A Day with Nationwide’s VUL
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When we meet with variable life insurance carriers, we usually find they are very competitive in one or two areas but fall short in others. Some strengths play well in one environment and not so well in another, resulting in a revolving door of feature driven product. General agents and financial advisors need to know what products play to what strengths, and depending on the circumstance, apply that product to a particular situation. Often times the utility player on the team, the one that can play all the positions well, offers the best solution. We found this with Nationwide’s VUL.

When it comes to evaluating VUL there are several areas of concern. In today’s market, having both an accumulation and protection based product is important. With the headwinds of longevity and inflation, it is nice to have protection, along with some accumulation. With clients still on edge following the financial crisis, it is comforting to have death benefit, no-lapse guarantees available. In addition to guarantees, long term care (LTC) riders have proven to be extremely significant as baby boomers retire, people are living longer, and healthcare costs continue to rise. Not to mention, if the LTC is not needed, the client still has a death benefit to pass to heirs unlike a standalone LTC policy. Under all of this, there needs to be an engine that is capable of delivering the results the policy demands. The underlying investment options are as critical as any other component and a carrier must provide an all-star menu to enable the advisor to construct a proper, diversified portfolio. These elements are important to the individual market. In the business market, having a business solutions team to offer corporate owned life insurance (COLI) is imperative. Nationwide leads the nation in COLI business and has for several years. However, we are going to remain focused on the individual market for this article.
Death Benefit, No-Lapse Guarantees

The popularity of Lincoln’s VUL ONE is undeniable. The sale is based on a lifetime death benefit, no-lapse guarantee that resembles a GUL constructed on a VUL chassis: The peace of mind of a guarantee with the added opportunity for accumulation. It also prices very well with this lifetime guarantee built in, something the competition has yet to match, let alone fully understand. This would be an example of one of those popular products that sells well because of a particular feature. If a client misses a premium payment, or pre-pays ahead of that premium payment, it can throw the entire no-lapse guarantee out the window. Nationwide’s Protection VUL comes with a built in 10 year death benefit guarantee with a rider available to extend that to life. The caveat is that they restrict the client to asset allocation funds when a client elects that extended option, but this is fairly standard practice in the industry. An added benefit is that if a client misses one or multiple premium payments, Nationwide will allow them to reinstate that guarantee provided they catch up those missed premiums, interest free. Nationwide’s Automated Premium Monitor (APM) helps the client and the advisor monitor if their guarantee is in jeopardy, and what it will take to get that back on track. This protection VUL with a lifetime guarantee will cost more than Lincoln’s VUL ONE, but you need to ask yourself, for a couple hundred extra on the premium, is that flexibility worth it? And combined with some of the other attractive features of this VUL, it certainly may be.

Long Term Care Rider (LTC)

Not all LTC riders are created equal. There are some that aren’t long term care policies at all, called critical or terminal illness riders. These riders are a tax-free acceleration of the death benefit under 101(g), however they require a higher degree of sickness; basically the one you will die from in a short period of time. Long term care riders under 7702B require a lesser degree of qualification, specifically if the client is unable to perform two of the activities of daily living (ADLs) for over 90 days. This classification could be a multitude of different conditions, including many from which the client could potentially recover. Among 7702B classified LTC riders there are two types: Reimbursement and indemnity. Among these two choices, the superior is indemnity without question. Nobody, especially a widowed 70 year old lady who has
a LTC need, is in the mood to send receipts to and deal with the claims department of a major insurance carrier. Besides, the client can use that money for absolutely anything with an indemnity style rider and can change the amount needed as often as monthly as circumstances warrant. Nationwide has a 7702B classified, indemnity style long term care rider. This LTC coverage amount can be any value up to the policy face amount, and is subject to separate underwriting where they have a total of five tables. Over 30% of all individual Protection VUL policies issued by Nationwide now include the LTC rider. A very distinctive feature is that a policy holder can add the LTC rider at any time after the policy has been issued. Of course they are subject to LTC underwriting, but they can add it at any time, which is a testament to the flexibility of this product. Nationwide also has a healthcare assessment tool to assist in quantifying the financial gap the LTC policy can help bridge for a client. There are some good client videos and educational pieces available to help communicate the benefits. The only two carriers in addition to Nationwide that have an indemnity style LTC rider are TransAmerica and AXA to my knowledge. John Hancock has a reimbursement style LTC rider, with an additional LTC Continuation Rider that doubles the amount of LTC coverage over face.

Investment Options

What engine is under the hood is extremely important. A well diversified portfolio within a tax-free life insurance policy is an astoundingly powerful accumulation tool. The power of compounding in a tax-deferred environment paired with the tax-free withdrawals and beneficiary distribution is hard to beat. To obtain a tax-free annual return of 5% on a portfolio, assuming a 33% tax bracket and a conservative 5% state tax, a tax-equivalent yield would be a little over 8%. The amount of portfolio risk you would need to assume to obtain an 8% average annual return on a portfolio is substantially higher than one built to obtain 5%. Not to mention changes to the portfolio can be made within the life insurance policy tax-free. These are all good things, but it comes down to having a solid investment lineup within the policy to construct a properly diversified portfolio. Not only traditional investments such as equities and fixed income, but alternatives as well. Nationwide’s investment lineup covers all the bases. There are 90+ investment options (28 of which are 4 or 5 star overall rated by MorningStar) that create a very
attractive lineup. On the alternatives side, they have a real estate fund and a hard asset fund as well as a multi-hedge strategy. There are other options that don’t particularly fit into the equity or fixed income space such as the PIMCO All Asset and BlackRock’s Global Asset Allocation fund. Seeing a tactical manager such as Ivy Asset Strategy in the mix is also a good sign. Somebody did their homework on offering a top notch investment lineup that gives a financial advisor the tools necessary to construct a proper portfolio. Of course Nationwide offers a range of asset allocation funds that, depending on the lifestyle or risk-tolerance of the client, offer a somewhat automated portfolio solution.

The timing of investment as well as withdrawals can have a profound effect on a portfolio’s return. Almost every investment professional understands the concept of dollar cost averaging into a portfolio over a period of time. Nationwide’s enhanced DCA program invests over a 12 month period. However, what is “enhanced” about the program is that the money sitting on the sideline waiting to invest currently earns a fixed interest amount of 8%. Most investment professionals also understand that systematic portfolio withdrawals or fee deductions (cost of insurance or COI) on a down or volatile market can have a substantial negative effect. Nationwide offers a service called Fund Directed Monthly Deductions where the client or advisor can designate a stable, fixed portion of the portfolio for COI deductions. So those withdrawals don’t come from the variable side of the portfolio, however this is not automatic. With auto-rebalancing in place, all these features can help keep the policy on track. This is somewhat similar, however less automated, than John Hancock’s TargetTrack program that is very popular. When it comes time for some distributions from the policy, the Automated Income Monitor (AIM) feature allows the client to determine the amount and frequency of the distribution while monitoring the policy so it doesn’t fall into danger of lapsing.

Conclusion

The well balanced approach from Nationwide on their VUL product is well received in this market of feature focused product. They offer the no-lapse guarantee many require, have a properly structured LTC indemnity rider, and have a robust investment lineup. The flexibility of their features such as the ability to catch up on the premiums to reinstate the guarantee or the option to add the LTC rider at face or lower any time while the policy is in force, are attractive value enhancers. Nationwide may never be #1 in the VUL marketplace, but they will remain firmly among the top 5 with this well balanced approach.

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