GB FINANCIAL GROUP

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# The Looking Forward Series: February 2014

## January Trends

GBFG is still seeing an increased demand for unbiased in-force insurance policy reviews brought to us by trustees, family offices and other professional advisors concerned about fiduciary responsibility and market effects on older in-force life insurance policies. The low interest rate environment has put a strain on in-force policies whose performance may not have caught up with initial projections. The principal concern is product evolution and performance; i.e. is the policy still in a position to meet its initial goal? Also, has the client's financial situation evolved and if so, has the current policy kept up with the estate's growth?

## Taking Advantage of Index Products in a Volatile Market (Part 1)

By: Caleb Baker

With universal life crediting rates at an all time low and the spread between carriers' guaranteed rates and their UL crediting rates shrinking, the appeal of indexed universal life is increasing. While proponents of single index S&P products are quick to point out the fact that the S&P returned 30% last year, what is more telling is the declining margin between guaranteed rates for universal life contracts vs. indexed universal life contracts. At the same time, current cap rates are still in the low double digits to low teens, meaning that very little is being given up on downside protection, while the difference in upside potential is significant.

UL fixed crediting rates are at historic lows following the low interest rate environment. IUL guarantees are hovering between 0-2% while UL guaranteed rates between 2-4%; a 200 basis point difference on the downside versus the 500-800 basis point upside potential means that now is a good time to look at indexed products if you believe that the markets will stay volatile. The floors of indexed products allow policyholders to weather the downward volatility of the market while taking advantage of the upward swings. From domestic quantitative easing influencing the S&P growth, to the strength of the dollar abroad, and the growth in the emerging markets, indexed products are particularly suited to fast and furious markets.

On the other hand, if the forecast is long-term stagflation or slow market growth, indexed products have the ability to provide a small guaranteed rate as well as respond immediately when the market does pick up. In contrast, in a low-interest rate environment, fixed crediting rates are stifled and must be kept low. UL crediting rates historically follow 3-5 year lag period in following the market's movement, meaning that the rock bottom fixed crediting rates we are seeing today are the result of the financial crisis of 2008. If America experiences a period of stagflation or even worse deflation over the next five years, that will extend low UL fixed rates for the same period of time, which, in turn could impact a full decade of performance for a UL policy holder.

## Next Month's Topic:

## Taking Advantage of Index Products in a Volatile Market: Evaluating Cost vs. Interest Rate Arbitrage (part 2)

## High Probability of Estate Tax Audits Necessitates Advance Preparation

Summary: In 2012, estate tax returns with assets higher than $10 million were audited at a 100% rate. Budgetary pressures in recent years have constrained the IRS's ability to devote significant resources to effective routine enforcement of individual income tax return fillings. But the low "audit coverage" in the individual arena is not reflective of the scrutiny for estate tax filers.

For Further Reading: http://www.gbfinancial.com/publication/high-probability-of-estate-tax-audit-necessitates-advance-preparation/wppa_open/