



# What's the *likelihood* of needing a no-lapse guarantee?

It's only needed at the intersection of a long life and poor performance

John Hancock products often offer a lower planned premium than others with longer no-lapse guarantees (NLGs). Extended NLGs have their place, and their cost is known, but what is their *benefit*? Below, we estimate *just that* for another company's NLG in order to do a proper cost-benefit analysis between their product and our famous Protection IUL.

## The case study

In this example, we have a Preferred male, age 63, looking for \$2.5M of coverage and wishing to pay premiums for only 12 years. Our premium solve to endow at age 121 is \$69,639 while another company's product costs \$87,068 for an age 100 guarantee. Our NLG goes to age 87. The cost of the other product's additional 13 years of NLG is the difference between the two premiums — \$17,429 per year, or an upcharge of 25%. But what is the *benefit*?

## The analysis

To address this, we put together the table below, showing the rate of return required to carry Protection IUL to the ages indicated on the left. The third column shows the estimated probability of attaining at least that rate of return over the long term, based on the historical performance of the S&P 500 index over 25-year periods — the same data used to determine the AG49 rate — and the current Indexed Account parameters and charges for the High Capped Indexed Account.<sup>1</sup> The column to the right of that shows the insured's probability of living to each age based on standardized mortality tables.<sup>2</sup>

On that basis, the final column shows the estimated probability of living to each age *and* attaining a rate of return that is too low, which would trigger the need for a guarantee. As the required rate increases with time, the likelihood of survival decline and the likelihood of both events occurring in tandem remains low. In this case, the highest probability of that occurs at age 95, with a likelihood of about 2.4%.

### Male, Preferred Non Smoker, 63, \$2.5M Death Benefit

EOY age	Rate required to remain inforce	Historical probability of a lower rate		Current probability of survival		Estimated likelihood of needing a guarantee
80	N/A <sup>3</sup>	0%	<b>x</b>	80.43%	=	<b>0%</b>
85	N/A	0%	<b>x</b>	60.27%	=	<b>0%</b>
90	5.46%	4.23%	<b>x</b>	33.92%	=	<b>1.43%</b>
95	6.29%	19.29%	<b>x</b>	12.34%	=	<b>2.38%</b>
100	6.56%	26.53%	<b>x</b>	2.62%	=	<b>0.69%</b>

# The conclusion

Is the high cost of the NLG worth it? Maybe, but maybe not. That's a decision for the client to make in conjunction with their insurance agent. But given the magnitude of the difference in this case — more than 25% versus less than 2.5% — and others like it, many clients are likely to see the value in the savings of Protection IUL and may prefer that solution.

For more information, call National Sales Support at **888-266-7498, option 2.**

1. AG49 methodology utilizes current caps and floors for indexed account parameters and calculates 25 year average returns beginning on every day of the last 65 years. This methodology was utilized to create a pool of 14,600 data points which was used for the "Historical Probability of a Lower Rate" column. "Rate Required to Remain In-force" is the illustrated rate needed in each year to carry the policy to that age based on the other illustrated assumptions. This is a supplemental illustration. Not all benefits and values are guaranteed. The assumptions on which the non-guaranteed elements are based are subject to change by the insurer. Actual results may be more or less favorable. Past performance is not a guarantee of future results.
2. The "standardized mortality tables" referenced are 2015 Valuation Basic Tables, Select and Ultimate. Life Expectancy (LE) tables are based on actual mortality experience collected from sources such as life insurance companies and the Social Security Administration. As used in this presentation, the LE tables show the average probability of death by a certain year. The LE data provided in this presentation is not necessarily indicative of a particular insured's personal life expectancy, and an insured may live longer than indicated by the table. The LE tables used are not tailored to any personal situation or risk class; rather, they are based on population averages and are presented merely to help form a generalized idea of potential probabilities of death.
3. N/A represents that the death benefit guarantee is in-force as illustrated. This means that there are not any return requirements for the policy to remain in-force.

The example above is based on a 100% allocation to the High Capped S&P Indexed Account, although a similar analysis could be done utilizing any of the available S&P Indexed Accounts.

The probabilities provided in the chart above are not guaranteed. Actual results could be less favorable. They were arrived at based on the methodology noted in this flyer. The purpose of this information is to help provide insights into the potential relative benefits of products with longer versus shorter guarantee periods. You should work with your clients to help them determine what product or product features will help them meet their objectives.

## **FOR AGENT USE ONLY. THIS MATERIAL MAY NOT BE USED WITH THE PUBLIC.**

Guaranteed product features are dependent upon minimum premium requirements and the claims-paying ability of the issuer.

Protection IUL policies automatically include a no-lapse guarantee called Death Benefit Protection. This feature guarantees that the policy will not default, even if the cash surrender value falls to zero or below, provided that the Death Benefit Protection Value remains greater than zero and policy debt never exceeds the Policy Value. Once terminated, the Death Benefit Protection feature cannot be reinstated. Please see the product guide for additional details.

Insurance policies and/or associated riders and features may not be available in all states. Protection IUL is not available in New York.

Insurance products are issued by: John Hancock Life Insurance Company (U.S.A.), Boston, MA 02116 (not licensed in New York) and John Hancock Life Insurance Company of New York, Valhalla, NY 10595.