Why Should Clients Pay More for No-Lapse Guarantees They May Never Need?

PACIFIC LIFE

Pacific Life Insurance Company

3 Considerations to Evaluating a Cost-Effective Alternative

Universal life insurance products with Lifetime No-Lapse Guarantees (NLGs) may offer a cheaper alternative to whole life products. But lifetime NLG coverage can come at the cost of high premiums and little-to-no cash value accumulation. Might there be a more efficient way to insure your clients' lives to maturity?

1. Consider Average Annual Cost of a Lifetime NLG product

Below are some sample average annual premiums required to fund a typical $1 Million Death Benefit with a Lifetime (to age 121) No-Lapse Guarantee (NLG).[1]

Male Standard NonSmoker	Average Lifetime NLG Annual Premium
Issue Age 55	$15,388
Issue Age 64	$25,256
Issue Age 73	$44,597

2. Identify Potential Cost Savings

Consider a less expensive alternative. Pacific Indexed Accumulator III[2] (PIA III) indexed universal life insurance with the Medium Duration No-Lapse Guarantee II (MDNLG II) Rider[3,4] offers up to age 90 no-lapse protection, as long as the net no-lapse guarantee value[5] remains greater than zero. Though the no-lapse guarantee is shorter than a lifetime, PIA III provides attractive cash surrender value potential at life expectancy and beyond, to provide the probability that the policy will continue for as long as the client needs. And it will do so at cheaper premiums.

Male Standard NonSmoker	Average Life Expectancy[6]	No-Lapse Guarantee Duration	PIA III Premium to Endow at Age 121 at 7.55%[7,8]	% Cost Savings PIA III vs. Avg. NLG Premium	PIA III Cash Surrender Value at Life Expectancy	PIA III Cash Surrender Value at Age 100
Issue Age 55	Age 85	Age 87	$13,354	13.2%	$426,446	$514,171
Issue Age 64	Age 87	Age 90	$22,535	10.7%	$396,309	$459,439
Issue Age 73	Age 89	Age 90	$42,454	4.8%	$297,693	$341,127

1 SOURCE: www.NFP.com "Product Expert" Comparisons of NLG Premiums illustrated as of August 2010 for the products listed below. ***AIG American General's*** *ContinUL,* ***Aviva's*** *Advantage Builder III,* ***Aviva's*** *Guarantee UL Solution II,* ***Genworth Financial's*** *GenGuard UL,* ***Hartford's*** *Bicentennial UL Freedom 2010,* ***ING's*** *GDBUL II,* ***John Hancock's*** *Protection UL-G 10,* ***Lincoln Benefit Life's*** *Legacy Choice UL 2010,* ***Lincoln Benefit Life's*** *Legacy Secure UL 2010,* ***Lincoln Financial's*** *LifeGuarantee UL (2009),* ***MetLife Investors's*** *Guarantee Advantage UL,* ***Nationwide's*** *YourLife No Lapse Guarantee UL,* ***Pacific Life's*** *Versa Flex NLG 2010 (Policy Form No. P08VN1),* ***Principal's*** *UL Protector III 2010,* ***Prudential's*** *PruLife UL Protector,* ***Transamerica's*** *TransACE 2010,* ***West Coast Life's*** *Lifetime Platinum III UL 0809.*

2 Policy Form #P08PI3.

3 Form #R03FNL.

4 Riders will likely incur additional charges and are subject to state availability, restrictions and limitations. Clients should be shown illustrations with and without riders to help show the impact of their costs on the policy.

5 The net no-lapse guarantee value is a policy calculation that mirrors the growth of the policy's cash value, but grows at a different rate and is reduced by different charges than the policy's cash value. It cannot be accessed through withdrawals or policy loans and is merely a calculation to determine whether the no-lapse guarantee is in effect.

6 Illustrated life expectancy and mortality probabilities are based on the Society of Actuaries Male, Standard NonSmoker, 2008 Valuation Basic Table. The 2008 VBT is based on average mortality experience for standard insureds across several life insurance companies. Other tables will generate different life expectancy and mortality probabilities. Your client's individual life expecta ncy and mortality probabilities will be a function of their unique circumstances, such as their current health and lifestyle, and will certainly be different than those illustrated, which represent an average of a large group. We do not use the 2008 VBT to determine the policy's cost of insurance rates.

7 PIA III's 40-year hypothetical average crediting rate is 7.55%. While past performance is no indicator of future results, if 240 Segments had been created each month from January 15, 1970 to December 15, 1989 and held for a period of 20 years each for a total of 40 year holding period, the 1-Year Indexed Account would have credited a 7.55% average interest crediting rate from January 1970 to December 2009. Pacific Indexed Accumulator III (Policy Form #P08PI3) was not offered for sale until Feb. 2008, so the returns shown are not representative of actual PIA III product performance. The actual historical growth cap, participation rate and floor of these products, had they been available, over the period analyzed might have been higher or lower than assumed, and likely would have fluctuated with market conditions, subject to product guarantees. PIA III does not directly participate in any stock or equity investments.

8 Other Assumptions: Death Benefit Option A (Level) with Guideline Premium Test, Annual Premium, MDNLG II Rider (Form #R03FNL), 100% Commissionable Base/ Annual Renewable Term Rider (Form #R08RTP) combination, 100% allocation to the 1-Year Indexed Account with a 12% current (3% guaranteed) growth cap, 100% guaranteed participation rate, and 0% guaranteed minimum interest crediting rate.

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3. Putting It All Together

If the 40-year average hypothetical rate of 7.55% seems high, consider this approach: Pay the same amount of premium shown in Step 1 into PIA III and solve for the lowest crediting rate that would cause PIA III to endow (cash value = death benefit) at age 121. Doing so can help highlight PIA III's high cash value potential and its probability of providing a death benefit beyond life expectancy. You can then use the Indexed UL Rate Calculator available through the Lifeline Web site to analyze the sustainability of these rates.

For example, the chart below shows that for a Male Standard NonSmoker Issue Age 64:

- A 6.15% crediting rate would fully endow PIA III ($1 Million Cash Value at age 121).
- A 6.15% crediting rate would have been achieved 96% of the time over a 40-year historical period (40-Year Historical Confidence Factor).[9]
- Even at worst-case crediting rate assumptions (0% guaranteed rate and maximum Cost of Insurance charges), PIA III with the MDNLG II Rider guarantees a death benefit up to age 90: three (3) years beyond the client's average life expectancy.
- Even if this client is among the 3% to live to age 100, at non-guaranteed assumptions PIA III provides a robust cash value of $522,198 at age 100 to help keep the policy in-force well beyond the average life expectancy.

Male Standard NonSmoker	Crediting Rate Required for PIA III to Endow at age 121 at NLG average Premium shown in Step 1	40-Yr Historical Confidence Factor[9]	Cash Surrender Value at Life Expectancy[10]	Cash Surrender Value at age 100	No-Lapse Guarantee Duration[11]	Average Life Expectancy (2008 VBT)	% Chance of Living to Age 100 (2008 VBT)
Issue Age 55	6.30%	96%	$460,472	$610,035	Age 90	Age 85	2.63%
Issue Age 64	6.15%	98%	$423,216	$522,198	Age 90	Age 87	3.03%
Issue Age 73	6.45%	93%	$307,962	$361,205	Age 90	Age 89	3.64%

CONCLUSION:

While guarantees certainly have their place, clients can potentially achieve their goals more efficiently with a product with greater upside potential.

Contact a Pacific Life representative today to find out how PIA III can efficiently address your clients' lifetime coverage needs.

9 *The Confidence Factor is the percentage of the 240 segments sampled in the calculation method described in footnote #6 that would have produced at least the annual crediting rates shown or higher.*
10 *Life expectancy is based on 2008 CSO Valuation Basic Table (2008 VBT).*
11 *PIA III's no-lapse protection is provided by the optional Medium Duration No-Lapse Guarantee II Rider (Form #R03FNL), which guarantees the policy will not lapse up to age 90, provided at least the no-lapse premiums are paid.*

Pacific Life Insurance Company is licensed to issue individual life insurance and annuity products in all states except New York. Product availability and features may vary by state. Product and rider guarantees are backed by the financial strength and claims-paying ability of Pacific Life Insurance Company.

Pacific Life Insurance Company's individual life insurance products are marketed exclusively through independent third-party producers, which may include bank affiliated entities.

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Some selling entities, which may include bank affiliated entities, may limit availability of some optional riders based on their client's age and other factors.

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