John Hancock
LIFE INSURANCE

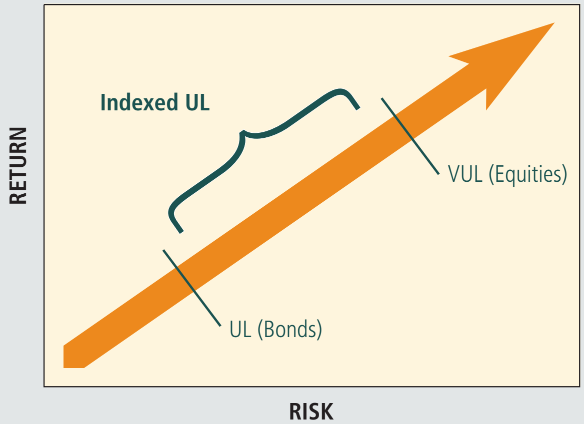
INDEXED UL RATE TRANSLATOR

KEEPING IT simple
for YOU and YOUR Clients.

Indexed UL Rate Translator: An Overview

The performance of an Indexed UL (IUL) policy will be driven primarily by three factors: the annual price change of the underlying index, the yield of the General Account UL portfolio backing the policy, and the market price of the options that support the index strategy.

Because Indexed UL performance is linked to both equities and General Account UL rates, it is generally expected to fall between current assumption UL and variable UL (VUL) on the risk-return spectrum:



Most agree that Indexed UL occupies a middle ground between UL and VUL, but determining an appropriate assumed illustrated rate – one that both fits a client's expectations and allows for meaningful comparisons between different index strategies – has been a challenge.

How IUL Rate Translator Works

The IUL rate translator takes a client's long-term equity market expectations and translates that into a hypothetical assumed Indexed UL rate, while taking into account the product's unique characteristics. Here is a brief description of how it does that:

- The user inputs a hypothetical rate for the outside index (similar to how one arrives at an assumed rate for a VUL policy) and also enters the current cap or threshold rate, the current participation rate and the floor of the index strategy.
- The translator then uses recent market conditions to determine an implied UL rate that would be needed to support the index strategy (also known as an "options budget"). An implied UL rate does not represent the actual option budget used by any one company, but rather it provides a consistent approach for all companies based on the level of index participation their contract is priced to deliver.
- Using common investment theory and your client's expectations for equity market performance, the translator produces an indexed "risk premium," that is an additional assumed rate of return provided by the index strategy. This additional assumed rate of return is added to the implied UL rate to produce the overall translated rate.

Results

Here is a sample of translated rates for an S&P 500® 1-year point-to-point strategy, at various caps and a 0% floor:

Cap Level	Hypothetical Long-Term Equity Return			
	6%	8%	10%	12%
10%	5.25%	5.67%	6.10%	6.52%
11%	5.58%	6.05%	6.52%	6.98%
12%	5.90%	6.40%	6.91%	7.41%
13%	6.18%	6.73%	7.27%	7.82%

In New York, the current cap rate is 12% and the current threshold rate is 5.5%.

Different Approaches to Setting Illustrated Rates

Most people apply one of two methods when choosing assumed illustrated rates to compare Indexed UL policies: either a "look-back" rate derived from past performance of the benchmark index, or they illustrate all designs at one constant rate, such as 7%.

Both of these approaches have drawbacks. Look-back rates can often be out of step with clients' long-term equity market expectations and illustrating at a constant rate fails to take into account variations in how different products and index strategies are designed.

John Hancock's IUL Rate Translator helps producers set an illustrated rate that both corresponds to the client's long-term equity market expectations and makes it easier to compare different indexed strategies.

One significant advantage to the IUL Rate Translator is that its approach is consistent with the longstanding illustration practices of other product types. Like VUL, the equity assumption is based on the client's own expectations for the future. Like current assumption UL, which typically projects a current declared rate, the IUL Rate Translator projects the current implied UL rate.

A complete description of how the IUL Rate Translator works, with details on all assumptions it uses, can be found in the whitepaper, "IUL Rate Translator: Methodology & Assumptions."

For more information, call your Regional Director or National Sales Support at 888-266-7498, option 2.

The translated rate is not a predictor of actual Indexed UL performance, nor is it in any way indicative of how the Indexed UL policy will perform relative to the performance of the S&P 500 Index.

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