

FOR FINANCIAL PROFESSIONALS

The Principal Financial Group®

# Designing *customized* life insurance solutions

— A DIVERSIFIED LIFE STRATEGY —



# Designing customized life insurance solutions

Your clients' life insurance needs are as unique as they are and may focus on strategies such as:

- **Protection** – For debt responsibilities, expenses or replacing the insured's income
- **Legacy** – Increasing the amount of potential income tax-free death benefit left to loved ones or taking care of a child with special needs
- **Opportunity** – In addition to an income tax-free death benefit, focusing on tax-deferred cash value accumulation for supplemental income needs

A wide range of products is available, and while every product provides a death benefit, other elements can vary significantly — length of coverage, premium flexibility, guarantees and cash-value potential among them. When designing solutions for your clients, consider a diversified life insurance portfolio approach, which can provide significant flexibility for changing coverage needs and reducing risk.

A **diversified life strategy** can help you design customized, well-diversified solutions for your clients. With this approach, clients allocate their total budgeted premium for life insurance needs among two or more policies in order to diversify among product types and policy durations.

Using a **diversified portfolio approach** may help clients:



Meet  
multiple  
needs



Balance  
product  
risk

## Diversify to meet multiple needs

Product designs<sup>1</sup> vary to help meet different types of client needs, but generally they fit into one of two types:

TYPE	BENEFIT	CONSIDERATION
Products that provide <b>certainty</b> of premium and death benefit	Provides certainty for periods ranging from short- to long-term (term and no-lapse guarantee products)	Little or no cash value accumulation, i.e., limited flexibility
Products that provide <b>flexibility</b> with cash value	<ul style="list-style-type: none"><li>• Ability to adjust premium payment and/or death benefit</li><li>• Access to cash value through tax-advantaged partial surrenders and loans<sup>2</sup></li></ul>	Less certainty of premium and death benefit

<sup>1</sup> In exchange for the death benefit, life insurance products charge fees such as mortality and expense risk charges and surrender fees. Guarantees are based on the claims-paying ability of the issuing insurance company.

<sup>2</sup> Surrender charges and other policy charges may apply to distributions taken from the policy. If the policy is a Modified Endowment Contract (MEC), policy distributions in excess of the policy's principal may be subject to current income taxes. Withdrawals and loans may decrease the amount of death benefit and cash accumulation value.

For clients seeking solutions to cover more than one need, a customized life insurance portfolio that offers both certainty and flexibility may provide a more comprehensive solution than a single product. An example may help. Let's take a look at the case of Joe.

#### BUILDING A DIVERSIFIED LIFE INSURANCE PORTFOLIO:

##### THE CASE OF JOE

Joe is 45 and married with two school-age children. He has a \$500,000 mortgage with 20 years remaining. Joe has dual goals for his life insurance:

- 1 Help his family stay at home where they're comfortable in the event of his premature death; and
- 2 Save money on a tax-deferred basis for retirement.

Joe maximizes deferral into his 401(k) plan at work, and he also holds a small portfolio of individual investments. He has up to \$15,000 to spend annually for life insurance.



Joe's life insurance portfolio could look something like this:

PRODUCT	ANNUAL PREMIUM	INITIAL DEATH BENEFIT	ANNUAL INCOME	« Using a mix of products, offering certainty and flexibility, can help clients meet multiple needs.
Principal 20-Year Term <sup>3</sup>	\$765	\$500,000	NA	
Principal Universal Life Accumulation II <sup>SM 4</sup>	\$14,235	\$296,546	\$32,106	
<b>TOTAL</b>	<b>\$15,000</b>	<b>\$796,546</b>	<b>\$32,106</b>	

#### Advantages

- Combines the premium and death benefit certainty of term insurance with the flexibility of a universal life insurance policy.
- Maximizes the effectiveness of Joe's premium dollars by using term insurance to meet his temporary mortgage need and a heavily funded cash accumulation-focused universal life policy to grow cash value.
- With a total death benefit of less than \$1 million, and an issue age less than 60, both policies are eligible for Principal Accelerated Underwriting<sup>SM</sup>.
- If Joe's needs change, he can convert the term policy to a permanent plan or let it lapse and still have remaining coverage in place.

<sup>3</sup> Assumptions: Male, Age 45, Preferred Non-Tobacco.

<sup>4</sup> Assumptions: Male, Age 45, Preferred Non-Tobacco, annual premium paid for 20 years, minimum non-MEC face amount, Death Benefit Option 2 switching to Death Benefit Option 1 at age 65, policy distributions beginning at age 66 and continuing for 15 years.

## Diversify to balance product risk

Life insurance products have risk, including:

- Potential loss of a no-lapse guarantee due to change in amount (or frequency) of a premium payment
- Effect on a fixed-rate product of a prolonged low interest rate environment
- Market risk with variable products

Taking a portfolio approach with more than one type of policy can help diversify the risk associated with each. Let's take another look at Joe's situation.

### THE CASE OF JOE: PART II

Joe likes the predictability of fixed interest rate returns, but he would also like the potential for greater growth than is generally available with traditional fixed-rate products. After discussing this with his advisor, they agree that using an indexed universal life insurance policy in combination with a current assumption universal life policy provides a good balance — the more consistent returns of a traditional fixed-rate product and the upside potential of an indexed universal life policy.



Joe's product allocation mix might look something like this:

PRODUCT	ANNUAL PREMIUM	INITIAL DEATH BENEFIT	ANNUAL INCOME	« Life insurance diversification can be used to manage uncertainty and to moderate risks associated with different product types.
Principal 20-Year Term <sup>3</sup>	\$765	\$500,000	NA	
Principal Universal Life Accumulation II <sup>SM 4</sup>	\$7,118	\$148,283	\$15,882	
Principal Indexed Universal Life Flex <sup>SM 5</sup>	\$7,117	\$152,383	\$20,799	
TOTAL	\$15,000	\$800,666	\$36,681	

#### Advantages

- The declared fixed-rate product is balanced by the index-linked potential of an indexed product, creating product diversification to help handle varying market conditions.
- With a total death benefit of less than \$1 million, and an issue age less than 60, all three policies are eligible for Principal Accelerated Underwriting.
- Joe's life insurance diversification strategy fits within his broader overall financial plan.
- If Joe's needs change, he can convert the term policy to a permanent plan or let it lapse and still have remaining coverage in place.

<sup>5</sup> Assumptions: Male, Age 45, Preferred Non-Tobacco, annual premium paid for 20 years, minimum non- MEC face amount, Death Benefit Option 2 switching to Death Benefit Option 1 at age 65, policy distributions beginning at age 66 and continuing for 15 years, 6% illustrated rate.

# A Diversified Life Strategy

## BENEFITS FOR THE CLIENT

- Using products with different designs can create a portfolio of policies that complement each other.
- Having multiple layers of coverage helps maintain a level of protection even if one policy expires.
- Owning policies that use different crediting methods, i.e., fixed rate, indexed rate and variable rate, may result in less exposure to a single type of interest crediting risk.
- When multiple policies are purchased at the same time, the insured may only need to go through the underwriting process once.
- A life insurance diversification strategy can complement a broader overall financial plan.

## BENEFITS FOR YOU

- The approach is simple to use.
- Introducing it sets you apart with clients, offering a differentiated marketing message about the need for total solutions.
- If policies are issued by a single company at the same time, you benefit from streamlined underwriting (and sales). Our Accelerated Underwriting program is available with any of our retail life products, term or permanent.<sup>6</sup>
- The approach is not reliant on any single product type and can be appropriate for both individual and business sales.
- For policies that are part of a business plan, complimentary administrative services are available.

## SALES IDEAS

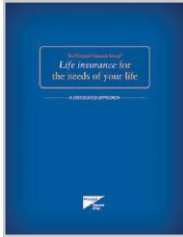
- **Term + permanent** – Clients often have complex and changing financial needs. Combining term insurance with permanent insurance enhances flexibility to meet diverse needs.
- **Term layering** – Help meet needs of varying time horizons using term policies of varying term lengths.
- **Coverage for personal and business use** – Business owners and key executives often require protection for both their family and business. Offer policies that can help them meet both needs.
- **Policy review** – Identify any needed adjustments in coverage to help meet changing circumstances.

<sup>6</sup> Based on age and face amount requirements.

# Getting started

How can you use a life diversification strategy with your clients? We provide the tools you need to introduce the diversified life strategy to your clients.

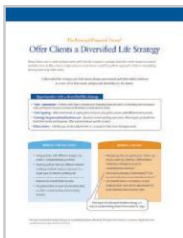
## Resources



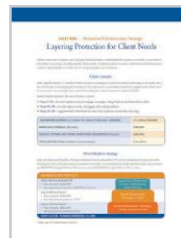
**Diversified Life Strategy Consumer Guide (BB1410)** – Designed for you and the client to work through jointly to identify life insurance needs and discuss potential solutions.



**Diversified Life Strategy Consumer Flyer (BB1414)** – Provides an overview of the approach and the benefits it may offer.



**Diversified Life Strategy Advisor Flyer (BB1413)** – An overview of the concept, its benefits and how to introduce it to clients.



**Diversified Life Strategy Advisor Sales Idea (BB1416)** – Highlights the diversified life strategy and how using it might benefit clients.



**Internal and external sales teams**— Available to discuss any of your case needs and help identify how products from The Principal® might complement each other to provide a unified solution.

## Working with clients: 1-2-3-Diversify

These easy steps will get you started in working with your clients:

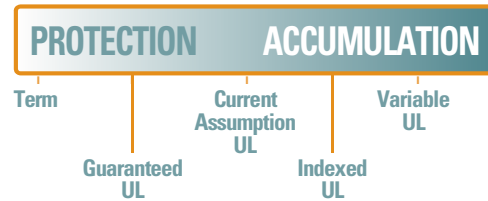
- 1 Discuss with your clients the benefits of life insurance.
- 2 Assist them in completing the Life Insurance Needs Worksheet in *Life insurance for the needs of your life (BB1410)*, which will help them identify their life insurance needs.
- 3 Once the total life insurance need is established, help them understand the types of life insurance that will best meet their range of needs, which is also included in the Life Insurance Needs Worksheet.

### TIPS

- Review a client's existing financial situation using our **Financial Security Review** available from the financial professional website.
- Life changes and so do people's needs. Using a product with some level of flexibility may help your client adapt to unexpected changes.
- Consider diversifying across multiple carriers. It's one more way to create better portfolio stability.

## Choose from our diverse product portfolio:

- **Principal Term** – 10-, 15-, 20- and 30-year durations to meet various timing needs
- **Principal Universal Life Protector IV<sup>SM</sup>** – offers low-cost guaranteed protection
- **Principal Survivorship Universal Life Protector II<sup>SM</sup>** – low-cost guaranteed death benefit on two lives
- **Principal Universal Life Flex II<sup>SM</sup>** – declared rate current assumption UL for moderate funding levels
- **Principal Universal Life Accumulation II** – declared rate current assumption UL with a focus on cash accumulation and policy distributions



- **Principal Indexed Universal Life Flex** – provides upside potential with index-linked accounts and downside interest rate protection with a minimum floor rate
- **Principal Variable Universal Life Income III<sup>SM</sup>** – designed with a cash accumulation and policy distribution focus through allocation options and a variety of sub-accounts
- **Principal Variable Universal Life – Business<sup>SM</sup>** – designed specifically for business use, featuring high early cash values and long-term growth potential

## Which cash accumulation products might be right?

Each type of cash accumulation product offers different risk/reward profiles. To help assist your client in determining the appropriate cash value product(s), start by asking them to respond to this statement, **“Protecting my cash value from loss is more important to me than a higher level of growth potential.”** You’ll know how to proceed based on their response.

### IF THEY AGREE:

Discuss the benefits of a traditional fixed interest rate product with a guaranteed minimum rate.

### IF RISK AND RETURN ARE EQUALLY IMPORTANT:

Introduce the idea of an indexed UL that offers a guaranteed floor and the potential to earn additional interest based on index-linked account performance.

### IF THEY DISAGREE:

Either an indexed UL or a variable UL could be a viable option. A mix of both can help further diversify.

## DID YOU KNOW?

Principal Accelerated Underwriting provides a streamlined approach that improves the underwriting process through:

- Faster underwriting decisions within 48 hours
- Approval up to \$1 million of face amount on all currently available retail products
- Elimination of lab testing and paramed exams for 50–60 percent of applicants who qualify<sup>6</sup>

# Making it happen

Work with your clients to determine their needs and the types of life insurance that best meet those needs.

The Principal can help you get there with a portfolio of value-driven products, streamlined underwriting for those that qualify and the marketing resources to support sales. List potential clients you want to speak with about a diversified life strategy. ►

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## Why the Principal Financial Group®?

- We offer a standardized approach to developing a diversified life insurance portfolio.
- You get easy-to-use materials to support your conversations with clients.
- Our broad portfolio of products can be used in a complementary mix.
- The Principal Accelerated Underwriting platform can be used with a combination of products.<sup>6</sup>
- Work with a leader—You can count on us to be there for you and your clients. Our full-service approach gives you what you need to be successful. Working together, we can help you better serve your customers and grow your life insurance business.

### FOR MORE INFORMATION

Call the National Sales Desk today at 800-654-4278.



WE'LL GIVE YOU AN EDGE®

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