

# Permanent Life Insurance Options

## Whole Life and Indexed Universal Life

When buying permanent life insurance, there are several different types of policies to choose from. Two popular choices are whole life insurance and indexed universal life (Indexed UL or IUL). It is important to have a basic understanding of how the product works and how they are illustrated.

- **Whole life and IUL both offer death benefit protection and the potential to build cash values or account values.** With whole life, your premiums are fixed and guaranteed, so they will never increase. As long as the policyowner continues to pay the premium, they can count on the life insurance benefits being paid to the beneficiaries.
- **Indexed UL has a flexible premium and is typically not guaranteed for the life of the policy.** Some policies may offer a no-lapse guarantee feature. Depending on the performance of the policy over the lifetime of the policy, policyowners may need to pay more than the premium that was illustrated when the policy was issued to keep the coverage in-force. This is important to take into account when reviewing policy options.

This guide will help you understand some of the policy features to focus on when deciding what type of coverage is right for you.

## Indexed UL (IUL)

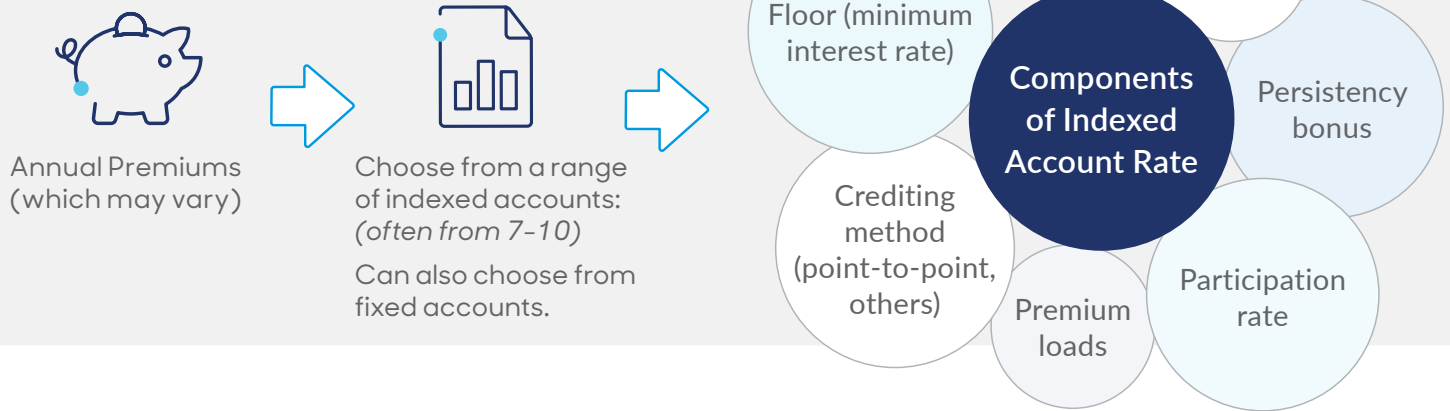
IUL products have a lot of moving parts and non-guaranteed elements that are often difficult to fully understand. IUL is similar to other Universal Life products, but uses different crediting rate methodologies to calculate the policy's account value growth.

**UNIVERSAL LIFE CREDITING RATE** = Fixed Crediting Rate Percentage

**VARIABLE UNIVERSAL LIFE CREDITING RATE** = Based on the Performance of Divisions of the Separate Account

## IUL CREDITING RATE

Components of IUL indexed account Crediting Rate<sup>1</sup>



IUL policies allow policyowners to invest in both fixed interest and index-linked (indexed)<sup>2</sup> accounts. The indexed accounts credit interest based on the price performance of a certain market index. The indexed account options do not actually invest in the securities in the index. Instead, a portion of the money allocated to the indexed account options is used to purchase a financial instrument called an option contract. The option is based on a market index and supports the interest crediting rate. IUL indexed accounts have a declared minimum crediting

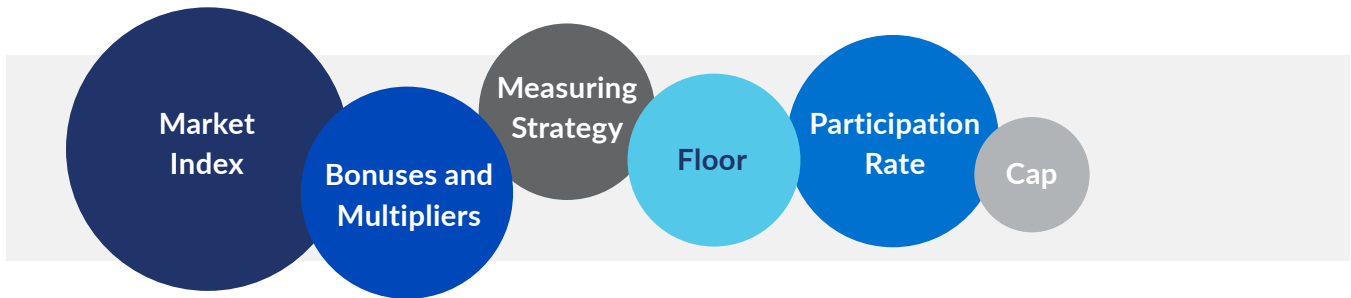
rate and a maximum crediting rate. There are many additional components that determine the IUL annual crediting rate, we explain these below.

The actual returns for an IUL policy may vary from one year to the next. Such returns may produce results that are significantly different than what are shown in what was originally illustrated that demonstrates a level interest crediting rate.

<sup>1</sup> No one crediting method is guaranteed to perform better from one year to the next. It's important to understand how the crediting works for each policy.

<sup>2</sup> Individuals cannot invest directly in an index.

## COMMON COMPONENTS OF CALCULATING THE IUL CREDITING RATE:



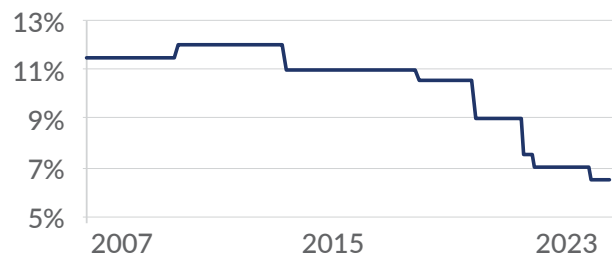
**Market Index:** While a policy does not directly participate in a market index, it is used to track the performance of a group of stocks or other investments over time to give an indication of the overall performance of the market.

**Measuring Strategy:** May use either a Point-To-Point or Average return for each index over a period of time. The most common market index tracked is the Standard & Poor’s 500 (S&P 500) price index.

**Floor:** IUL products have a minimum interest rate, or “floor,” on the indexed account. When an index has a negative return, it will not go below a certain interest rate. However, even with a floor of 0%, it is possible for the policy account value to decline due to the deduction of policy charges. It is important to note the current floor rates (that are illustrated) are not guaranteed and may change in the future.

**Cap:** A “cap” or maximum annual crediting rate that is set typically in the 7% to 10% range. It is important to note these rates are not guaranteed and can be adjusted within certain limits, as outlined in the IUL contract. Here is an example of an IUL product historical cap rates for an unnamed insurance carrier in the marketplace.

### HISTORY OF CAP RATES – A LEADING INSURANCE CARRIER<sup>3</sup> (2007-2023)



**Participation Rate:** The participation rate is the percentage of an index’s positive price movement used to calculate the crediting rate, subject to the cap. If the S&P 500 returns 10% and the participation rate is 90%, the interest credited would be based upon 90% of that return, or 9%. It is important to note these rates may or may not be guaranteed and can fluctuate.

**Bonuses and Multipliers:** Bonuses or multipliers are offered by some IUL products. These are interest credits to the policy. It is important to note these bonuses and multipliers are not guaranteed and can fluctuate.

<sup>3</sup> MassMutual does not issue Indexed Universal Life insurance policies. The cap rates shown here are historical average annual rates from a leading IUL carrier.

## Whole Life Insurance

A whole life policy is issued with a fixed, guaranteed premium for the lifetime of the policy. Whole life provides a guaranteed death benefit, and a guaranteed cash value that will increase each year. And a participating whole life insurance policy offers an additional advantage – participating means that the whole life insurance policy is eligible to receive dividends.

### Whole Life Dividend

Generally, dividends are declared and paid annually and can fluctuate over time. Whole life policy dividends have three components that reflect the company's operating experience with respect to mortality (death claims), expenses and investment results. The Dividend Interest Rate (DIR) is used to calculate the investment component of the policy dividends.

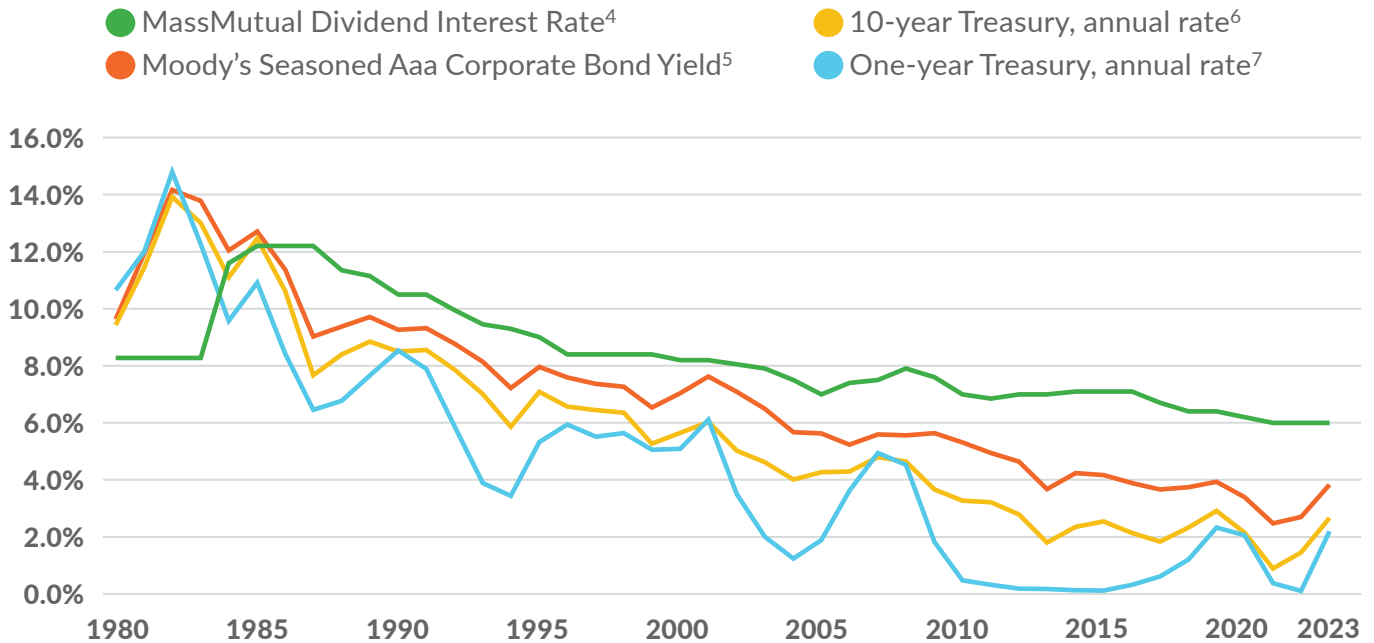
The investment component reflects the difference between the guaranteed interest rate used to calculate the policy cash value and the DIR. As an example, if the DIR is 6% and guaranteed interest rate is 3.75%, the investment component of the dividend is based on 2.25% (6%-3.75%).

Different life insurance companies may quote and apply DIRs differently. As a result, you cannot use the DIR as the sole basis for comparing one whole life policy to another.

While not guaranteed, MassMutual has paid a dividend every year to eligible participating policyowners since 1869. It is important to note that whole life insurance, regardless of dividend performance, offers guaranteed cash value growth for the life of the policy. Furthermore, if the Paid-up Additions dividend option is chosen, both the death benefit and cash value will increase. Most IUL policies offer only limited guarantees, but there are a few that will provide certain policy guarantees for an additional premium.

## MassMutual's DIR Compared to Common Fixed Income Measures

This graph shows the relative stability of MassMutual's Dividend Interest Rate compared to three common fixed income measures over an extended period of time. The values plotted in the graph are for each year from 1980–2023.



<sup>4</sup> Refers to the MM-block of business, which comprises policies issued prior to the merger of Massachusetts Mutual Life Insurance Company and the former Connecticut Mutual Life Insurance Company in 1996. Starting with the 2012 dividend schedule, there is a single Dividend Interest Rate for all blocks.

<sup>5</sup> Moody's yield on seasoned Aaa corporate bonds for all industries, quoted for the year preceding the Dividend Interest Rate shown; for 2023, the rate is the average monthly rate from January to September for the preceding year. Moody's Aaa rates through December 6, 2001, are averages of Aaa utility and Aaa industrial bond rates. As of December 7, 2001, these rates are averages of Aaa industrial bonds only.

<sup>6</sup> Market yield on U.S. Treasury securities at 10-year constant maturity, quoted for the year preceding the Dividend Interest Rate shown; for 2023, the rate is the average monthly rate from January to September for the preceding year.

<sup>7</sup> Market yield on U.S. Treasury securities at 1-year constant maturity, quoted for the year preceding the Dividend Interest Rate shown; for 2023, the rate is the average monthly rate from January to September for the preceding year.

## Demonstrating the risk reward trade-off

The following comparison was designed to illustrate the strong and consistent historical results that MassMutual has delivered to whole life policyowners through the DIR.

It compares MassMutual's DIR to historical results for investment options typically available in Indexed Universal Life (IUL) policies. While the overall mechanics of universal life products and whole life insurance are very different, both types of policies deliver investment results to policyowners.

The investment results or DIR shown in the comparisons that follow are not the rate of return on the policies. The actual rate of return will be less due to the cost of the life insurance protection and other charges associated with each type of policy. There may be little or no cash, account or surrender value available in the early policy years, and it may take a number of years to realize a positive return on premiums paid into your policy. You should review a life insurance illustration based on your specific situation and needs to fully understand how the policy works and how investment results impact the long-term performance.

The following chart and table compare MassMutual's DIR to the historical average annual results and standard deviations<sup>8</sup> for the following indices from 1980 through 12/31/2022:

**Stock Index<sup>9</sup>** – the Standard & Poor's 500 Index with dividends, which is often used to measure total return performance of U.S. common stocks.

**Bond Index** – The Bloomberg US Aggregate Bond Index which is often used to measure total performance of investment grade bonds being traded in the U.S.

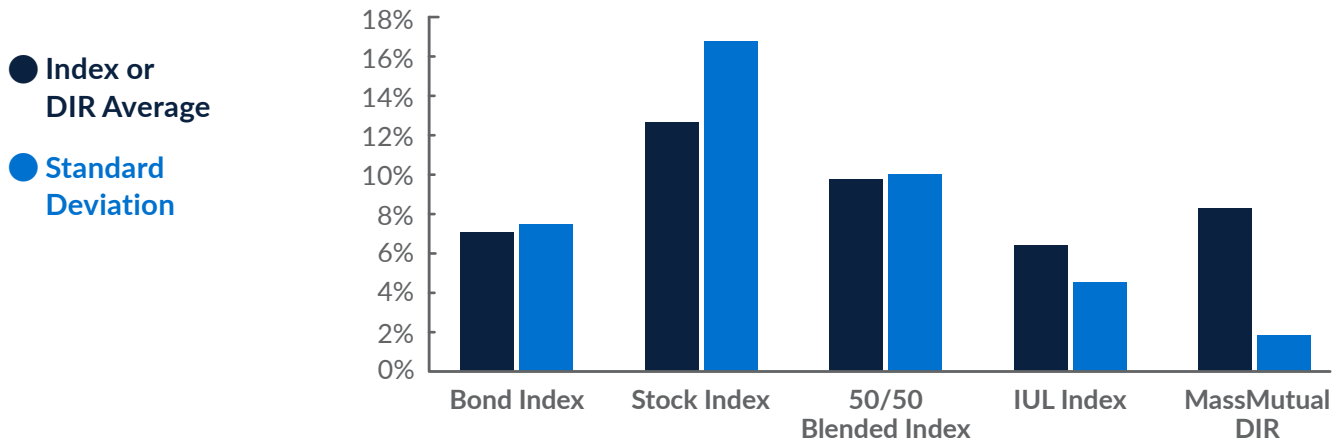
**IUL Index** – The Standard & Poor's 500 Index excluding dividends, assuming a Cap Rate of 10%, a minimum crediting rate of 0% and a 100% participation rate.

**MassMutual's DIR** – This represents the Dividend Interest Rate for whole life insurance policies issued by MassMutual prior to the merger with Connecticut Mutual in 1996. These policies are no longer available for sale.

<sup>8</sup> Standard Deviation is a commonly used statistical measure of the variability of historical investment returns and is often used in comparing the risk versus average return of different types of investments. A higher standard deviation indicates greater variability in returns, and typically higher investment risk. To put it in perspective, if the average annual return is 6% and the standard deviation is 1%, there is a 68% probability that future returns will be between 5% and 7%.

<sup>9</sup> The Stock Index used in this comparison does not reflect the fees and charges associated with an actual IUL product. Had fees and charges been reflected, the returns would be lower. Indices are used for informational purposes only. Individuals cannot invest directly in an index.

## MASSMUTUAL DIR VS. HYPOTHETICAL INDEX INVESTMENT OPTIONS (1980-2022)



<b>Index or DIR Average</b>	<b>7.00%</b>	<b>12.82%</b>	<b>9.91%</b>	<b>6.51%</b>	<b>8.37%</b>
<b>Standard Deviation</b>	<b>7.39%</b>	<b>16.85%</b>	<b>10.10%</b>	<b>4.49%</b>	<b>1.77%</b>
<b>Number of Negative Years</b>	5	8	6	0	0
<b>Largest Decrease</b>	-13.01%	-37.00%	-16.23%	N/A	N/A

Historical results are not an indicator of future performance.

**This comparison demonstrates that MassMutual’s DIR has delivered competitive results with substantially less variability than the illustrative IUL investment option. In addition, while IUL account values may decrease in value, a MassMutual whole life policy has a guaranteed cash value which increases each year and will never decline in value.**

It is important to note that stock market indices have historically been much more volatile than dividend interest rates. IUL illustrations assume a year over year consistent rate of return which is not realistic assuming historical market fluctuations. The actual amounts credited to the policy will be more or less than illustrated.

Also, IUL usually has significantly higher policy expenses as compared to other life insurance product types. This is why IUL often requires illustrating a higher credited interest rate in order to match the same values as whole life when the products are funded at the same premium amounts.

# MassMutual...

**Helping you secure what matters most.**

Since 1851, our business decisions have been guided by our customers' needs. Today, we offer a wide range of financial products and services to help people secure their future and protect the ones they love.

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