside there in the future as cash flow either on a regular basis or to take it out here and there. Or, to take it out for a specific purpose like buying a vacation home or whatever it happens to be.

John Grevas: You talked a little bit about goals there, like the goals that a client might have with this product. But, are there any certain demographics that this this product might appeal to more? Where do you think it fits on that?

Karl Kreunen: I think 10 pays fit in a couple of different ways pretty clearly. And, that's generally your older clientele and I, I now have to rank myself in that area, I'm 57 years old. But, you know you've got folks who don't necessarily want to buy a policy that they're going to be paying on for the next 25, 35 years. They're looking at retirement. They're saying, you know, I'd really like to have this done or almost done by the time my regular income stops and I turn on my retirement switch. Or, maybe I'm planning on using this as part of my retirement switch, in which case I really would like to have it all done. So, so it certainly fits with people I think in that 45 to 60 age range who are looking to use this sometime in the near future for retirement. And, as I said, I, I fall squarely into that group. In addition to that, you know with our past 10 pay products, our original one was available on juveniles and I know we actually sold quite a bit of those to folks because you had grandparents who wanted to do something differently for their kids, something more substantial. I grew up at a time when America was perhaps a little less wealthy than it is today. And, you know, my, my grandparents would take my brother and myself to the, the five and dime store when we left Bangor, WI, which is out by La Crosse, in case anybody is interested in, it's a really quite pretty town of about a 1,000 people. But it was about, it was an old five and dime store, and you'd go in there and get, my grandma would give us a dollar to go buy bags of candy. And then she'd send us off on the drive back to Milwaukee with my parents and we would consume the candy in the car. I think she did it really just to torture her son. But, but, but that you know that's kind of what it was back then. And nowadays you have grandparents with a lot more, frankly than, than my grandparents had and, and they have the ability to do something more substantial. And, so oftentimes you'll see them buy a life insurance policy because it can provide a financial future that the kid’s not even going to know about now. And, the reason a 10 pay is attractive is because they can complete that gift in their lifetime, right? If you, if you're buying a pay to 65 policy on a kid the odds of the grandparents seeing that kid turn 65 are pretty remote. I mean, I know we're all living longer, but come on. And, and so, and so, you've got a, I think, a good situation there where you might see that being done on a gifted basis.

John Grevas: What about in terms of the competition? Where does this product stack in? Where does it fit in? Where, what should people be comparing it to?

Karl Kreunen: I think of it as a whole life product. Yes, it has index features. But, it has the guarantees of a whole life contract. So, if you as an agent, if your clients and you both gravitate towards whole life as a product, you know, you've got the guaranteed cash value, you've got an account value that that can be better than that. So, you've got your current basis and your guaranteed basis. The guaranteed side looks very much like what you would find in a 10 pay contract from one of our whole life competitors, right? I know, say, Ameritas and Mass Mutual for example, both have a 2% non-forfeiture rate 10 pay product. If you look at their guaranteed cash and you look at our guaranteed cash 10 years out, 20 years out, 30 years out, 40 years out, what you're going to find is they're virtually the same number and in some, some cases they are exactly the same number. So, you've got the same guarantee built into there that you would have with everything else. But, I think you have in my opinion, higher potential for future performance. The ability to leverage those index accounts and, and see a higher long-term rate of return than you probably would have with a traditional participating whole life policy.

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John Grevas: So Karl, you have talked about this as a whole life product.

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John Grevas: It is a whole life product, but there are some areas where it differs. Uhm, can you go into more detail about that? Can you help our audience understand exactly, a little bit more about the product and how it's made-up?

Karl Kreunen: I sure can and, and there are some significant differences. The first one I want to run across everybody is, I've talked already about the fact that you've got an account value and you've got a guaranteed tabular value. You know, in a traditional whole life policy you have a guaranteed value, the tabular cash value, and then you have the performative side, which is the dividend, and you add those together to get to your total cash value. With this product, you don't actually add them together. We will be tracking both of them. If the guaranteed value is higher, then that's what the client has access to. That's truly their guarantee. If the account value is higher, we don't add the account value to the guaranteed side. The account value is simply the account value. And, and so that's what the client has access to. I was just running a sample illustration the other day and I used a very low rate of return of 2% annually to take a look at it. And it was interesting because the first five years the account value is higher then in years six through ten it flipped and the guaranteed cash took over. And, then in years eleven plus, even at 2%, you had a higher account value than you did on the guaranteed side. So, what I would say is think of the guaranteed side as your floor that you can never go under. And, then if the account value is higher, you're always going to get that. And, I think the longer the policy is inforce, the less likely you really have to worry about the floor. And, the more that account value is going to be the policy or the cash value that you're looking at for what the policy can do. So, that's one I think. Another one is that we do have an Overloan Protection Rider on this policy, which we don't have on any of our other whole life policies. And, I did talk about this as a cash flow type policy, something where you can accumulate cash and use it. The Overloan Protection Rider, which we have in our IUL contract, that, that is a rider that is based upon the idea that we want to protect the client from having the policy lapse because they've borrowed a lot of money out of it. It has certain requirements that are in place. The client has to be 75 or older. They have to have borrowed more than their face amount of the policy, the original face amount of the policy. There's a couple other things in there as well, but if they meet those requirements, then we can, you know, we can exercise the rider. And, then that, and that changes the way the policy is working. And, it's why we try to keep the policy inforce as opposed to having it lapse. Because one thing we know when we've taken a lot of income, we don't want the policy lapse. Because then what do we have? We have phantom income and the IRS will have a tax bill for your client. And your client is not going to like it, which means you're not going to like it. And since neither of you are going to like it, I know we're not going to like it. So, we definitely want to avoid that. So, so I think, I think the, that's a huge benefit on this one is having that Overloan Protection Rider in there. I talked about the guaranteed value in the account value. Something else I think people should know: If you're used to whole life, if a client stops paying a premium, premiums are due every year, or every month if you pay modally, or however it is, if they stop paying a premium, your policy goes into a grace period. If, if the policy is not paid in that grace period, they get another 30-day extension. And, then if the policy is still not paid, it lapses. And, then something takes effect called a non-forfeiture. Normally, in our whole life policies, the non-forfeiture option that, that is the default is what's called extended term insurance. We simply take whatever money is in the policy and we will go ahead and buy the same face amount of term insurance and have it last as long as it can based on the money in the policy. There are, in our normal whole life policies, our participating whole life policies, two other non-forfeiture options, reduced paid up and automatic premium loan. With this particular policy, we do not have extended term as an option for non-forfeiture. So, now your default is a reduced paid up option, and you can always choose the automatic premium loan option if you wanted to. You can choose that both on the application, or you can choose that afterwards. If you want to make that change inside of a policy that can happen as well. But you don't have the extended term, the default is the reduced paid up. And, I think that's a little quirk that's important. And, the final one I want to mention is really just at launch only and it's because this is a brand new policy, we're putting it onto our admin system. And, as we put it onto our admin system, we're finding little things that the admin system doesn't want to do that we've built into the policy that we want to do. And, and so this is it. At launch, and this is an important one. At launch, if a client purchased a policy and uses a 1035 exchange, we can take that 1035 exchange money, it goes into our single premium rider, which is attached to the policy. But, the one thing we can't do at launch is use any of the money in the 1035 exchange to pay part of the first year premium. The, the system, the way it's looking at it, it, it, it doesn't calculate the MEC premiums correctly if we do that. Clearly not a place we want to be for you, for your client, for us. So, at launch we won't be able to use any of a 1035 exchange premium in order to pay any of that first year premium. The next release of our admin system, which is supposed to come not too long after, roughly three months, and I say roughly 'cause it might be, you know fourteen weeks or it could be ten weeks, and I don't want to be predictive about this, but roughly three months later, that is supposed to be fixed and we should be able to function with a 1035 and have that pay the first year premium and not worry about MEC calculations. Of course, we'll tell everybody as soon as that comes through, because I understand how sales work. And, if you're doing a 1035, oftentimes the client does not want to pay the full first year premium. They would like to offset with some of the 1035 money. But, I, I think we want to make that clear right up front and there's a number of other items out there as well, but those are three I wanted to cover.

John Grevas: So, Karl, I know that we are going to be supporting this product quite a bit. There are going to be a lot of resources that are in development that that our agents are going to be able to use with their clients. And, that are going to help the agents themselves. Can you run through some of the things that agents can expect from Ohio National in the coming weeks?

Karl Kreunen: I can, and I really appreciate that question because you definitely know this answer since you've worked on a number of these items.

John Grevas: The audience doesn't need to know that Karl.

Karl Kreunen: I like to let people in on everything. But, we are planning on, on announcing this product to the field before launch. And we want to, what we want to do, we are going to be putting up a microsite for this product. And, we'll be adding to that microsite week after, week after week as we roll out more material. We've hooked in with our Advanced Sales team to be providing sales ideas from their side with, with lots of content. We've got our own content that's not really Advanced Planning content. And we've got videos. We've got this podcast. We've got all sorts of things going on within that. And the microsite is the place to go I mean, that's everything is going to be logged, put out there for, for your use. It's not going to be something you have to log into. So, I know sometimes people like, well, I don't want to go to ON-Net to get stuff because it's a hassle to log into and everything else. Great. Don't worry about that. We're going to have a website for you, that microsite is going to be available. You don't have to log in to get it. And, it's going to have just a ton of material on it that we keep adding to so that you can get more, and more, and more, and more information.

John Grevas: It is a living, breathing thing, is the term that I use to describe it. It's just going to keep growing and evolving through past the launch, even.

Karl Kreunen: That's correct.

John Grevas: There are going to be webinars. There are going to be videos, everything that Karl mentioned. So alright, well thank you for joining me today, Karl. Thank you for sharing, not just your expertise this time, but your excitement as well, the enthusiasm is appreciated. Uhm, thank you to our audience for joining us as well. We hope that you found this informative. We hope you're as excited about the product coming out as we are. Keep your eyes peeled. We will be posting information in ON News, on ON-Net, and the microsite which we will link to from this episode so you'll be able to get to it directly from here and keep your eyes peeled. There's going to be a lot coming your way.

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