



# Rethinking IUL illustrations: Is 5% truly “conservative?”

In the dynamic world of IUL, returns may vary significantly each year. While many agents advocate for a conservative approach by using a flat rate of 5% or 6% in illustrations, this strategy can have shortcomings. So, what are the potential issues and how can you help ensure your IUL illustrations are both conservative and effective?

## Issue #1: Impact of cap rates on performance

Cap rates play a crucial role in determining the potential return of IUL accounts — and a flat rate approach can overlook the differences between accounts. To compare this, we looked at three carriers’ accounts using the AG49 historical back-testing method to determine how often a 5% rate occurred over time. As this chart shows, accounts with a higher cap rate showed a greater probability of achieving the 5% benchmark compared to those with lower caps.

	JH PIUL Base Capped Account	Pacific Life 1 Year Account	Protective S&P Capped Account
Cap	11.85%	10%	8.5%
Max rate	7.18%	6.33%	5.55%
<b>Historical probability of a 5% return or lower</b>	<b>0.17%</b>	<b>2.93%</b>	<b>15.14%</b>
Lowest historical period return	4.82%	4.33%	3.90%

Competitor information is current and accurate to the best of our knowledge as of August 2025. The data shown is taken from various company illustrations. Rates of return may be different for each company. It assumes a hypothetical rate of return and/or current interest crediting rate and may not be used to project or predict investment results. Unless indicated otherwise, these values are not guaranteed. We urge you to show your clients a basic illustration showing the impact of 0% and maximum sales charges and/or the guaranteed interest crediting rate and an impact it will have on policy cash value and death benefit.

In the example above, consider our Protection IUL Base Capped Account, which has a cap rate of 11.85%. Historical data from AG49 shows that returns of 5% or less occurred in only 0.17% of the periods analyzed for that account. In contrast, an account with an 8.5% cap, such as Protective’s S&P 500® Capped Account, experienced returns of 5% or less in over 15% during the same periods.

## Issue #2: Impact of cap rate changes on performance

While the above analysis reflected the current caps on the indicated accounts, we also need to consider how returns can be affected by potential changes to caps over the life of the policy. To look at this, we compared several carriers' cap rates on their 2011 IUL products — see how these changed over time:

Company	Product	2011 Cap	Current Cap
<b>John Hancock</b>	<b>IUL 11</b>	<b>13%</b>	<b>9.25%</b>
Pacific Life	PIA III	13%	8.00%
Penn Mutual	Accumulation Builder II IUL	13%	7.75%
Nationwide	YourLife IUL	12%	7.75%
Securian	Securian Eclipse IUL	15%	7.50%
Lincoln	LifeReserve IUL	12%	5.25%

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It's important to recognize that when cap rates start falling below 8%, it can be challenging to achieve a 5% return. In fact, under current AG49, a cap rate of 7.5% would have a maximum assumed rate of 5% exactly.

### A better way to illustrate IUL

To illustrate IUL more effectively, consider using a percentage of the maximum rate, rather than a flat 5%. This method helps ensure your illustrations align with historical performance probabilities while providing a safety margin against cap rate fluctuations.

Take a look at this example, where we applied this approach to the same accounts at 80% of their respective maximum rates. As you can see, while the rate assumptions vary, the accounts show a similar probability of underperformance (around 3%). And the result is a more nuanced overview of performance potential to guide your client discussions.

	JH PIUL Base Capped Account	Pacific Life 1 Year Account	Protective S&P® Capped Account
Cap	11.85%	10%	8.5%
Max rate	7.18%	6.33%	5.55%
80% of max rate	5.74%	5.06%	4.44%
<b>Historical probability of lower than 80% of max rate</b>	<b>3.69%</b>	<b>3.46%</b>	<b>2.93%</b>

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