Myth #1. Be wary of overly optimistic IUL Illustrations
Leading IUL companies have consistently shown through back-testing results that over the last 20, 25, 30, or 40 years IULs, given today's variables, they would still have averaged well over 8 percent per year.

Myth #2. Flexible caps should have you thinking twice about the IULs.
For insurance companies to lower these caps, the stock market would have to be *even more* volatile and unpredictable than it has been over the last 15 years. Further, even in the wake of the 2008-2009 financial crisis, some well-regarded IUL companies only lowered their cap *by 1 percent!*

Myth #3. Avoid IULs because of non-guaranteed insurance expenses.
The "guaranteed" column of the illustration reflects the "worst case scenario", the limit beyond which the insurance company cannot legally raise the cost of insurance. While every company does reserve the right to revert to a worst-case scenario and is legally bound to disclose it in the illustration, we must weigh this likelihood vs the risk of not utilizing the IUL's benefits at all.

Myth #4. Beware of the IULs non-guaranteed death benefit.
First, many IUL companies do offer IUL's with death benefit guarantees to age 120. Second, the vast majority of client who utilize an IUL do so because they are planning on taking money out in retirement, therefore running the risk of voiding it the minute they take that money out. If your client is interested in a death benefits guarantee and the ability to take tax-free policy loans in retirement, then they need two policies: one that provides a death benefit guarantee and whose cash value cannot be touched, and another that is designed to build tax-free wealth that can be distributed as a tax-free income supplement.

Myth #5. The IUL has high fees.
The fees in an IUL are higher in the early years and lower in the later years. Considered over the life of the program, these fees can average as little as 1.5 percent, the same as a 401(k).

Myth #6. Taking loans from an IUL in a flat market is risky.
The thinking goes that even if an IUL can never do worse than 0 percent, it still must sustain the cost of insurance in those flat years. When you couple the cost of insurance with zero growth and then take a distribution, your policy could go into a tail-spin from which it may be difficult to recover.
When coupled with Roth IRAs, Roth 401(k)s, Roth Conversions, and tax-free distributions from IRAs (up to the standard deduction and personal exemptions), tax-free distributions from an IUL can be a welcome *supplement* to a tax-free retirement. Should an IUL not perform well in any given year, this might be the ideal time for our clients to avail themselves of their other tax-free streams of income

Myth #7. The IUL shifts the risk of growing cash value to the policy holder.
The argument is they do so by linking the growth of their accumulation account to any of six to eight different indices. So, the success of an IUL, the story goes, ultimately depends on the policyholder's ability to choose the "right" indices.
Many financial advisors advocate a balance of at least two or three different indices (for diversification purposes), each of which has back-tested rates of return that range from 7 to 9 percent over the last 40 years. For our purposes, let's assume these mixes of indices continue to provide a 7.5 percent average annual rate of return into the future. Let's also assume these contracts are properly structured (by minimizing the death benefit and maximizing contributions up to IRS MEC guidelines) and have average internal expenses over the life of the program of 1.5 percent. Well, that's a net rate of return after fees of 6 percent. Getting a consistent 6 percent net rate of return without taking any more risk than you're accustomed to taking in your savings account is not an inherently risky proposition.

Myth #8. IUL minimum interest rate guarantees are smoke and mirrors.
Some companies have a minimum guaranteed growth rate of between 2 and 3 percent. One such guarantee might work in the following way: Every five years, the company looks back at the growth in your accumulation account and asks: Did your money grow at a minimum cumulative rate of at least 2 percent over those five years? If not, they will go back and retroactively credit (or in industry parlance "true up") your account at a 2 percent cumulative rate for each of those five years. In other words, the worst your policy will grow over any five-year period is 2 percent. Given the track record of these policies over any historical five-year period, what's the likelihood that the index would be down in so many of those years as to average only 2 percent? Not very likely.

Myth #9. Clients risk a huge 1099 should the IUL run out of money.
The IRS does require that any life insurance policy have at least $1 of cash value at the time of death, or the policy violates the definition of life insurance. If the client violates this rule, they risk receiving a 1099 on all the gain in the cash value above and beyond their basis. For policies whose accumulation funds exceed their basis (the vast majority of policies when structured properly), this poses a substantial risk. However insidious this risk, it can be mitigated.
1) IULs should never be the only tax-free solution of income. It should be perceived as a complement to multiple other tax-free sources such as Roth IRAs, Roth 401(k), etc.
2) Well-regarded IUL companies offer an over-loan protection rider that insulates the client against the prospect of loaning too much money and bankrupting the policy

Myth #10. Variable loans could sink your IUL ship.
Some companies offer at least two different types of loans, the most common of which are variable loans and preferred loans. In the preferred loan, the amount being credited to the loan collateral account is the same as what's being charged. Some well-regarded companies even guarantee that these two numbers will never change, ensuring that distributions will always be "tax-free" and "cost-free." Further, some companies allow you to "toggle" between these two types of loans every year, giving the client an added measure of flexibility. So, if you take a variable loan in a down year, pay the full cost of the loan, and don't want to risk paying those loan expenses two years in a row, you can always revert to the preferred "no-cost" loan.