IntelliTC Solutions Presents

IUL Auditor Guide

A Code-Review Diagnostic for

In-Force Indexed Universal Life Policies

POLICY DIAGNOSTIC

HIDDEN GEM 13

IntelliTC Solutions

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This guide is intended for educational purposes only and does not constitute insurance, tax, legal, or financial advice. The IUL Auditor surfaces structural facts about the parameters you enter. It does not recommend that you surrender, exchange, replace, buy, or sell any policy. Always consult a licensed life insurance professional before changing any policy provision.

Chapter 1: Introduction & Locked Framing

What the IUL Auditor Is — and Is Not

The IUL Auditor is a 25-rule structural diagnostic for in-force Indexed Universal Life (IUL) policies. You enter the parameters from your most recent annual statement and your original illustration. The Auditor compares those parameters against public industry norms, regulatory guidelines, and standard accumulation-IUL design principles. It surfaces structural facts — critical issues, cautions, and informational notes — and defers to a licensed life insurance professional for any action.

> **What it does:** Read your inputs and apply 25 published rules. Report each finding with the measured value, the industry standard, and why the gap matters. Bench the lapse-stress projection across four crediting scenarios.
>
> **What it does NOT do:** Recommend surrender, 1035 exchange, replacement, purchase, or sale of any policy. Issue carrier-specific or product-specific advice. Substitute for a licensed agent's in-force re-illustration. Substitute for a tax professional's analysis of basis, loans, or distributions.

The Code-Review Analogy

If you are a software engineer, the Auditor reads like a static analysis pass on a code review. Each finding cites the rule (R-002, R-012, R-080), describes what was measured against the standard, and explains the structural implication. The Auditor does not refactor your code — it only points to the lines that warrant a conversation with the maintainer. For an in-force IUL, the maintainer is your licensed life insurance professional.

Why a Diagnostic Tool, Not a Recommendation Engine

Decisions to surrender, replace, 1035-exchange, stop premiums, take loans, or restructure an IUL require information that no consumer-facing tool can fully assemble: the carrier's in-force re-illustration, the policy's actual basis, the owner's tax and estate situation, state replacement-suitability rules, the surrender schedule, and the owner's long-term liquidity needs. Those decisions belong with a licensed agent who has access to the carrier's in-force tools and a fiduciary duty to consider replacement suitability. The IUL Auditor's job ends where that conversation begins.

Locked framing. The Auditor will never say 'surrender this policy,' 'do a 1035 exchange,' or 'replace this policy.' Every finding closes with a 'consult a licensed advisor' line. This is by design and is consistent with the disclaimer architecture used by the IntelliTC Late-Career Tax Diagnostic (Hidden Gem 12).

Chapter 2: How the 25-Rule Engine Works

Rule Severity Tiers

Findings are classified into three severity tiers. The scorecard at the top of the results panel counts findings in each tier.

Tier	Meaning	Example Rules
Critical	A structural defect that materially threatens the policy's stated purpose. Warrants prompt review with a licensed agent.	R-002 (MEC violation), R-080 (lapse before age 90 under 0%)
Caution	A meaningful structural mismatch — not necessarily a defect, but worth discussion.	R-012 (cost loading), R-021 (DB option mismatch), R-070 (overloan protection missing)
Informational	A note about a parameter that is within norms but may inform later decisions.	R-013 (premium pattern note), R-061 (surrender window remaining)

Rule Domains

The 25 active rules cover eight domains of IUL policy structure:

- **MEC** (R-001, R-002) — IRC §7702A 7-pay limit and modified endowment classification.
- **Funding** (R-010 to R-013) — Premium amount, base versus PUA allocation, cost loading versus target premium.
- **Death Benefit Option** (R-021) — Option A (Level) versus B (Increasing) versus C (Return-of-Premium), and intent alignment.
- **Index Strategy** (R-030 to R-034) — Cap, floor, participation rate, spread, and strategy type (capped S&P, uncapped, volatility-controlled).
- **Loan Structure** (R-040 to R-043) — Variable, fixed, wash, or indexed loans, and whether loaned funds receive crediting.
- **AG 49A Compliance** (R-050, R-051) — Illustrated rate against the NAIC Actuarial Guideline 49A maximum for the strategy.
- **Liquidity** (R-060, R-061) — Cash value vs surrender value, surrender years remaining.
- **Riders** (R-070, R-071) — Overloan Protection, Chronic Illness / LTC, Waiver of Premium, Term Riders.
- **Lapse Stress** (R-080, R-081) — Cash-value path under four crediting scenarios.

What Each Finding Tells You

Every finding card has four sections:

- **Flag:** the measured value from your inputs (e.g., 'Cumulative premiums = $105K, exceeding the entered 7-pay limit of $20K').
- **Standard:** the industry norm or regulatory guideline the value is compared against.
- **Why it matters:** the structural implication — tax treatment, lapse risk, or cost efficiency.
- **Consult a licensed advisor about:** the specific question to bring to your agent.

Chapter 3: Entering Your Policy

The Auditor's input form is grouped into seven sections. Each input has a tooltip explaining where to find the value on your annual statement or original illustration.

Input Group	What to Enter
Insured Profile	Current age, issue age, years in force, rate class (Preferred Plus, Preferred, Standard NT, Standard, Preferred Smoker, Standard Smoker), retirement age, carrier.
Policy Structure	Face amount, death benefit option (A Level / B Increasing / C ROP), intent (accumulation / protection / hybrid).
Funding	Annual premium, base premium, PUA premium, total premiums paid to date, 7-pay limit, carrier target premium.
Index Strategy	Strategy type (capped, uncapped, volatility-controlled), cap, floor, participation rate, spread, illustrated rate.
Current Values	Current cash value, current surrender value, surrender years remaining.
Loan Structure	Outstanding loan balance, loan type (variable / fixed / wash / indexed / none), loan rate, crediting on loaned funds, overloan protection election.
Riders	Chronic illness or LTC rider, lifetime income benefit, no-lapse guarantee years.

Carrier Dropdown

The carrier dropdown lists six commonly-cited accumulation-IUL carriers (National Life Group, Penn Mutual, Allianz, F&G, Nationwide, Symetra) plus 'Other / Not Listed.' This list is for context only and does not constitute an endorsement or recommendation of any carrier or product. The Auditor's rules apply identically regardless of carrier selected.

> **Tip:** Have your most recent annual statement and your original illustration in front of you when entering values. The Auditor returns the most useful findings when the inputs are precise. Estimates are fine for a first pass.

Chapter 4: Reading the Findings

This chapter walks through every active rule, what it measures, and why it matters. Rules are grouped by domain.

MEC — Modified Endowment Contract

R-001 — 7-Pay Limit Set

INFORMATIONAL

What it checks: Confirms the 7-pay limit field is populated, since downstream MEC tests rely on it.

Why it matters: A missing 7-pay limit prevents the Auditor from running R-002. Get this value from your illustration.

R-002 — MEC Violation

CRITICAL

What it checks: Total premiums in any 7-year window from issue or material change versus the 7-pay limit.

Why it matters: MEC status removes FIFO tax treatment from loans and distributions. Distributions become LIFO taxable to the extent of gain and may incur a 10% penalty before age 59½.

Funding & Cost Loading

R-010 — Annual Premium Entered

INFORMATIONAL

What it checks: Sanity check that the annual premium field is populated.

Why it matters: Downstream rules (R-011, R-012, R-013) need the premium to evaluate cost efficiency.

R-011 — Premium Split

CAUTION

What it checks: Whether base + PUA premium equals the entered annual premium.

Why it matters: A mismatch suggests an input error or a complex multi-premium structure that warrants a re-illustration.

R-012 — Cost Loading

CAUTION

What it checks: Base premium versus carrier target premium.

Why it matters: Base premium above target by more than 20% increases commissionable basis and policy charges without improving cash-value efficiency. Excess is generally more efficient when allocated to the PUA rider.

R-013 — Premium Pattern

INFORMATIONAL

What it checks: Total premiums paid to date versus expected pattern based on years in force.

Why it matters: Surfaces front-loaded or back-loaded funding patterns that may interact with the 7-pay test or with crediting expectations.

Death Benefit Option

R-021 — DB Option vs Intent

CAUTION

What it checks: Whether the selected DB option (A Level / B Increasing / C ROP) aligns with the stated policy intent.

Why it matters: Accumulation-IUL designs commonly start on Option B during early funding to maximize MEC headroom, then switch to Option A before tax-free loan distributions begin to minimize ongoing COI drag. A persistent mismatch is worth a conversation.

Index Strategy

R-030 — Cap Set

INFORMATIONAL

What it checks: Cap value present for capped strategies.

Why it matters: Cap is the maximum credit in any segment. Required for AG 49A illustration computations.

R-031 — Floor Set

INFORMATIONAL

What it checks: Floor value present and consistent with principal-protected IUL design.

Why it matters: The 0% floor is the structural promise of IUL. A floor above 0% is unusual and may indicate a fixed-account allocation.

R-032 — Participation Rate

INFORMATIONAL

What it checks: Participation rate value (default 100%).

Why it matters: Participation rate below 100% reduces the credit in a positive year. Volatility-controlled strategies often have rates above 100%.

R-033 — Spread

INFORMATIONAL

What it checks: Annual spread or asset charge.

Why it matters: Spread reduces the credit before the cap applies. Common on uncapped or volatility-controlled strategies.

R-034 — Strategy Type

INFORMATIONAL

What it checks: Capped S&P, uncapped, or volatility-controlled.

Why it matters: Strategy type determines which AG 49A subsection applies and which historical lookback method drives the illustrated rate.

Loan Structure

R-040 — Variable Loan Credit

CAUTION

What it checks: Whether loaned funds receive crediting on a variable-rate loan.

Why it matters: A variable loan that does not credit loaned funds turns the loan rate into pure drag (a -5% spread on a 5% loan rate). A wash loan or indexed loan structure typically credits.

R-041 — Fixed Loan Spread

INFORMATIONAL

What it checks: Fixed loan rate and any spread above the crediting rate.

Why it matters: Fixed loans are spread-based; the spread is the carrier's profit margin and the policy's cost of the loan.

R-042 — Loan-to-Cash-Value Ratio

CAUTION

What it checks: Outstanding loan balance versus current cash value.

Why it matters: Loan-to-cash-value above 60-70% structurally elevates lapse risk; 80%+ is the classic without-overloan-protection lapse threshold.

R-043 — Loan Type Match

INFORMATIONAL

What it checks: Whether the loan type aligns with policy design intent.

Why it matters: Variable loans are common on accumulation designs; fixed are common on protection designs.

AG 49A Compliance

R-050 — Vanilla Capped Rate

CAUTION

What it checks: Illustrated rate on a vanilla capped S&P 500 strategy versus AG 49A maximum (approximately 5.5-6.5% per recent updates).

Why it matters: Illustrated rates above the AG 49A maximum produce optimistic projections that historical S&P 500 data does not support over a sustained window.

R-051 — Volatility-Controlled Bonus Limits

CAUTION

What it checks: Bonuses, multipliers, and spread combinations on volatility-controlled strategies versus AG 49A.

Why it matters: AG 49A imposes additional limits on bonus-and-multiplier strategies that can illustrate above what underlying volatility-controlled index returns would support.

Liquidity

R-060 — Cash Value vs Surrender Value Gap

INFORMATIONAL

What it checks: Difference between cash value and surrender value (the embedded surrender charge).

Why it matters: Reports the structural surrender-charge balance without recommending any action. Surrender decisions are advice.

R-061 — Surrender Years Remaining

INFORMATIONAL

What it checks: Years remaining on the surrender schedule.

Why it matters: Informs the owner of the remaining surrender-charge tail without recommending whether to wait it out.

Riders

R-070 — Overloan Protection Rider

CAUTION

What it checks: Whether the overloan protection rider is elected.

Why it matters: Without overloan protection, a lapsed in-force IUL with outstanding loans triggers a deemed distribution of the loan amount as ordinary income to the extent of gain above basis. The rider freezes the policy in a paid-up state at a specified threshold.

R-071 — Chronic Illness / LTC Rider

CAUTION

What it checks: Whether chronic illness or LTC rider is elected for owners over 50.

Why it matters: Chronic-illness and LTC riders accelerate death benefit for qualifying conditions. They are typically only available at issue and cannot be added later. The Auditor flags missing election for owners with longevity-care exposure.

Lapse Stress

R-080 — 0% Lapse Before Age 90

CRITICAL

What it checks: Cash value path under a sustained 0% credit scenario.

Why it matters: A policy that does not survive to age 95 under the 0% scenario has structural lapse risk. The cost structure is too heavy relative to the funding pattern.

R-081 — Floor-Only Lapse Before Age 95

CAUTION

What it checks: Cash value path under a floor-only scenario.

Why it matters: Floor-only assumes the index credits 0% across all segments. Survival to age 95 confirms the policy is robust to a low-return environment.

Chapter 5: The Four-Line Lapse Stress Chart

The four-line lapse stress chart projects cash value from the current age through age 95 under four crediting scenarios. The chart is the single most important diagnostic in the Auditor for accumulation-IUL designs because it answers the question: how robust is this policy across the range of plausible long-term S&P 500 outcomes?

Line 1 — Illustrated Rate

Cash value path assuming the policy earns exactly the illustrated rate every year. This is the path the original illustration projected. It is the optimistic upper bound on cash value because no real-world IUL credits the illustrated rate every year — markets fluctuate.

Line 2 — Historical Median

Cash value path assuming the policy earns the illustrated rate multiplied by 0.85, capped at 6%. The 0.85 factor is a heuristic that approximates the gap between illustrated rates and historical realized S&P 500 returns under capped strategies. The 6% cap reflects the AG 49A-influenced central tendency. This line is the best honest estimate of long-run cash value.

Line 3 — Floor Only

Cash value path assuming the policy earns 0% (the floor) every year. This is the structural worst case under the policy's contractual floor. Survival to age 95 under this line means the policy is robust to a sustained zero-credit environment — a strong structural endorsement.

Line 4 — Sustained 0% Return

Cash value path assuming the policy is in a zero-credit environment while charges continue at their illustrated levels. In practice this scenario is mathematically identical to the floor-only line for most IULs, but it is reported separately to make explicit the assumption that crediting variability is not a free lunch.

> **How to read the chart:** Compare the four lines at age 80, 85, 90, and 95. If all four lines remain above zero through age 95, the policy is structurally robust. If the 0% and floor-only lines cross zero before age 90, R-080 fires as a critical finding — the policy has elevated structural lapse risk and warrants a professional in-force re-illustration.

Important caveat. The lapse stress projection uses a simplified cash-value model with constant charges. A carrier in-force re-illustration uses the actual policy's COI table, expense load, mortality charge, and current declared values. The Auditor's lapse stress is structural — a directional indicator, not a replacement for the carrier's in-force re-illustration.

Chapter 6: What to Do With Your Findings

The Auditor's job is to give you a structured findings list that turns a conversation with your licensed life insurance professional from open-ended into specific. Here is the recommended workflow.

1. Bring Your In-Force Illustration

Your agent can request a current in-force re-illustration from the carrier. This is the carrier's official projection of the policy's cash value, death benefit, and lapse trajectory at current declared rates and current charges. It is the authoritative document for any policy decision.

2. Bring Your Most Recent Annual Statement

The annual statement shows actual values for the past year: premium received, credits applied, COI deducted, current cash value, current loan balance, and surrender value. Pair this with the Auditor's findings to spot drift from the original illustration.

3. Consult a Licensed Life Insurance Professional

Bring the findings, the in-force illustration, and the annual statement to a licensed agent. If the agent who sold the policy is unavailable or if you want a second opinion, any licensed life insurance professional in your state can review.

Questions to Ask Your Agent

- On any Critical finding: 'The Auditor flagged R-XXX. What is the carrier's current in-force projection on this dimension, and is there a remediation step available?'
- On overloan protection (R-070): 'Is the overloan protection rider still available to add at this stage? What are the activation conditions?'
- On cost loading (R-012): 'Is the current base-versus-PUA allocation efficient for the policy's stated purpose? Can future premiums be re-routed to PUA?'
- On DB option mismatch (R-021): 'Is now the right policy duration to switch from Option B to Option A, or would the switch trigger a tax event under the corridor test?'
- On lapse stress (R-080, R-081): 'What does the carrier's in-force re-illustration project under current declared rates? At what age does the policy currently project to lapse, if at all?'
- On AG 49A (R-050, R-051): 'Is the illustrated rate I was originally shown still within current AG 49A limits? Has the carrier updated its illustration parameters since this policy was issued?'

The Auditor never recommends action. It does not say 'surrender,' '1035 exchange,' 'replace,' 'buy,' or 'sell.' Those decisions require a licensed professional with access to the carrier's in-force tools and a duty to evaluate replacement suitability under state regulation.

Chapter 7: How the Auditor Pairs With Other IntelliTC Tools

The IUL Auditor is one of 13 Hidden Gems in the IntelliTC platform. It is most useful when paired with the other tools that touch the same financial structure.

Tool	How It Pairs
IUL Portfolio Analyzer	Projects how an in-force IUL interacts with a real-estate portfolio. The Auditor diagnoses the policy in isolation; the Portfolio Analyzer projects how the policy's loans and crediting interact with a broader investment strategy.
IUL Projection	A forward illustration of cash-value growth and tax-free loan income under your assumed crediting rate. Pair with the Auditor when you want to model a 'what if' scenario after the Auditor has flagged a structural issue.
Late-Career Tax Diagnostic (LCTD)	Hidden Gem 12. Quantifies the hidden tax cost of working past age 60 — the income environment in which IUL loans actually operate. The LCTD answers 'do tax-free IUL loans matter for my situation?' before the Auditor diagnoses the policy that delivers them.
Capital Gains Impact	Stresses how a brokerage capital gain interacts with your retirement-income tax surface alongside IUL loans. Useful when planning the funding sources for retirement spending.
HELOC vs HEL vs HEA	Compares non-MAGI home-equity income streams against tax-free IUL policy loans. Often a relevant alternative or supplement to the IUL loan strategy.
Senior's Corner Hub	The unified senior-focused experience that pulls together the Gift Tax, HELOC, and LCTD tools. Pair the Auditor with Senior's Corner when reviewing an IUL alongside broader senior tax-planning questions.

Appendix: Reference Material

IRC §7702 / §7702A Summary

IRC §7702 defines what qualifies as a life insurance contract for federal tax purposes. Policies that fail §7702 lose all life-insurance tax treatment (tax-deferred inside buildup, income-tax-free death benefit). The two tests are the Cash Value Accumulation Test (CVAT) and the Guideline Premium / Cash Value Corridor Test (GPT). Modern IULs are almost always GPT designs.

IRC §7702A defines a Modified Endowment Contract (MEC). A policy is a MEC if cumulative premiums in any 7-year window from issue or material change exceed the 7-pay limit. A MEC remains a life insurance contract for death-benefit purposes but loses the FIFO tax treatment for loans and distributions. Distributions become LIFO-taxable to the extent of gain and may incur a 10% penalty before age 59½.

NAIC Actuarial Guideline 49A Summary

AG 49 (adopted 2015) was the first regulator action to constrain optimistic IUL illustrations. **AG 49A** (revised 2020) tightened the framework with two rules: the illustrated rate on a vanilla capped S&P 500 strategy is capped at approximately 5.5-6.5% (depending on cap and lookback method), and volatility-controlled, bonus, and multiplier strategies face additional limits to prevent illustrations that exceed what the underlying index would have produced.

AG 49A is enforced by state insurance departments. Carriers must update their illustration software to comply. Pre-AG 49A illustrations of in-force policies remain in the owner's records but should not be used as forward projections — ask your agent for a current AG 49A-compliant in-force re-illustration.

Glossary

Term	Definition
Cap	The maximum credit in a segment of the index strategy. Vanilla capped S&P 500 caps are commonly 8-10%.
Floor	The minimum credit in a segment. The structural promise of IUL is a 0% floor.
Participation Rate	The percentage of the index gain credited to the policy. Default 100%.
Spread	An annual deduction from the index gain before the cap is applied. Common on uncapped or volatility-controlled strategies.
PUA	Paid-Up Additions rider. A low-load rider that converts excess premium into immediate cash value and additional paid-up insurance.
Target Premium	The carrier-defined premium level above which premium is most efficiently routed through the PUA rider.

7-Pay Limit	The maximum cumulative premium allowed in the first 7 years to avoid MEC classification under IRC §7702A.
Overloan Protection Rider	A rider that freezes the policy in a paid-up state when the loan-to-cash-value ratio reaches a specified threshold, preventing lapse-triggered tax events.
DB Option A / B / C	Death benefit structures: A is level (face only), B is increasing (face + cash value), C is return-of-premium.
MEC	Modified Endowment Contract. A policy that fails the 7-pay test under IRC §7702A and loses FIFO tax treatment for loans and distributions.
AG 49A	NAIC Actuarial Guideline 49A. Constrains the maximum illustrated rate on IUL strategies.
In-Force Re-Illustration	A current carrier projection of policy values at current declared rates and charges, requested by the agent on behalf of the owner.

Carrier Footnote

The named carriers in the Auditor's dropdown (National Life Group, Penn Mutual, Allianz, F&G, Nationwide, Symetra) are listed for contextual reference because they are commonly cited accumulation-IUL carriers in industry research. The list is not exhaustive and does not constitute an endorsement, recommendation, or rating of any carrier or product. The 'Other / Not Listed' option exists for all other carriers, and the Auditor's rules apply identically regardless of selection. IntelliTC Solutions is not affiliated with, sponsored by, or compensated by any named carrier.

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