PRUDENTIAL'S PROTECTOR VUL: RISE AND SUCCESS

by Charles Arnold

Before we get started, I need to preface this with a disclosure. Outside of the facts and figures presented in this article, I am expressing an opinion and not making any recommendations as it pertains to VUL carriers or products. There are many products available in the marketplace today, and it always depends on what is the best solution for the client, and their situation.

As the largest distributor broker-dealer in the world for VUL, we tend to pick up on sales trends as it pertains to variable. I review a report every week listing the sales conducted by The Leaders Group 150+ BGAs across the country for the express purpose of identifying trends and finding sales success stories. I see the same usual suspects in the individual space, both accumulation and protection, as well as the business sales side every week. For accumulation, I see a lot of Hancock and Lincoln with sprinkles of AXA, Nationwide, and Principal. For business, I see Nationwide and Principal dominating that space with an occasional AXA COIL product sale. But for protection-based sales, I've really only seen one name come up predominately since 2014.

I'm sure anyone in the industry can guess it, but it is Lincoln's VUL ONE which is a lifetime no-lapse VUL product. Since AG 38, this product has served as an easy bridge for BGAs to cross from the GUL products they had sold for years; aligning lifetime guarantees and providing lower costs than the GUL counterpart. Of course, being VUL, it offers cash value accumulation on top. Having cash value means that 1035 opportunities remain open in the future, which is usually healthy for the BGA policy review marketing engine down the road. In a nutshell, that is what has made it so popular over the years and no other carrier has stepped up to the plate with a competing product. Lo and behold, in 2017 there emerged a competitor; a product that had likely been around for some time, but we only started to notice when it showed up on our reports. That would be Prudential's VUL Protector. I wanted to immediately find out what made this product so special. Why had Prudential seen double-digit growth in this product in 2017? Why did the BGAs pick up on it? Why was it a good replacement for VUL ONE?

All good questions, so I called my friends at Prudential to find out more:

VUL Protector Sales	Percentage YOY Change for 2017
Number of Cases Placed	24% Increase
Total Premium	51% Increase

As you can tell, not only did Prudential have more than a 20% increase in the number of cases placed in 2017 versus 2016, the size of those cases increased as well with a 50% growth in premium.

Lincoln had re-priced their VUL ONE at least once, maybe twice since their launch. They've taken in so much, it was really only a matter of time before they had to try and back off in order to cool down. Lincoln is actually a very well diversified carrier, and there isn't any real risk here from a product portfolio standpoint. And not to say they weren't still hungry, but they had certainly eaten a huge chunk of VUL market share and were okay with slowing down their pace (even though it didn't slow). In my opinion, the uptick in their costs is what began opening them up to vulnerability on the competitive front.

A couple of features of Prudential's VUL Protector that make it different from VUL ONE is the ability to dial up or down the no-lapse guarantee. An advisor and client can choose the guarantee they prefer all the way up to the full lifetime guarantee (capped at age 121). Additionally, Prudential's Benefit Access Rider (BAR) allows acceleration of the death benefit for a client with terminal or chronic illness, which has been a very popular add-on for the BGAs I've talked to. The biggest difference, which I think many BGAs have begun to pick up on, is the difference in cash value accumulation versus VUL ONE. Often times the sale is made by a review of the lowest premium for the maximum death benefit exclusively. That really played well for Lincoln in short pay and 1035 dump-in scenarios. But, that only tells part of the story. Sure, cash value is just a bonus, in a way, for a lot of these sales but if you had a product that could offer 30-45% more cash value in later years, with the same guarantees, premium, and death benefit, that's something worth talking about. Frankly, the cost of Lincoln's lifetime guarantee is very expensive. Not to say Prudential's isn't, but it's cheaper than Lincoln's. And that is blatantly obvious with what we see in the cash value differences 20-30 years down the road (Comparison vs. VUL ONE). Additionally, I might be one of the only ones in the industry that thinks this way, but there is absolutely no need for an age 121 guarantee. It is an absolute waste of money to pay for that. At max, with a diversified sub-account portfolio, you need a 10 to 20 year no-lapse guarantee. Anything more than that, to me, is overkill. So being able to dial in a guarantee that suits the client's needs, as opposed to a lifetime default, is valuable.

With all these differences in cash value accumulation, as we all know, illustrations are just "illustrations" — not reality. Actually, a linear return illustration is probably the least likely outcome for a client. That's something I've always struggled with, from an industry standpoint. Why don't we incorporate Monti Carlo return analysis and give a range of returns and probabilities, given the true nature of the market?

But I digress. Where were we? Oh yes, the engine under the hood for VUL.

A variable product is only as good as its underlying investment portfolio. Prudential is unique in that within their asset management business, they have an entire department dedicated to performing asset manager due diligence and oversight. This group has played a critical role in helping to assemble and monitor the investment menu of their VUL products, with VUL Protector offering more than 60 different world-class investment options (SIRG Brochure Confidence). The #1 fund by assets is Blackrock's Global Strategies Portfolio which is an asset allocation fund. They have all the great fund names you would expect from American Funds, Fidelity, MFS, Wellington, T.Rowe, PIMCO, and many others (Investment Options). The product also has the typical features we have all come to expect such as auto-rebalancing, dollar-cost averaging, COI allocated fund(s), and free portfolio trades (12 total). They don't have a premium deposit fund yet for VUL, which sometimes is nice for a dump-in, single premium feel that some clients prefer.

> ***With over $28 billion in variable subaccounts invested for clients within their variable life insurance contracts, Prudential is larger than anyone else in the space. In fact, they have more assets than #2 and #3 combined. These assets alone would put them around the 300th largest asset manager in the world.***
> As of 12/31/16, according to a study from Willis Towers Watson.

> ***Because of the size and scope of Prudential as an enterprise, they're able to gain access to institutional style investment strategies and asset managers that generally would be out of reach for the investing public. For example, BlackRock (the largest asset manager in the world) has an institutional group called Global Tactical Asset Allocation (GTAA) that generally requires at least $150million for them to build a custom portfolio. Prudential has been able to partner with this group and others like it at other firms when designing investment options for their variable products. Essentially, they're able to bring Wall Street to Main Street.***
> Prudential Financial Management

Prudential is one of the only carriers that gets the investment component to VUL. The main reason you buy a VUL over other products, is because of the underlying investments and the desire for cash value accumulation. Have you ever heard of a VUL Champion? Prudential just hired one, and Joe's background is impressive.

That's how you know a carrier is serious about positioning variable.

> ***The term "Variable Life Insurance" has 2 distinct, yet equally important pieces – the variable asset management piece and the life insurance piece. And to offer competitive solutions, you truly need both. Few people will doubt Prudential's abilities as an insurer; they have a 98% brand name recognition amongst consumers and that is likely driven by perception as an insurer. However, what fewer people know is that they are also a top 10 asset manager in the world. Combined, Prudential is in a unique position to execute on both mandates as well as any firm out there.***
> Joseph Pedersen, Director, Investment & Variable Product Distribution and VUL

Some of the strategies that have been working well are outlined in Prudential's client strategy brochures and this is consistent with the many BGAs I speak with on how they position the product. It comes down to pricing, flexibility, and value for the client. The first widely used piece highlights the flexibility that cash value life insurance offers pointing to the potential for uncertainty later in life. Featuring Ted, age 42, married with two kids and looking for something that offers death benefit protection guaranteed for a period of time but also realizes that he is quite young, so cash value accumulation is appealing. He turns the BAR rider on, because who knows, there is a good chance we all get sick later on right? Same thing with the second marketing brochure, only it is Else, age 49 (Client Strategy Piece #1 and #2).

If you are in the industry, you have also probably heard of AXA's Smooth Sailing sales concept. Prudential has a great piece around this concept too (CVLI and Market Volatility White Paper).

Basically, in later years, using cash value life insurance to supplement income can protect your other assets — simple as that. Having that tax-free bucket to pull from can be an extremely valuable tool. Something that is not talked about very much. However, a lot of point-of-sale professionals have found great success with this story through the years.

Lastly, their advanced markets team has a nice piece that lays out the differences in taxation between account types (Advanced Markets: Cash Value in Retirement). This is what blows my mind. I recently went on a ski trip with a few of my buddies to Canada and we had a nice time. All of these guys are high income individuals with great careers ages 35 to 45. They have never heard of cash value life insurance as a use for supplemental retirement income. Furthermore, once they realized it was like a ROTH IRA from a taxable standpoint, they were in disbelief. I wasn't even trying to sell them, I was just explaining what I did. That's the problem, nobody is telling the story of cash value accumulation and potential uses. All too often, point of sale folks are taking orders and spread sheeting, not telling a story.

Once again, I digress. To find a solution to this particular distribution problem is to exceed the scope of this article. But, even for a death benefit sale like VUL Protector, having that additional cash value accumulation down the road gives true flexibility for a client.

In conclusion, for your next no-lapse protection sale, don't just exclusively show VUL ONE. Give the client a choice with Prudential's VUL Protector (VUL Protector Brochure) and potentially other no-lapse design VUL products. Additionally, stop only looking at lowest premium for highest death benefit and take a look at the cash value to show the whole picture. Maybe even order some of these pieces from the carriers and use them in the field to support a story? Prudential and other carriers have an enormous material bank to explore on their websites with lots of great positioning and marketing pieces.