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Innovative Products for Today's Generation of Clients

Charles W. VanDevander, J.D., LL.M.

Partnership Product Workshop

I appreciate you coming in this morning to hear a little bit more about the Aviva story. Aviva is very proud to be the platinum sponsor for the Top of the Table meeting.

We're going to do a lot of broad brush here this morning and obviously invite you to come by the booth during the day today and tomorrow and talk in more detail if you choose.

Let me get right into it and tell you a little bit about who the company is, Aviva. Aviva is the oldest life insurance group in the world. There is not one that is older. The world's fifth largest, £553 billion of assets, that's actually pounds, we're sitting at about \$720 billion U.S. as far as assets are concerned, 54,000 employees, 50 million customers. We're doing business in 30 countries.

Aviva is a London-based company. Three years ago, November 15, they actually purchased the AmerUs Group which was made up of AmerUs Life, Indianapolis Life, Bankers Life of New York, and American Investors, our annuity arm out of Topeka. So that was the acquisition and Aviva's step into the U.S. marketplace.

Aviva is the number one marketer of indexed universal life products, and has been for almost eight straight years. We're the number one producer of indexed annuity products also. We obviously feel that we're probably the most innovative carrier as far as new product and riders in the industry today. I think we're going to introduce a couple of those to you today. I hope you'll agree.

Financial ratings: we're A Excellent, with A.M. Best. We're AA and very strong with Standard & Poor's.

Products offered, we offer indexed UL. We feel that certainly from an NLG perspective no lapse guarantee we're probably (legal hates the word cheapest, they want) least expensive. We have the cheapest premium in the NLG marketplace today up to about age 59 or 60 years old. So, if you're selling a death benefit product for a no lapse guarantee, under age 60 you're going to be hard-pressed to find a company that has a lower premium than ours. As far as over-age-60, we become two, three or four, sometimes even five, but a couple of the riders we have that you'll see this morning get us right back up to number one, even at 78 or 83. We'll talk more about that.

Indexed survivor UL also has a no-lapse guarantee. If you're in the estate planning marketplace selling survivorship products, you're going to look at Hartford, you're going to look at Met, you're going to look at Pac Life, you're going to look at Hancock and you're going to look at Aviva. Depending on the age blends, depending on death benefit, any one of those carriers is going to be number one in terms of premium. If you're going to short-pay a survivor, you're going to be hard-pressed to find a lower premium than ours in the survivor product.

Of course we have traditional UL and I'll add a couple of things there. Over the last five to eight years we, and even back to AmerUs, we almost backed ourselves into a corner. You'd hear our name and say, "Oh, that's that index company." We had fixed products -- we continue to have fixed products -- and we've even introduced a new fixed UL product with a built in NLG. As we go around the country (and I go around the country every single week), we constantly see 50-pound shields up, index, index, index. It's too complicated. That's what I hear over and over and over. So, for those people who don't want to look at it a little bit farther, we have a fixed UL with a built-in no-lapse guarantee that's going to rank number three or four in the industry. So very, very competitive fixed UL with a no lapse guarantee also.

Term, 10-, 20-, 30-year term, we just re-priced it. Right before that re-pricing we were very, very competitive. We're still not middle of the road. We're still pretty competitive, but not as much as we were. There's been a lot of term re-pricing here in the last few years.

How it works. You've all been in the business a long time. You know what fixed UL is. When I would do a basics 101 class, I would talk about the three types of life insurance. There's term, whole life and there's UL. There is no other type of life insurance. There are various types of term, there are various types of whole life and, obviously, there are various types of UL. There are three types of UL. There's fixed, index and variable. Indexed, fixed and variable work identically. There are no differences. There is no magic formula. They work identically. It's a UL product.

The only difference between those three ULs is what drives the cash value. With a fixed UL, you're going to have the company's portfolio drive. It's going to be a stated interest rate with a variable. We all know there's a large group of funds that's going to drive the growth, and, with index, some indices are going to drive the growth in an index. We specifically use the S&P 500. That's what drives the cash value. But, as far as the difference or how it works, flexible premiums, we offer guaranteed interest rates, non-guaranteed performance based on the index, just like a UL. It's a current-assumption product.

All we're saying is that we believe, certainly with back testing and looking at the products and what the S&P has done, we feel that the S&P 500 will and has, and will continue to outpace a fixed by anywhere from 150 to 300 basis points, just based on back testing.

This is a fallacy. We do not invest your client's money in the stockmarket. We're just like any other company. Premiums come in and they go into our investment-grade bond portfolio. That's where the money goes. All we're doing is buying monthly call options with the 5 or 6 percent we would have given them if it was a fixed. So, instead of giving them the 5 percent that we would give to a fixed, we take that 5 percent and buy a one-year call option in the S&P 500. So we're not going into the stockmarket.

I kind of beat this one up, the only real difference between the two of them, again, is what drives it. Flexible premium, permanent life, designed to cover insured's lifetime. Pays interest declared by the company on a fixed and we use the indices on the S&P side.

With both plans, the net premiums are invested and backed by the company. Flexibility: we take out expenses on a monthly basis just like a fixed, just like a variable, there's no difference. A and B, as far as death benefits, a lot of flexibility.

Tax-deferred cash accumulation, obviously as I said, we feel that you're going to experience some more growth over the long term. Withdrawals and loans, we have some very interesting and different loans where you can do withdrawals. You can do a fixed, good, old-fashioned zero-wash net loan after the 10th year, or you can do a variable loan.

The way our variable loan works is that, let's say Mitch has \$500,000 sitting in his life insurance policy and Mitch comes to me as his agent and says he wants to borrow \$50,000. Well, I'm going to loan \$50,000 out of the general account of Aviva. I'm not going to take his \$50,000 out of the one-year point to point strategy that he's in. It's still sitting over here earning. We're illustrating at 7.5% let's say. But, I'm going to charge him an amount equal to the 90-day Moody bond fund. So I'm going to charge him a 6 percent rate on that \$50,000 he borrowed but that \$50,000 is still sitting over here in the strategy earning 7.5%. So what I just told Mitch, if you'll borrow \$50,000 from me, I'll pay you 150 basis points to do it. That's a positive arbitrage. You and your client also have that ability and that flexibility to do that variable loan if you like. Now that's the good news on a variable loan.

We've got to talk about the bad with the good. I'm going to charge Mitch 6, but what if the S&P 500 does zero this year? I'm still going to charge Mitch 6, so there's the good and the bad. Now if you look over a period of history, if you do some back testing over the last 20 to 25 years, you'll see that the S&P 500 has outperformed the 90-day Moody bond fund. So, on a long-term basis the S&P, you're going to see that positive arbitrage. But that's how it illustrates. So you have that flexibility with the loans.

Here's Mitch putting \$10,000 into the S&P 500, and here's a five-year bucket, if you will, of the S&P 500. We can see that the first year it goes up 10%. Mitch has his \$11,000. It goes up another \$1,000 in year two and then it drops 20% in year three and drops 10% in year four and goes up 10% in year five. That's probably not that unusual. If Mitch was going directly into the S&P 500 and put in \$10,000 today, five years later he'd have his same \$10,000. With our products, we have a bottom-line, 2 percent guarantee. So it will never, ever participate in any losses of the S&P 500. So this is what that would look like.

Because Mitch doesn't experience the losses of the S&P 500, he stays level. So instead of having \$10,000 at the end of year five, in that same scenario, he would have \$13,300. So you have the downside protection. You have the upside potential and you have the downside protection.

Three great products. Advantage Builder is our number one seller. That, as I said, is the cheapest premium in the marketplace today, up to about age 59 or 60. Empire Solution for Mitch is our New York product. That's what our New York product is called. We have our SUL. Our indexed SUL also has a no-lapse guarantee rider. Our newest product is the guaranteed UL solution. We call it GUS internally. It's our little acronym. But a fixed UL with a built in no-lapse guarantee rider that is also very, very, very competitive. That product is just starting to pick up steam, again a very competitive product.

NLG premiums, flexible design to meet consumer needs. One of the nice flexibilities of the Advantage product is I can come to Mitch to say when are you going to die? Who knows? Who knows when Mitch is going to die? So Mitch tells me he's going to die at 90 or whenever. My point is that you can customize the rider. For example, my mother and father both died at 77. I'd like to think I lived a little better than my mother and father. So maybe it's 80 for me, maybe it's 85. My point is I can customize my plan to age 85. I want the guarantee to go to age 86, I want it to go to 91. You have that flexibility.

Now I go to Mitch, how long do you want to pay it? Do you want to pay it level forever? You want to pay up to age 65, when Mitch turns age 65? You can do that. Or, do you want to five-pay it? Do you want to 10-pay it or do you want to one-pay it? Mec it. Who cares? It's a death benefit sales, so who cares if it's a mec. Now, personally, I don't ever like to see a mec because you never know what's going to happen down the road. But my point is you have that flexibility, for duration, in terms of the coverage and certainly duration in terms of the premium. A lot of flexibility.

Just a couple of comparisons. You see 45, 55, 65. This is a 10-pay for \$1 million. I don't think we have these slides in front of you in terms of hard cover, but as I said that 45, 55 Advantage Two is going to be number one in the entire industry in terms of lowest premium. The guaranteed UL, you can see how close it is even to the index. Remember, Advantage Two is the index, guaranteed UL is the fixed UL. Very, very competitive products. Same with female: very competitive.

That's a very, very quick broad brush on some of the products that we have. Obviously a little bit about the company. I had kind of teased you a little bit with a couple of riders. Myself, personally, I'm one of those people -- and I'm not embarrassed to say this to anybody -- sometimes I've got to read something two and three times before I get it. This is something even from my company that I had to go through two or three times and say, "What is this?" What have our actuaries done now? They're creating something down in the basement that they think we're going to be able to sell out here. My thought.

Once I figured out what the wellness does, this is probably one of the most unique things to happen in the life insurance industry in my 35-year career in terms of what this does for the consumer, not necessarily for the company and not for you the producer, but for the consumer. This is a consumer-driven rider and I'm going to bring up Walt... to talk about that.

Walt:

Good morning, I get the distinct pleasure to talk to you about one of the most innovative things that I've seen in the industry for a long time. I've been around for quite a while. I'm like Dennis, when I first saw the wellness rider, I thought, this is no big deal. We've wasted a lot of time and effort and I really don't think this is going to be worthwhile. But, after spending some time with it, and, most recently, having our first announcement of what our first wellness benefit is, what I've come to find is that it can do a couple of things for you. One, it can differentiate you in the marketplace from anybody else. Two, it can make your policies irreplaceable. Three, it always

give you a good reason to talk to your clients. Four, it is a benefit to your clients that they can actually see.

The real turning point with this rider came when we began to illustrate it. As I talk about it you're going to say, "Oh, this is just this vague kind of thing." When you illustrate it you can actually see the power that it has.

The wellness rider actually came as a result of trying to find a way to come up with better rates on term insurance. As we started to look at that, we started to think about what were some things that we could do to improve mortality or the rates that we have in that. What we came up with is the wellness rider. The wellness rider has wellness rewards. Those rewards say a couple of things. They're available to any insured who qualifies for the reward. The first thing I want to tell you, the wellness rider, this is a rider you can add to your policy. It is not dependent on someone being healthy. You don't have to be healthy to get the wellness rider. If you can qualify for a life insurance policy with us, table 12, you can get the rider. So you don't have to be a marathoner. That's the first thing people think when they see this is that you've got to be a marathon runner, you've got to go out and do all that stuff. You don't have to. If you can qualify for a policy, you can get it.

What happens is we have a couple of requirements that people have to do. If they do those, they can get cost-of-insurance reductions. The wellness benefit works on cost of insurance within the policy. Chuck is going to talk a little later about how that can impact a rated policy. Who has the highest cost of insurance? Someone with a rated policy.

In addition to that, it's guaranteed in two ways. We have a guaranteed premium cost for it and we have an underlying guarantee of a discount that you can get. That discount is applied to the policy on a guaranteed basis. You can actually illustrate that now. In addition to that, we're going to declare discounts that may be higher. The discount we just recently declared is actually twice as high as the guarantee that is built into the policy.

Probably one of the most important things, Dennis just talked about our no lapse guarantee and how competitive it is. You can make the no-lapse guarantee even more competitive with the wellness rider, because the benefits you get from the wellness rider can be applied against no-lapse guarantee premiums. If our no-lapse guarantee premiums are already some of the lowest in the industry, how much better do they get as you go down the road? How many companies out there will actually reduce someone's premium on a no-lapse guarantee in the future? I don't think there are any, except us.

Here's the way the discount formula works. You get a cost of insurance discount and it's based on the wellness reward that we declare times the number of years someone has owned the policy.

So let's say someone has owned the policy for five years and we declare a 1 percent wellness reward. I'll get into details in a second. That would be a 5 percent discount on their cost of insurance. Let's say someone has owned a policy 18 years and again we declare a 1 percent discount, that would be an 18 percent reduction. It caps out at 20 percent. So your largest

multiplier will only be 20. But think about what happens to the cost of insurance in a policy. As someone gets older what happens to the cost of insurance?

Take someone who is 40 years old, buys one of these no-lapse guarantee policies with the rider on it. He's now 75 years old and we declare a 1 percent discount. He would get a 20 percent discount on the cost of insurance for a 75-year-old person. That's a pretty big number.

Actually, what you'll see if you look at an illustration, when you get down the road, this rider can actually eliminate no lapse guarantee premiums in the policy. Your premium can go to zero. The benefit will be more than the premiums in the policy.

There are two levels of discount. Number one, the insured has to go get a physical. The insured pays for the physical and the physical is whatever that person's physician says the physical is. We don't tell them what it has to be. We don't get any information on the physical. The only information we ask is part-two. First, you have to keep your weight within a certain range. That range is established at issue, and that range varies based on how much you weigh when you buy the policy. I'll give you a couple of numbers from memory, so don't hold me to these specifically. Take a 6-foot tall guy who weighs 300 pounds. He can weigh no more than 300. He can go down to 160 or 180. Take a 6-foot guy who weighs 220. He can go up to 240 and again down to about 160 or 180. Take a 6-foot guy who weighs 140. He can go no lower than 140, but up to 180. So there's a range for everybody. The 300-pound guy is going to be rated so they don't want him to go any higher. So they have to keep their weight in range.

The only information we get from the doctor is this, I, Dr. Blank, gave Mr. Blank a physical. Date. Weight. Height. That's it. We don't ask anything else.

What I like to tell people is this, you could go to the doctor and find out that you have some dreaded illness and get a wellness reward that year. Because, again, the wellness isn't based on how healthy you are. It's based on you doing these two things and that's it. We don't gather any underwriting information after issue. The only thing we ask for is your weight. And by the way, if you go to the doctor and your weight is out of range, you can still get half of the discount. If you don't go to the doctor, it doesn't negatively impact your policy in any way. You still have the same original policy you bought. But if you do those things, then the policy can improve.

Q. Do you have to do that every year?

A. You have to do it once in every two-year period. In every two-year period, you have to have one physical. So let's say you buy the policy today, you have to get a physical before the end of the second year to qualify for the discount in year three.

Q. Cost of physical might be more expensive than the cost of the rider.

A. Depending on your insured, many times a company will actually pay for the physicals. But the whole point here is, what runs behind this is, if someone is going to the doctor regularly, the chances of them discovering that something is wrong is higher and then getting it treated is better. So, theoretically that person will live longer. That's the whole reasoning behind it.

The key here really is that not qualified does not exclude you later. The reality is that if a 35-year-old buys one of these, he's probably not going to go to the doctor right away. He may view that it's not that important, but as he gets older, it becomes more and more important and he's probably going to go to the doctor more and more anyway.

But, on the other side, there is such a push for wellness out there in the marketplace today that more and more people are starting to pay attention to that and see their doctors more frequently.

If you satisfy the wellness requirements, you can get the discount. Potential cost of insurance reductions start in the third policy year. Let's look at the guarantees again. First of all we have a guaranteed \$100 cost for the rider. That's the first year, \$8.33 a month comes out of the policy the first year. After that there is no more charge for the rider ever. That's it. One time.

The guaranteed minimum is a 0.25 percent discount for level one, which means that you went to the doctor, and level two, that you kept your weight in range.

Q.

A. Well, we want to have some cost involved in that. It's also filed as an illustrated form, so when you run the illustration, you can actually see it. It'll print out as a supplementary report and will show what the wellness benefit is in each year, on a guaranteed basis. As I said before, on a guaranteed basis, it will eliminate premiums at some future point on a no-lapse guarantee.

Now we declared our first wellness reward this year and while we're guaranteeing 0.5 percent, it actually came out to be a total of 1 percent that we declared. That means that anyone who bought their policy a couple of years ago, is going to get a 1 percent times three years, or a 3 percent discount on their cost of insurance. That's double what we had originally guaranteed.

The thing to keep in mind about the wellness rider is it is a rider on the policy. If someone does those things, it will put the policy owner in a position where they're getting discounts on a regular basis. It differentiates you from the other people in the marketplace and it takes a competitive product and it makes it even more competitive than it was before. Now the odds of someone coming in and saying, "Well, my policy is better than this one" aren't very good. "When, is your company going to give me a discount?" No. It's not going to happen. So it puts you in a much, much stronger position with your consumer. It also gives you a good reason to talk to them. You have a good reason to follow-up and say, "Hey, have you gone ahead and done your physical" and those kinds of things. We send them the forms to do that. So, come by, we'll take a look, run an illustration for you.

Q. ...

A. This is not available on term for survivor right now. It's available on the individual life plans, the no-lapse guarantee product and our lifetime product which is an accumulation product.

Q. ...

A. Yes. No, not in New York? He takes it, gives it away and takes it back.

Q. Do you have a term policy ...

A. Talk to me afterwards, that's more a complicated question to answer.

Q. ...

A. Yes, we do send something to the consumer reminding them that they need to get their physical.

Chuck VanDevander is up next. He's going to talk a little about our products and some ideas that you can use with them.

Chuck:

I'm going to talk about how some of our products can work and some of the selling concepts that you can use on an everyday basis. I'm going to go through a few examples and then talk about some of the other services and programs that we have available at Aviva.

The first one I want to talk about is charitable remainder trusts, wealth transfer, no-lapse guarantee. We use this quite often with clients who have assets that have appreciated significantly over time and they don't really need those assets.

This example is a high net worth client. Her name is Margaret and she owned a \$10 million asset. She wanted that \$10 million to go to her kids. She really has several options. The three primary options we're going to talk about include: She could go ahead and continue to hold it until her death, just hold onto that piece of property until she dies and pass it on to her kids; she could sell that asset now, pay the capital gains tax on it, reinvest that money and hold it until her death; or she could put it into a charitable remainder trust, generate a payment out of that trust and then also benefit charity at the same time.

Option one: If she were to hold that \$10 million asset until death, we're going to assume it continues to grow in value at 3 percent. She has a life expectancy, 17 more years. It's going to grow to about \$16.5 million. At her death, she's going to get that step-up in basis to fair market value, so there's no capital gains tax, but she's got a boatload of estate tax that's going to be due at that point in time. She will net about \$9 million.

Option two: If she were to go ahead and sell it now, pay that \$1.5 million long-term capital gain tax, reinvest it, again growing at 3 percent, it's going to grow to about \$14 million. Again she is going to have a boatload of estate tax, about \$6.3 million. Her family, her kids are going to net about \$7.7 million. One more thing to point out, I hope everybody knows that under current tax laws capital gains tax is going to go up after 2010.

Option three, the one that we insurance people like, is the CRT with a wealth transfer. The concept is that she is going to donate that asset into that charitable remainder trust which is going

to generate a very large charitable deduction for her. And, as we know that charitable deduction is limited every year, but she can carry it forward to offset her income over the next several years. And that charitable remainder trust is going to pay back to her \$600,000 a year for 10 years, the way that we have that CRT set up. So \$600,000 coming back to her for 10 years, she's going to have a charitable deduction so she's not going to have any income tax to claim for the majority of that.

I assumed the standard risk classification. I could have gone preferred and showed you a lot higher number, but I'm going to go standard because most of the 65-year-old clients or 70-year-old clients who come in aren't coming back preferred or super preferred. I hate to show you something that isn't realistic. But we assume those 10 premium payments of \$600,000 a year, that's going to buy \$17.135 million of death benefit, guaranteed. That's using our no-lapse guarantee product, guaranteed to age 121. She still has an estate tax of \$7.7 million because, right now, I'm just assuming basic that she still owns the policy, it's still in her estate, nets \$9.4 million.

So you look at the comparison here, we got her family about \$.5 million more, huge charitable contribution, so if you have a client that is charitably inclined that's a great way to go. We could also do some additional estate planning and save her that \$7.7 million of estate tax, but we've got that \$600,000 premium. Getting that \$600,000 into the trust is kind of difficult but you could do private split dollar or something else and we could wipe out that \$7.7 million of estate tax and net her family that full \$17 million if we had some time to work on that gifting.

So that's one way to go. And, on this one, I did not throw the wellness rider on here. This is just plain NLG without the wellness rider.

Let's talk about NLG with the wellness rider. I love this one. This is turning your rated clients into standard clients. One of the hardest things is when you have a client, you send them in, you think they're going to come back standard. Some medical condition comes up, they come back rated. You have to go back to them and say I've got some good news and I've got some bad news. The bad news is the company came back and gave you a table rating on your insurance, but the good news is their actuaries don't think you're going to have to pay it for very long.

It took a minute for people to get it, but, actually, we do have some good news. We're a company that can help reduce that rating through the wellness reward. We don't actually reduce the rating, but the premium reduces with that wellness reward to get them down closer to standard rates.

Let's take a look at Bob. He needed \$2 million of insurance in his ILET for some estate liquidity. He had some limited annual exclusions so he is concerned about the annual premium. His medical comes back table four. We add the wellness rider. This is what Walt talked about, the wellness benefits, the wellness rewards. I'm going to take a look at our GUS product. It's a traditional UL with a no-lapse guarantee. So again, if you wanted an even lower premium, you could have gone to the Advantage Builder, but we're going to take a look at GUS because it's very competitive and not all attorneys are comfortable with indexed products yet. That's one of the things I find when I'm working with attorneys on large cases. They say, "I really don't know

this index.” Or, “I’ve read bad stuff about index in the paper so I don’t want to go with an index product.” We say. “That’s fine. We’ve got a great traditional UL with no-lapse guarantee that you could use that is highly competitive as well.”

Q. ...

A. Exactly. When you guarantee it, what does it matter? But there are still some people who just, for one reason for another, are not comfortable with index. Some people, I have broker dealers who won’t allow them to sell any type of index product for whatever reason it is. We have a traditional UL for those agents, those clients who don’t want index products.

Q. ...

A. That \$100, one-time charge.

Q. ...

A. Yes, \$8.33 a month.

Here we are. Table four for Bob, age 55, came back with a premium of \$46,886 on a \$2 million death benefit guaranteed to age 100, \$46,886 a year. Here’s that wellness reward. As you see, at the beginning it’s not that big, \$116 in year 3, 7, 9. But this is the supplemental report that comes off our illustration system and, as you can see, it will show what that net NLG premium is. They’ll get an annual statement that says your wellness reward for the last year was \$116. If you’d like, instead of paying \$46,886 you can pay \$46,770 and your policy is still guaranteed. So this turns into their guaranteed premium requirement.

But as time goes by, take a look. We get down here we’re at \$41,296. By the time he’s down to age 70, we’ve taken him pretty close to what a table three premium was going to be. By the time he’s at age 80, we’re at table two. By the time we get to age 85, he’s pretty close to down to what a standard premium would have been.

Take a look as we get down here. If he does overcome whatever the health issues our underwriters thought he had, that premium completely disappears down here at age 92. Again, this is based on that minimum guarantee, that 50 basis points minimum guarantee. This year, 100 basis points was the wellness reward we declared, which would have made this number double. So, if in this year we had a 100-basis-point wellness reward instead of the minimum guarantee of 50, that would have been a \$20,000 reduction which would have turned this premium into \$27,000. So at a 100 basis point, we could have turned this table four into basically a standard premium up here in the mid 70s.

Q. ...

A. This is the guaranteed level two wellness reward.

Q. ...

A. Yes, yes. This number here is based on that guaranteed 50 basis point factor. On the NLG it is. If they pay this premium here, this policy is absolutely guaranteed not to lapse.

Q. ...

A. This is the no-lapse guarantee product. I'm going to show you a cash accumulation one here in just a minute.

Q. ...because the premium is coming down, the cash value is going to come down.

A. Right, and because this is a no-lapse guarantee product where you're not looking for any type of cash accumulation, it's not going to apply there. The next example, I'm going to show you one that does have cash accumulation and I'll show you how that correlates.

Q. ...

A. Very high actually. We've got... because again, it is so easy to qualify, all you have to do is go to the doctor and you get the wellness reward. If your weight hasn't gone up, then you get double the reward. So all you have to do is go to the doctor to get half the reward. If you go to the doctor and you keep your weight within the range, you get the full reward.

Q. ...

A. We don't automatically go back to standard but, if you're 20 years into it or 10 years into it and you want to come back and reapply and get re-underwritten to try to lower your rate, you can. We don't automatically do that.

Q. ...

A. Let me move on to the next example. Here are the results here, the discounts, the percent of premium discount, after 10 years: 2.8; 20 years: 12.9; 30 years: 34.1; and by the time they get to age 93 no more premium requirements guaranteed.

Q. ...

A. Maybe. It depends on this product with the traditional, no. But on the index product, possibly because, depending on what happens with the S&P on an index product with no-lapse guarantee, there is potential for cash accumulation. And so, there is potential that you could still take cash out and maintain your guarantee on an index product.

Let's take a look at cash accumulation with wellness. Not all sales are no-lapse guarantee sales. Lots of sales are cash accumulation sales. Here's one example of one. This is me, a 47-year-old, male, preferred. Wishful thinking maybe, but preferred. A \$500,000 death benefit. I say I want to pay whatever the minimum premium is to get me that \$500,000 to age 100. So I did a solve, without a no-lapse guarantee. I'm willing to take the risk. I believe in index products. I think the

index is going to do okay. So I run a solve for \$10,000 of cash at age 100 and it comes up with a premium of \$4,645 a year.

So here I am out at age 100. I've got \$9,771 of cash at age 100. This is without wellness. If what I do is I add that wellness rider and I go to the doctor every year and I maintain my weight within the range. I'm 6-foot about 200. My range is actually about 140 at the low and almost 230 at the high. As long as my weight stays between 140 and 230, I'm within that range. I don't have to lose weight. I can still gain some weight and stay within that range. I add that wellness rider. It costs me \$100 in the first year. At age 100, and this is again based on those guaranteed wellness rewards, my cash value is \$693,000 compared to \$10,000. That's a pretty significant increase for a \$100 investment on that wellness rider.

To me, the more important thing isn't that I've got \$693,000 at age 100, this is an index product. It may not get that 7.5 percent crediting every year. But, what adding that wellness rider does is it gives me a lot of protection against those fluctuations, because I'm going to have more cash in the policy because of those wellness rewards. If I decided I wanted to take money out later too, I'm going to have more cash in the product to take out as well.

Q. ...

A. The assumed rate of return on this product uses our-one year, point-to-point illustrated at 7.5 percent.

Q. ...

A. 7.55. Over the last 20 years. If you go historically longer than that, it's actually higher than that. But for the last 20 years, which is what we base our illustrated rate on, it's 7.55.

Q. ...

A. Half, 50 basis points. If we would have had a 100 basis point reward in all these years, this number would have been even higher.

Q. ...

A. Actually what it tells you is that, because of the wellness reward, our belief is that people who go to the doctor every other year are going to live longer than people who don't because there are going find out about medical conditions they can take care of and live longer. This is going to save us in the long run, because we're going to have clients who buy insurance from us who live longer than other companies. Again, we're the only company in the industry with this. We have a patent pending. We have an exclusive relationship with Mayo Clinic. Mayo Clinic is onboard with this. There are some benefits, we don't have enough time to go into the details, come by our booth later and talk to us. But the client also gets some benefits from Mayo Clinic as well. And that's pretty good credibility if Mayo Clinic looked through this thing a lot and was willing to put their name behind it. They are with us.

Paying for a Roth conversion. As we all know, in 2010, there is no income limit on being able to do a Roth conversion like there is today. High income clients can do a Roth IRA conversion in 2010.

We've got a 60-year-old male, standard, high income, high net worth, typical of a lot of the clients we work with. He's got a \$3 million traditional IRA and is thinking about converting it in 2010. The downside is the income tax is going to be more than \$1 million, and there's not many clients who are willing to do a Roth IRA conversion and pay that \$1 million tax now (because if they take the \$1 million out of their IRA it completely defeated the purpose of doing the conversion). They need to pay it out-of-pocket for it to really make sense to do a conversion. I don't know about you, but I haven't met many high net worth clients who are willing to pay \$1 million income tax to convert a big Roth right now. There are a few, but not many.

What's the better idea? Well, to me the better idea is let's buy some insurance on this client and, at this person's death, his wife rolls the IRA into her name, uses the life insurance proceeds to pay the income tax on the conversion and now she has a Roth IRA in her name. We're going to buy the life insurance policy to pay the taxes at the conversion of death. The funds from the IRA can pay the yearly premium because somebody at that high net worth probably has to take RMDs, and doesn't really need the money. We can use a little bit of that RMD money to pay the premium and, upon death, the beneficiary receives the death benefit of the policy and converts the traditional IRA to the Roth using those death proceeds to pay the income tax. One million-dollar advantage builder with no-lapse guarantee on this client, \$50,000 a year out of the IRA, pay the taxes and end up with \$30,000 yearly premium for this client. On death, the wife gets the \$1 million death benefit. She converts the traditional IRA to a Roth IRA.

Here's the great one for high net worth, high income clients, no RMD requirements now for her going forward. If she needs the money she can take it. If she doesn't need the money, she's not forced to take that RMD and pay income taxes on it like the IRS would like for us to do. And any distribution that she does decide to take is going to be income tax-free. No matter how much, no matter at what time, she can take any amount or no amount out of that Roth IRA.

Then, at her death, she can leave it to her children or grandchildren. They are then forced to take the money over their life expectancy, but it's all income tax-free again. I'm sure all of you have seen the whole stretch IRA idea. How powerful leaving \$1 million in a Roth IRA to a child or a grandchild who takes it over their lifetime? You can get a \$1 million Roth IRA, leave it to a 10-year-old grandchild. They take it out over their life expectancy. That \$1 million at about a 6 percent growth rate could end up being \$20 million over their lifetime.

Q. ...

A. You can do it anytime after 2010. 2010 going forward.

Q. ...

A. You're right, there may be a change, but what's the worst case scenario? Now she has a regular IRA and she has \$1 million of income tax-free death benefit.

Q. ...

A. You could do the conversion at any time. What the tax law says is, if you do a conversion in 2010, you can split half the income in 2011 and half the income in 2012. And that's the default. That sounds great, right? The IRS did us a big favor, right? When has the IRS ever done us a big favor? Never. You know how come they did that? Because income tax rates the way they are now, income tax rates are scheduled to go up in 2011, so they're asking you to push that income into 2011 and 2012 when income tax rates are 4.6 percent higher.

Q. ...

A. You're absolutely right. If a client's IRA is down and they are willing to pay that income tax out-of-pocket, absolutely it makes sense to think about doing it now.

Q. ...

A. You're right. So sell them \$2 million.

Let me finish up here. Most importantly we aren't just an index company. We've got a lot more going on. Very strong financially, flexible, no-lapse guarantee, the wellness rider. We've got a great advance marketing department. Come by our booth and talk to us about it. We've got lots of turnkey programs. We've got a simplified issue, guaranteed issue program for nonqualified executive benefit cases. We've got a turnkey premium finance program. We've got a turnkey policy review program. We have an external term conversion. We've got a table reduction program, table three to standard. Lots of things, come talk to us at our booth, we're going to be around the whole time.

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