

Demonstrating the Risk Reward Trade-Off

Whole Life and Indexed Universal Life Insurance

There are several different types of policies to choose from. Two popular choices are whole life and indexed universal life (Indexed UL or IUL).¹

- Whole life and IUL both offer death benefit protection and the potential to build cash value or account value. With whole life, 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 for your clients to take into account when reviewing policy options.

Whole Life Insurance

Whole life provides a guaranteed death benefit and 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.²

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.

¹ The dividend and dividend interest rate (DIR) are determined annually, subject to change, and are not guaranteed.

² MassMutual does not issue Indexed Universal Life insurance policies.

Indexed UL (IUL)

IUL is similar to other Universal Life products but uses different crediting rate methodologies to calculate the policy's account value growth. IUL policies allow policyowners to invest in both fixed interest and index-linked (indexed)³ accounts.⁴ 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 are 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, a maximum crediting rate or cap and a participation rate, which is the percentage of the index return used to determine the crediting rate. As an example, a typical indexed account may be linked to the price performance (excluding dividends) of the Standard & Poor's 500 Index and have a minimum crediting rate of 0%, a cap rate of 10% and a 100% participation rate.

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.

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The following comparison was designed to illustrate the strong and consistent historical results that MassMutual has delivered to whole life policyowners through the Dividend Interest Rate (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 and 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. It is important for clients to review a life insurance illustration based on their specific situation to fully understand how the policy works and how investment results impact the long-term performance.

³ Individuals cannot invest directly in an index.

⁴ 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.

The chart and table compare MassMutual’s DIR to the historical average annual results and standard deviations⁵ for the following indices from 1980 through 12/31/2022:

Stock Index⁶ – The Standard & Poor’s 500 Index with dividends, which is often used to measure total performance of U.S. common stocks.

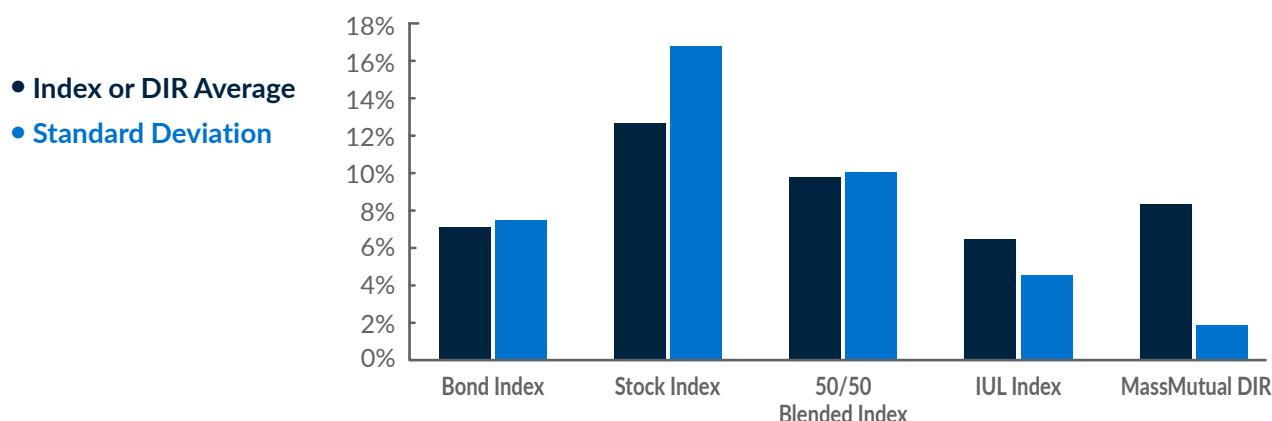
Bond Index – The Bloomberg US Aggregate Bond Index which is often used to measure total performance of investment grade bonds being traded in the U.S.

50/50 Blended Index – A 50%/50% blend of the Stock Index and Bond Index, maintained year-over-year.

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.

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



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

Historical results are not an indicator of future performance.

This comparison demonstrates that the MassMutual’s DIR has delivered competitive results with substantially less variability than the illustrative IUL investment options. 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.

⁵ 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%.

⁶ 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.

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