PERSPECTIVE
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Member Firm

Choosing Life Insurance Products in Today's Volatile Economic Environment

Purchasing life insurance is a complex and, at times, difficult process. From product selection to product performance, there are many factors to consider when buying life insurance. The ongoing volatility in the financial markets can create additional challenges.

This M Intelligence piece will address the following questions:

- What should purchasers be aware of when considering various product types?
- Are there ways to mitigate the uncertainty of policy performance in this environment?

Insurance is Risk Transfer; But What are the Risks?

Insurance is risk transfer. In its purest form, **Term** insurance transfers the financial risk of an untimely death (i.e., mortality) to the insurance company. The premium and death benefit for the policyholder is known and guaranteed. If mortality results are better than expected, the insurance company makes an additional profit beyond the original assumptions. If mortality results fall short of expectations, the insurance company's profit declines. Policyholders have little uncertainty (other than the future claims paying ability of the insurance company), but also no upside if results are better than expected (e.g., reduced premiums), and no flexibility to access value prior to death should their needs change.

In the past 50 years, the industry has developed new forms of insurance in which the policyholder shares some of the downside risk and upside potential with the insurance company. For example, in participating **Whole Life** (WL) contracts, policyholders share in favorable mortality, interest, and expense results through policy dividends, which can be used to suspend premiums or increase the face amount. Policyholders also assume some downside risk since dividends are not guaranteed. If experience is worse than expected, dividends may be reduced, potentially requiring additional premiums. However, there is a guaranteed floor to downside performance via the base contract.

Whole Life then gave way to **Universal Life** (UL). With UL, the same risks and opportunities are shared with the policyholder, but they are "unbundled" and more transparent than the "black box" dividend calculations inherent in Whole Life. UL also includes a guaranteed floor for downside performance.

Variable Universal Life (VUL) takes the risk and opportunity sharing even further. VUL allows the policyholder to almost completely assume the investment allocation control and investment risk (i.e., no guaranteed floor for investment earnings credited to the contract); in doing so, there is significant upside and downside potential to policy performance. In addition, because VUL account value is held in a separate account, it enjoys a degree of protection from insurance company creditors that does not apply to policies invested in the general account (for WL and UL). Note that a fixed account option is generally available with VUL; funds allocated to the fixed account are included in the general account and therefore do not have creditor protection. Some VUL products also offer access to equity index accounts, allowing policyholders broad flexibility in obtaining a policy that accurately reflects their risk and return objectives.

Indexed Universal Life (IUL) is essentially UL, with a risk transfer profile that combines indirect equity market participation with a guaranteed floor and possibly a cap on earnings credited. For example, an IUL product may offer an account that reflects the return of the S&P 500 index (without dividends), subject to a 12% cap and a 0% floor that minimizes downside risk. Generally, caps are adjusted to reflect current carrier general account performance and are not guaranteed.

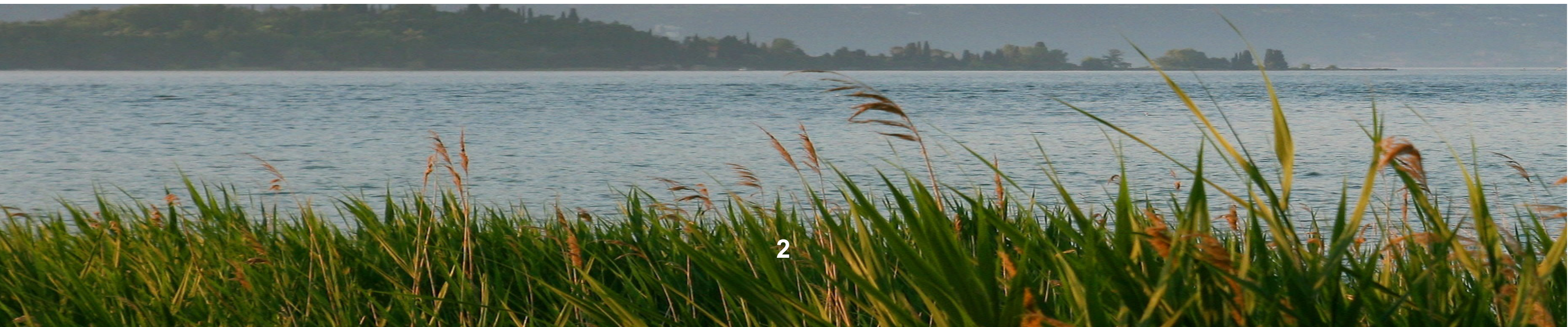
No-Lapse Guarantee Universal Life (NLG), with its guaranteed premium and death benefit, acts much like Term insurance (but with guaranteed coverage for life). NLG products generally offer lower cash value accumulation than other UL-based product types. Additionally, NLG products can be especially sensitive to the timing of premium payments (both early and late). For these reasons, NLG policies should be carefully monitored to guard against unintentional policy lapse or erosion of the policy guarantee.

Even in cases where the policyholder assumes some risk, there is often a guarantee provided by the insurance company. For example, UL policies have a guaranteed minimum interest rate, and guarantee mortality and expense loads cannot exceed a specified maximum. It is important to keep in mind that product guarantees are subject to the claims-paying ability of the issuing insurance company. The following table summarizes the different policyholder risks/opportunities and guarantees by product type.

Which Risks/Opportunities are Assumed in Whole or Part by Life Insurance Policyholders

Risk Type	Whole Life		No-Lapse Guarantee[1]	Universal Life	Indexed Universal Life[2]	Variable Universal Life[3]
	Non Par	Par				
Interest Earnings	No	Yes (With minimum guarantee)	No	Yes (With minimum guarantee)	No	No
Equity Gain/Loss	No	No[4]	No	No[4]	Yes (With minimum guarantee and potentially a cap on upside)	Yes
Mortality Experience	No	Yes (With maximum guarantee)	No	Yes (With maximum guarantee)	Yes (With maximum guarantee)	Yes (With maximum guarantee)
Expense Experience	No	Yes (With maximum guarantee)	No	Yes (With maximum guarantee)	Yes (With maximum guarantee)	Yes (With maximum guarantee)

1 Risk transfer refers to guaranteed premium and death benefit, not account value. Account value is impacted similar to UL.
2 Assuming funds are allocated 100% to an index strategy. Funds allocated to a fixed account option have the same risk profile as UL.
3 Assuming funds are allocated 100% to an equity fund. Funds allocated to a fixed account option have the same risk profile as UL.
4 Most, if not all, general accounts have minimal equity exposure, therefore the equity market should not materially impact general account performance.



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Negative financial news in the media can make it harder to remember that fundamental insurance concepts still apply. Insurance is a transfer of risk, but also a transfer of opportunity. The risks/opportunities transferred vary depending on the type of policy, and can include mortality, interest, investment selection, investment return, and expenses.

The appropriate product choice should, as always, be guided by the policyholder's comfort with the risks/opportunities involved. In general, as the policyholder takes on a greater share of the downside risk, their share of the upside potential increases. Better than expected experience can result in lower premiums, or higher surrender values and death benefits, than illustrated at issue. Worse than expected experience can result in higher premiums, or lower surrender values and death benefits, than anticipated at issue; or even a policy lapse (if additional premium is not paid).

Considerations for Financial Flexibility (Cash Value)

In addition to the amount of required premium, an important consideration is the flexibility of the chosen product—that is, the ability to access value in the contract prior to death (i.e., cash value) should the policyholder's needs change over time. Although insurance is a long-term investment, having access to cash values can provide emergency cash or income if needed. Additionally, cash values can be used to fund a policy exchange into a product with better potential performance. Withdrawals will decrease the death benefit and cash value and may be subject to policy limitations and income tax.

Different product types, and even different products within a product type, can have significantly different levels of cash values. Some products have surrender charges, which can significantly reduce cash values in the early policy years; other products contain cash value enhancement riders, usually available for an additional fee, which typically increase cash values in the early policy years and slightly reduce cash values in the later policy years. Of the different product types, NLG typically offers the lowest cash values, often producing zero cash values in the early policy years and zero cash values in the later policy years. There are some NLG products that provide enhanced cash values, but the offset is increased guarantee death benefit premiums.

Product Planning and Risk Mitigation

The current economic environment makes it even more critical for policyholders to understand product type risks and opportunities, and plan and review accordingly. At the time of purchase, it is important to understand risks and guarantees, which may be quantified by illustrating downside scenarios (including guarantees). Understanding the impact of funding policies at different levels, including more conservative premiums that will provide a cushion in the policy to withstand a downturn, is also beneficial.

For insurance that has already been purchased, in-force illustrations can provide an early warning as to whether adjustments in funding or death benefit, or even a policy replacement (i.e., 1035 exchange), may be necessary. In-force reviews may need to be more frequent for aggressively funded policies or for products that contain more risk. Note that in-force reviews may show actual policy performance that is ahead of schedule, providing opportunities for reduced future premiums or for taking cash distributions.

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Life Insurance Company Due Care

Company financial strength is always an important consideration, but it is even more critical in today's environment. Reviewing and understanding insurance company financial strength ratings help policyholders and their advisors become comfortable with the claims paying ability of the company. Consider the value of diversifying insurance across multiple insurance companies to spread the claims paying risk. Some advisors may even provide ongoing reviews of insurance company financial strength, a valuable service in the current economic cycle.

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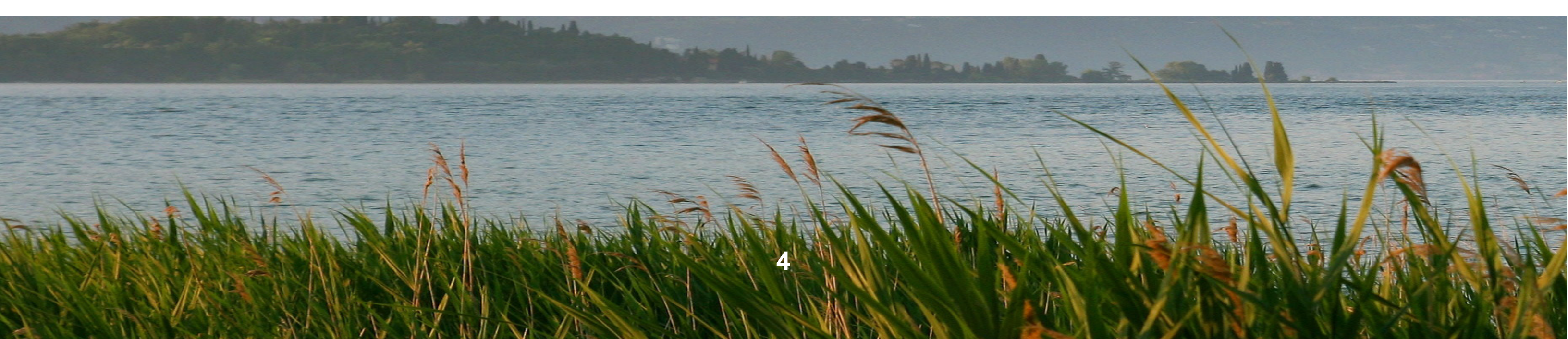
Due to the complexity of purchasing life insurance, and the external factors impacting the life insurance industry, consider working with a Member Firm of M Financial Group. Regardless of the chosen product or strategy, decisions are enhanced when made in conjunction with an insurance advisor who understands the complexities of the landscape and the mechanics of the products available. In-force service—which is provided after the plan is implemented and policies are purchased—is also critical. In a volatile environment, it is essential to continuously monitor policy performance and assess the impact of emerging trends.

M Member Firms are particularly well positioned to navigate these uncertain times and deliver valuable services:

- M Financial is a founder and leading advocate of insurance company and product due diligence.
- M Financial's emphasis on in-force management (i.e., treating in-force policyholders as well as new policyholders) and involvement in in-force repricing improvements—especially in the M-proprietary product portfolio—produce more transparency, control, and communication of potential repricing actions.
- M Financial has a multi-insurance company platform with financially strong insurance companies providing the ability to diversify cases across multiple insurance companies.

In summary, life insurance can be tailored to meet various risk profiles and can be an efficient tool for transferring and mitigating risks, especially in today's environment.



March 2016

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Variable universal life policies are offered by prospectus only, which can be obtained by calling an M Member Firm. The prospectus contains information about the product's features, risks, charges, and expenses, and the investment objectives, risks, and policies of the underlying portfolios, as well as other information about the underlying funding choices. Please read the prospectus and consider this information carefully before investing.

Securities offered through M Holdings Securities, Inc., a registered broker/dealer, Member FINRA/SIPC.

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