I want to show my clients how valuable cash value life insurance can be

Advanced Markets

Private reserve sales guide

EQUITABLE

Welcome to Equitable's sales guide series

Dear Practitioner,

The playbook for helping clients pursue financial security is changing. Clients are living longer. And pensions are becoming a thing of the past.

What does that mean for you? Opportunity. When you think less about specific products and more about goal-based planning, your more holistic approach can help fulfill your clients' insurance and financial plans. This represents an outstanding prospect to grow and diversify your own practice.

That's why we've developed a series of sales guides — to help you comfortably prospect to a broader set of client needs and, in turn, grow your practice.

This sales guide focuses on the subject of private reserve to help you:

- Speak to the value of life insurance for financial protection needs.
- Understand how permanent insurance products can provide the life insurance coverage clients' families need, offer a potential source of cash and enhance your clients' wealth accumulation strategy.
- Start conversations with your clients about their mid- and long-term insurance and accumulation needs, and discuss how permanent life insurance can help.
- Define and execute an effective private reserve strategy for your clients.

It is our hope that you'll find this guide helpful, insightful and actionable. If you'd like to discuss any of the concepts you read about in this guide, we encourage you to reach out to your Life wholesaler or contact the Life Sales Desk at (800) 924-6669.

In this guide

Section 1:

Identifying the right clients for a private reserve strategy

Within your existing book of business, there is probably a range of clients who could benefit substantially from a sound private reserve strategy. The key is identifying them, so you can better support their household insurance and accumulation needs.

Look for clients who:

1

Are financially savvy, need life insurance coverage and have assets to allocate to cash value life insurance.

Those who are contributing to their 401(k), enthusiastically investing, and own an annuity or some life insurance are more likely to see the interconnection of the various parts of their financial life. For them, adding a private reserve may be a natural fit.

Look for:

- The need for life insurance coverage
- Active contributions to qualified plans, with money left over to contribute
- Ownership of some type of life insurance or annuity
- Sizable assets in bonds or longer-term CDs

2

Are "planners."

Clients who have expressed an interest in achieving tangible long-term goals (e.g., sustained retirement income) and need life insurance, but may have cash accumulation needs for additional goals (such as purchasing a second home), should be open to hearing more about how a dependable source of liquidity can help keep them on target without sacrificing potential growth.

Look for:

- Individuals contributing to 529 plans
- People who want to attain longer-term lifestyle goals prior to retiring, such as purchasing a vacation home or starting a business

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3

Do their research.

Any of your clients who tend to do their own research and discuss more advanced financial concepts may be good candidates for private reserve strategies. They will often be more receptive to new financial ideas and will appreciate why potential access to cash surrender value is essential.

Look for:

- Someone who has expressed frustration with tax rates
- A client who makes sizeable charitable contributions

Introducing the concept of private reserve to your clients

Once you've identified clients who could benefit from a private reserve strategy, you can now introduce them to the concept.

1

Talk about your client's insurance needs, accumulation goals and financial planning objectives.

It's important that you and your client have a shared understanding of their financial objectives and how a private reserve can help promote and protect those objectives.

2

Discuss their current and future household assets and liabilities.

After establishing a clear view of a household's overall current financial picture, determine where sources of cash flow have been identified. One key to a successful plan is ensuring that you have reviewed your client's anticipated needs in the short, medium and long term.

3

Determine if an allocation to a permanent life insurance product is suitable.

This should be based on steps 1 and 2 above. In addition to the valuable life insurance protection it provides, explaining the multiple additional benefits of permanent coverage, particularly its tax-deferred growth and potential tax-free distributions, can help boost your client's confidence levels with the product. When discussing allocations, be sure to mention that for optimal effectiveness as a private reserve, permanent life insurance should be funded at the maximum practical level, with a minimal death benefit.

For advanced practitioners

Start with a full set of data that encompasses financial capital (including portfolio allocation), human capital (dependability of earned income), social capital (sources of guaranteed income) and monthly household surplus/deficit.

Conversation starters

Ready to talk private reserve with your clients? Try these conversation starters.

Have you thought about what you'd do if you lost your job?

It's great that you're planning for retirement, but do you have a potentially tax-free source of funds that can help you meet goals during your income-earning years — such as purchasing a vacation home or paying for a semester abroad for your child?

Do you have a source of funds to help protect your plans for the future?

Are you missing out on potential growth by keeping some extra money "parked"?

Case in point:

The big day

The situation

Rochelle, a 56-year-old orthodontist in private practice, has earnings that fluctuate annually based on patient load. She's entering into a period in which a higher-than-expected number of patients have completed their treatment, reducing her patient roster and income.

The complication

Rochelle's daughter, Ella, gets engaged to her long-time boyfriend. It's great news, but Rochelle knows there may be a hefty price tag attached, but she's eager to help fund the wedding.

The strategy

Tapping into the cash value of her indexed universal life policy, Rochelle takes a tax-free loan to help pay for her daughter's big day. Then, when her patient roster recovers, she repays the loan to help ensure she has sufficient cash value to provide a substantial portion of her retirement income in the future. Please note: This strategy will reduce the cash value and face amount of her policy. Rochelle may need to fund higher premiums in later years to keep the policy from lapsing.

Section 2:

Strategies for driving accumulation

There are a number of sources an individual might turn to for cash flow needs. Each has its own advantages and drawbacks. Often, a combination of tactics will yield optimal results for your clients. So it's important to understand the relevant considerations for each of the most popular options.

How to evaluate:

In evaluating these strategies, understanding your client's life stage, situation, financial needs and long-term goals is critical.

Life cycle stage

First take into account where your client is in their life. A 30-year-old may take a longer-term position than a 60-year-old, who will have less flexibility in terms of risk and liquidity.

Financial status

Whether a client is considered high net worth, affluent or mass affluent should play a significant role in evaluating the right strategy. In general, the more affluent a client is, the greater the opportunity for upside exposure.

Earned income

Salary and other earned income is an important consideration to keep in mind. Households with less earned income may have a greater need for short-term access to cash, while clients with higher amounts of earned income may have enough excess cash flow to potentially build a long-term private reserve.

Taxes

Tax implications should always be factored into the equation. Since it is uncertain what anyone's tax bracket will be in the future, particularly in retirement, products offering potential tax-free distributions when properly structured can offer a significant advantage.

Future household expenses/liabilities/goals

Having a good understanding of a client's future needs is extremely helpful. While day-to-day needs may be easily met, anticipated expenses, such as college tuition or elder care, will perhaps require an alternate source of funds in the future.

Action plan

1. Know the advantages of using permanent life insurance in a private reserve strategy.
2. Help your clients understand the time value of money and how permanent insurance may provide a way to participate in market upside.
3. Think about how to adapt your conversation with clients based on life stage.
4. Be aware of the tax advantages of permanent insurance, particularly when cash is accessed, and the income tax-free death benefit.

Case in point:

High net worth meets high liabilities

The situation

John, a 45-year-old senior vice president for a global pharmaceutical company, earns $210,000 a year. His earned income is sizeable, but so are his liabilities. John and his wife, Jennifer, recently bought a larger house and their oldest daughter is about to start college.

The opportunity

Jennifer has left her job to start her own business. John wants to help cover her start-up costs. But if he cashes out of the stock market now, he'll be locking in substantial losses.

The strategy

For the last 7 years, John has maintained a universal life policy with a cash value that has grown more than enough to cover Jennifer's start-up costs. He borrows from the policy tax-free, without penalty, and begins to repay it once Jennifer's business turns a profit. Please note: This strategy will reduce the cash value and face amount of his policy. John may need to fund higher premiums in later years to keep the policy from lapsing.

Section 3:

Executing your private reserve strategy

When it's time to put your private reserve strategy into play, the following guidelines can help you build a highly effective strategy for your clients using permanent life insurance.

Effective funding for permanent life insurance in private reserve strategies

When using a permanent life insurance product to create a potential private reserve, an effective strategy is to overfund the cash value account while funding a minimal death benefit. This provides a number of benefits:

- Greater upside exposure.
- More flexibility in premium payments.
- Potential additional access to cash value.

Benefits of permanent insurance

Permanent life insurance, particularly IUL and VUL, offer some upside and tax-deferred growth potential. And, of course, it provides an income tax-free death benefit, giving beneficiaries a source of ready cash when it is most needed. Keep in mind that with VUL, there is a possible substantial loss of principal invested, as well.

Do you need life insurance protection?

Have you maxed out your retirement plan and still consistently have more money you'd like to save?

Are you concerned about being able to access cash without penalty before age 59½?

Are you under age 50?

If this sounds like you, you may want to consider using cash value life insurance as a private reserve of cash for your future needs.

See the private reserve in action

Meet Tom

Successful businessman
35, married with newborn

- Earns $100,000 in income per year
- Needs $500,000 in life insurance protection
- Has maximized his retirement plan contributions
- Has an extra $10,000 per year he'd like to set aside to pay for major life events and purchases

After talking things over with his financial professional, Tom decides to employ the life insurance private reserve strategy from Equitable Financial. He purchases a life insurance policy and pays $10,000 premiums per year for 30 years.

The chart below helps demonstrate the way a VUL policy operates and how the performance of the underlying investment accounts could affect the policy cash value and death benefit. It may not be used to project or predict investment results.

Age	Cumulative premiums	Cash surrender value	Loans taken out of policy before retirement	Distributions during retirement	Net death benefit
35	$10,000	$0	$0	$0	$500,000
45	$100,000	$80,000	**$40,000**	$0	$468,000
55	$200,000	$244,000	**$50,000**	$0	$930,000
65	$300,000	$627,000	$0	$0	$1,492,000
66	$0	$618,000	$0	**$48,000**	$1,428,000
85	$0	$147,000	$0	**$48,000**	$442,000

In 20 years, Tom borrows $50,000 for a vacation home.

In 10 years, Tom has enough cash value built up in the policy to borrow $40,000 (tax-free) to start a business.

At age 65, Tom has built up significant cash value in the policy based on current nonguaranteed rates. Enough, in fact, to allow him to take $48,000 per year from age 66 to 85. If he's in a 24% tax bracket, that's equivalent to more than $63,000 taxable income per year.

Non-guaranteed cash value is the hypothetical internal policy account value based on projected subaccount performance, minus surrender charge. This is a supplemental illustration and must be read in conjunction with by the basic illustration. The values represented here are for a $500,000 VUL Optimizer® policy on a 35-year-old male preferred non-smoker. The values reflect the cost of 30 years of premiums illustrated at a 8% gross rate of return and current charges. If you were to receive a 0% gross rate of return and maximum charges are assessed in the policy, the policy would fail in year 33, by which point $300,000 of cumulative premium would have been paid. Please refer to the basic illustration and current prospectus for more information. To determine how this approach might work for you, individual illustrations based on your own individual age and underwriting class, containing both guaranteed charges and guaranteed interest rates, as well as other important information, should be prepared or requested from your financial professional.

Alternative scenario

In the previous example, the values reflected 30 years of premiums illustrated at an 8% gross rate of return. Below, we've also included the values that reflect a gross rate return of 0% and guaranteed charges.

Age	Cumulative premiums	Cash surrender value	Loans taken out of policy before retirement	Distributions during retirement	Net death benefit
35	$10,000	$0	$0	$0	$500,000
45	$100,000	$31,000	**$40,000**	$0	$459,000
55	$200,000	$49,000	**$50,000**	$0	$401,000
65	$300,000	$109,000	$0	$0	$385,000
66	$0	$58,000	$0	**$48,000**	$336,000
85	$0	$0	$0	$0	$0

In 20 years, Tom borrows $50,000 for a vacation home.

In 10 years, Tom has enough cash value built up in the policy to borrow $40,000 (tax-free) to start a business.

At age 66, assuming maximum guaranteed charges and a 0% return, Tom has enough cash value to take out 2 years of income at $48,000 per year before the policy fails in year 33.

The chart above shows the performance of the contract if maximum guaranteed charges were imposed and the life insurance contract receive a 0% crediting rate in all years. It is illustrated at the same face amount of $500,000 and has the same premium requirements of $10,000 per year for 30 years on a VUL Optimizer® flexible premium policy on a 35-year-old male preferred non-smoker. The policy will fail in year 33, at which point $300,000 in premium would have been paid. If the client were to still take the same income withdrawals and loans, cumulative income of $96,000 would have been paid out. See the notes accompanying the chart at non-guaranteed rates for other important information.

Our role in your private reserve strategy

We can help you build a private reserve strategy that best fits your clients' needs. Our BrightLife® Grow and VUL Optimizer® are generally best suited for this purpose.

BrightLife® Grow

BrightLife® Grow can be an appropriate choice for clients looking for an income tax-free death benefit and tax-deferred accumulation, but need protection against negative returns.

Use it with clients who:

- In addition to needing life insurance coverage, are looking for upside exposure through index-linked accounts of the S&P 500® Index, but want a 0% floor to protect them from risk.
- Are sensitive to costs, and do not want higher internal charges relative to savings products.
- Realize they may want a product that doesn't illustrate overly optimistic scenarios.

Don't use it with clients who:

- Want the full, uncapped upside potential of the financial markets.
- Are comfortable enough with risk to pass up downside protection.
- Do not need life insurance coverage.

VUL Optimizer®

VUL Optimizer® may be instrumental in creating a potential private reserve for clients who, in addition to needing life insurance coverage, are less risk averse and have the time horizon to ride out the ups and downs of fluctuating financial markets.

Use it with clients who:

- In addition to life insurance, prefer a moderate or aggressive approach to investing.
- Have a specific investment strategy preference.
- Want to have a way to shield at least part of their investment with downside protection or risk-managed investments.
- Have a tolerance for investment risk, including loss of principal invested, and potentially paying higher premiums in later years.

Don't use it with clients who:

- Are afraid of losing principal.
- Want to see immediate results with investment performance.
- Do not need life insurance coverage.

Action plan

1. Review your clients' life insurance coverage to determine their currrent life insurance needs.
2. Be familiar with how cash value can be accessed by policyholders.
3. Think about the impact of persistent low interest rates on the cost of holding reserves in cash accounts.
4. Talk to your clients about whether they are comfortable with market risk; if so, how much? Would they prefer a product with maximum upside potential but also the risk of some losses? Or, would they prefer to give up some upside potential but also receive a 0% earnings floor?
5. Consider the pros and cons of cost-of-insurance fees and other charges (including a front-end load and surrender charges) versus tax expenses from taxable investments.
6. Know how to explain the tax advantages of overfunding a permanent policy.

Appendix A:

Launching and growing your accumulation practice

When it's time to put your private reserve strategy into play, the following guidelines can help you build a highly effective strategy for your clients using permanent life insurance.

Five components of a successful action plan:

A winning action plan for your wealth accumulation practice involves educating current clients and establishing the means with which to pull in new clients.

Pull

Revise your website, point-of-sale materials, client worksheets and handouts to reflect your expanded offering. Equitable has a wide range of digital and printable client-ready materials you can use for this purpose.

Outreach

Send a carefully crafted email and/or letter to your clients announcing your new offering. Equitable templates and scripts can provide you with a strong starting point.

Relationship

Nothing is more effective than one-to-one interactions with your clients. So give them a call. Ask them about their life insurance accumulation goals. See our Life's telephone scripts for guidance on effective ways to structure these conversations.

Network

Networking with local companies to inquire about organizing workplace seminars on wealth accumulation can be a highly effective way to mine for new prospective clients. Many companies are eager to provide their employees with helpful financial guidance.

Prepare

Work on developing a clear, easy-to-understand perspective on the importance of building an adequate private reserve with life insurance. The better you can articulate the need, the more likely you'll be to connect with your audience.

Appendix B:

Getting the support you need

Expanding your practice into the accumulation space can offer you deeper relationships with existing clients, along with entry into entirely new potential markets. But it's important to have the backing you need to succeed.

That's where Equitable can help.

As a global leader in insurance and asset management, Equitable is here to provide whatever information and support you need to optimize your practice.

Five questions to consider:

1. Do you have adequate materials to support your client conversations about accumulation, liquidity and permanent life insurance?
2. Do you have your clients' email addresses?
3. Are you comfortable conducting the conversation with clients, and diagnosing their life insurance needs and accumulation opportunity?
4. Have you reviewed your book of business and identified clients who might be interested?
5. Have you segmented your book of business based on life stage (e.g., builder, pre-retiree, wealth)?

If you have any questions about what you've read in this guide, please contact Advanced Markets for more details.

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