

Individual Life Insurance

Insurance products issued by: Minnesota Life Insurance Company Securian Life Insurance Company

How caps and participation rates are determined

Many considerations go into determining the cap or participation rate, which can be periodically adjusted.

Indexed Universal Life (IUL) insurance policies credit interest based on changes in an index or set of indices. The actual crediting rate is subject to some combination of a floor, participation rate and a maximum cap amount.¹ Typically one or more of these elements are subject to change, whereas the others are contractually guaranteed. The following is a discussion of how the insurance company sets and manages these non-guaranteed elements and not a representation of how an indexed account credits interest.

Key factors in determining rates:

- 1. Investment earned rate
- 2. Options cost

Investment Earned Rate

The assets invested in the general account to back the index product first must cover the cost of providing the guaranteed floor. Any remaining investment return, often referred to as the "hedge budget," is then available to purchase options that provide for crediting. The higher the investment returns, the greater the hedge budget available to back the index credits.

Options Cost

The options market determines the cost of providing an index credit to the policyholder. Options cost is impacted by multiple factors, including the cap and participation rate. For example, options that provide a 13 percent cap cost more than options providing a 10 percent cap.

Another factor that impacts options cost is market volatility. If volatility increases, the cost of options also increases. If volatility decreases, options cost also decreases, which means we may be able to provide a higher cap.

When setting the cap or participation rate, the company tries to match the hedge budget to the price of the options.

GLOSSARY

Floor

The minimum crediting rate within an index account.

Participation rate

The percentage of the index account performance a policy will be credited.

Cap rate

The maximum growth rate of an index account segment, or term.

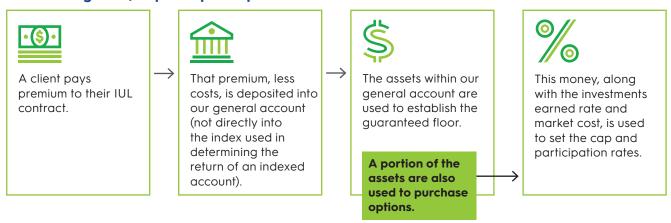
Investment earned rate

The amount earned on assets within the general account. This impacts, the guaranteed floor, caps and participation rates.

Options

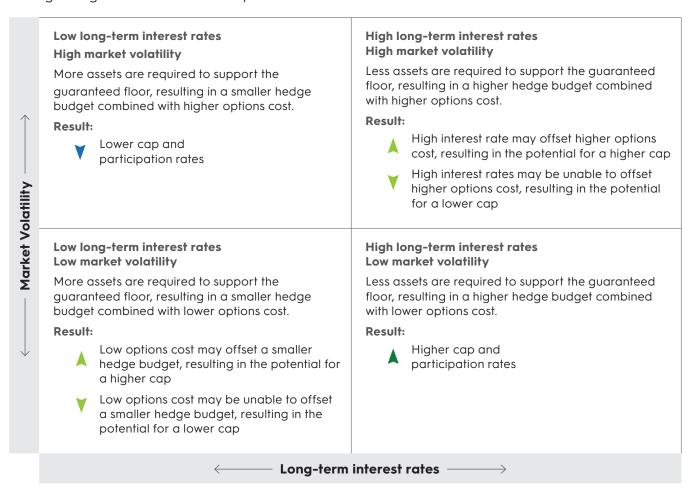
An investment contract that gives us the right to buy or sell a particular asset, at a later date, at an agreed-upon price. These contracts allow us to credit interest above the floor.

Establishing floor, cap and participation rates:



How key factors impact rates:

Cap and participation rates will change over time due to a misalignment between how much is available for a hedge budget and the cost of the options contracts.



Important notes:

- There is often a misconception that a life insurance company profits when the
 market performance of a particular index is higher than the cap. However,
 premiums are not actually invested directly into the index for which the
 performance is based they're placed into a general account.
- When options are purchased, the amount the options can pay is set on the purchase date. Market returns are realized at some point in the future (e.g., one year). This means that regardless if the market returns a higher rate, the amount the options can pay remains unchanged from the original purchase date.



Companies don't make any additional money on the options or hedging if the market returns are higher than the cap.

Life insurance products contain fees, such as mortality and expense charges (which may increase over time), and may contain restrictions, such as surrender periods.

Insurance policy guarantees are subject to the financial strength and claims-paying ability of the issuing insurance company. The Indexed Universal Life Series is designed first and foremost to provide life insurance protection. While the interest crediting options are attractive for cash accumulation, the product should always be promoted to first meet the death benefit needs of families and businesses with cash accumulation as a secondary benefit. One cannot invest in an index.

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Insurance products are issued by Minnesota Life Insurance Company in all states except New York. In New York, products are issued by Securian Life Insurance Company, a New York authorized insurer. Minnesota Life is not an authorized New York insurer and does not do insurance business in New York. Both companies are headquartered in St. Paul, MN. Product availability and features may vary by state. Each insurer is solely responsible for the financial obligations under the policies or contracts it issues.

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