

Indexed Universal Life (IUL) Exposed: The Truth About “IRA Rescue” and Premium Financing Pitches

A litigation-informed, independent guide to IUL red flags—illustrations, surrender charges, policy loans, and the questions to demand answers to before you sign.

Preface

People don't usually go looking for an Indexed Universal Life (“IUL”) policy. They get pitched one—often through a story about “tax-free retirement,” “banking on yourself,” “wealth strategies,” or an urgent need to “rescue” an IRA from future taxes.

This guide is for prospective buyers and policyholders who feel misled as well as professionals in the business, legal, and professional world that want to inform their clients and readers. It offers an independent, litigation-informed view of how these products are sold, where they break down in the real world, and what to do before you sign (or what to if you already did buy one or more Index Universal Life policies).

This is not a blanket claim that every IUL sale is improper. Rather, it is a warning that many IUL-centered strategies depend on under-disclosed and downplayed performance requirements, hypothetical illustrations projecting unrealistic results, and compensation-driven sales structures that consumers rarely realize until it's too late.

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The 5-minute takeaway (read this even if you don't read anything else)

If you're considering an IUL or already own one, here are key points for you to consider:

- If the pitch is built around "IRA rescue," "tax-free retirement," or premium financing, slow down. Those are the sales environments where we most often see unrealistic assumptions and incomplete disclosures.
- Most IUL strategies only "work" if multiple moving parts cooperate for years: Caps and crediting (the index rate ceiling and how interest is added), internal charges, the timing/amount of premiums, and (if income is illustrated) the sustainability and cost of policy loans (borrowing against your policy's cash value).
- If you already bought and the policy is underperforming, don't ignore it or simply hope that it will get better. Request an in-force illustration (an updated projection for your actual policy) to include the pages showing year-by-year costs and interest credits as well as a loan history. Many problems become visible and apparent once the policy's costs and performance requirements can be considered.

A strong plan can survive written disclosures, conservative stress testing, and independent benchmarking by an independent professional knowledgeable in these matters. In contrast, a weak plan often relies on urgency, vague explanations, selective illustrations, and "trust me" approach by the promoters, and sellers of the policy.

A common theme in problematic IUL sales is category confusion. IUL is life insurance with a cash-value component. It is not a traditional investment account. Yet pitches frequently blur that line—especially when the marketing focuses on "tax-free income," "market upside with no downside," "Roth-like performance," or "retirement replacement."

When the conversation is framed primarily as an investment or tax plan—rather than as a life insurance needs analysis—you should slow down and demand details in writing as well as seek out a second opinion.

In sum, the success of an IUL strategy often depends on troubling assumptions and projections (or non-disclosure) of a fragile stack of variables such as crediting rates, caps and participation rates (the share of index return the policy credits), internal policy charges, mortality costs, the timing and amount of premiums, and (for “tax-free income” strategies) the mechanics and sustainability of policy loans.

When a plan depends on a long chain of assumptions as described above, the person asking you to sign should be able to explain—clearly and in writing—the reasonableness of those assumptions relative to industry benchmarks, and what happens when those assumptions don’t hold. This is often not the case because the salesperson is often not an expert in these matters and is only being compensated if you buy what he or she is selling.

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Red flags we see in IUL, “IRA rescue,” and premium financing pitches

You don’t need to be an actuary to spot a bad IUL pitch. If you see several of these red flags, treat it as a serious warning.

2.1 Red flag themes (high-level)

- Insurance is presented as a primary investment/tax solution rather than life insurance.
- The sales pitch is fear-based (tax panic, IRS panic, “act now”).
- The illustration is treated like a forecast, not a flawed hypothetical.
- Significant compensation conflicts of interest are glossed over or not disclosed in practical terms.
- Lack of adequate explanation and disclosure of exit costs such as surrender charges, financing unwind costs, or collateral calls (when the lender demands more collateral in premium financing situations).

2.2 Specific red-flag statements and tactics

- “Market upside with no downside” with little or no discussion of caps, spreads (a deduction from index return before crediting), crediting changes, and internal costs.
- “Tax-free retirement income” without a clear explanation that the illustrated income is actually a combination of withdrawals and policy loans rather than income, which can fail if performance is lower than illustrated.
- “You can stop paying premiums after X years” without explaining the conditions required for that to be true.
- “This is better than a Roth” or “an IRA replacement,” particularly when the comparison ignores fees, liquidity constraints, and the reality that policies can lapse (terminate when cash value can’t support charges).
- Pressure to move IRA/401(k) funds quickly or to proceed before your CPA, attorney, and investment advisor can benchmark costs and performance, and evaluate the plan.
- Premium financing described as “arbitrage” without disclosure of internal policy costs that must be less than the “arbitrage”, modeling higher interest rates, lower crediting, collateral calls, or lender-controlled terms.

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“What it looks like later”: real-world outcomes we repeatedly see

When an IUL sale goes sideways, it rarely fails in a dramatic way on day one. It fails slowly—through the gap between the pitch and the policy’s real mechanics.

In consumer complaints, pre-suit investigations, and litigation, the recurring outcome patterns often include:

- The policy “needs” more premium than the buyer was led to expect, especially after the first few years.
- The “vanishing premium” or “premium offset” concept doesn’t materialize unless the consumer keeps funding longer or at higher levels.

- The consumer is surprised to learn that “tax-free income” was modeled as loans and that loan dynamics can deteriorate if performance is lower than illustrated.
- Crediting results don’t resemble the illustration (a hypothetical projection, not a forecast), or caps/crediting terms change over time.
- Surrender charges and other exit costs trap the consumer: leaving early means realizing a significant loss.
- In premium financing setups, higher borrowing costs, collateral requirements, or lender pressure create a forced unwind at the worst time.
- The policy drifts toward lapse risk, or the consumer is told they must inject funds to prevent lapse—after already paying substantial premiums.

These are not inevitabilities in every IUL. But they are common enough that anyone hearing an IUL-centered “strategy pitch” should treat them as foreseeable possibilities and demand to see the downside scenario in writing.

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The “IRA Rescue” pitch: questions to ask before you move a dollar

If you’ve heard a pitch that someone can “rescue” you from IRA tax exposure—especially with urgency (“taxes are going up,” “RMDs will crush you,” “the government is coming for your retirement”)—get answers to the following in writing.

4.1 Follow the money and the product

- 1) Does this strategy require you to buy an insurance product? If the “rescue” requires an IUL (or another permanent policy), that is not a neutral tax plan—it is a product sale.
- 2) What are the costs expected to be charged in the policy versus the costs expected to be charged in the IRA? If you have to ask for such a cost comparison, then consider working with someone else.
- 3) What does the promoter earn if you do not buy the policy?
- 4) What does the promoter earn if you do buy the policy? Ask for the estimate of first-year compensation and any ongoing/renewal compensation.
- 5) Who pays the promoter? If compensation is paid by the insurer (directly or indirectly), that’s a critical conflict to understand.

4.2 Licensing, expertise, and media claims

- 6) What licenses do they hold to give tax or investment advice? If they are not properly licensed/credentialed for the advice they're giving, that matters.
- 7) Verify "as seen on TV" claims. Don't take logos alone as proof. If they claim appearances on major networks, ask to see the actual segment. Consumers are often surprised to learn the difference between a true expert appearance and paid promotional content.

4.3 Reality checks the pitch often skips

- 8) What is the IRA-tax reduction plan that does not involve selling you insurance? Ask them to describe alternatives.
- 9) What are the surrender charges (fees you pay if you cancel early) if you change your mind? Get a year-by-year schedule—especially years 1–3 and beyond. Ask what you would receive if you needed to exit early.
- 10) Have you been encouraged to consult your CPA and your investment advisor? If a strategy touches retirement assets and taxes, professional review should be encouraged, not discouraged.
- 11) What could go wrong when actual results differ from illustrated expectations (as they always do)? Ask them to explain the downside path: lower credited interest, higher internal charges, policy loan stress, or additional premium demands.
- 12) What are the lapse/surrender outcomes for this product category (how often policies end early and with what results)? Ask for credible, product-category statistics. If they can't provide anything reliable in writing, that itself is information.
- 13) Compare tax rates honestly. What rate would you pay now on IRA withdrawals (given your current income), versus your likely rate later? "Future taxes might rise" is not a substitute for individualized analysis.
- 14) Compare ongoing costs. What are the annual costs of the proposed "rescue" strategy (insurance charges, admin charges, potential loan interest), versus maintaining the IRA?
- 15) Is your "income" a loan? Many "tax-free retirement" illustrations assume distributions are policy loans, not withdrawals of returns. Loans create their own risks, not the least of which is phantom-income-tax that can far exceed taxes otherwise due on IRA distributions, if the program fails due to policy underperformance.

The Core Concern

From a consumer-protection perspective, the biggest red flag is when an "IRA rescue" pitch makes an insurance salesperson the hub for tax planning and investment planning—while the plan's success depends on optimistic assumptions and high, often undisclosed, product compensation.

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How IUL illustrations can mislead (even when they look “official”)

Many consumers reasonably assume an illustration is a reliable forecast. It is not. In litigation and investigations, the illustration is often the centerpiece—because it’s where expectations are created.

Here are the mechanics that make illustrations dangerous when they’re used as sales tools rather than educational hypotheticals:

- Illustrated crediting (how interest is added to your policy) is not guaranteed.
- Caps, participation rates, spreads, and index crediting terms can change.
- Internal costs matter, they can rise with age and are often undisclosed or under-disclosed.
- Sequence of returns matters (the order of gains and losses over time)—especially when the strategy relies on loans.
- “Premium offset” and “vanishing premium” concepts can fail (the idea that cash value growth will later cover premiums).

If the pitch sounds “guaranteed,” ask the promoter to show you, in writing, which elements are guaranteed, and which are not.

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Premium financing and “arbitrage” structures (aiming to earn more in the policy than you pay in loan interest and costs): where sophisticated-looking plans can unravel

Premium financing arrangements are often pitched to affluent or high-income consumers as a way to “use the bank’s money” to fund large policies. The pitch frequently relies on an arbitrage

story: the policy is expected to credit at a rate that not only outpaces borrowing costs, but also covers internal policy charges.

That story can break fast because premium financing adds layers of risk that many buyers do not fully model:

- Interest rates can rise, increasing carry costs.
- Policy crediting can underperform illustrated rates.
- Lenders can change terms, require additional collateral, or restrict renewals.
- Loan balances can compound.
- Exit options can be far worse than expected if surrender charges are high or the policy is underperforming.

With premium financing, it's no longer "just life insurance." It's a leveraged, interest-rate-sensitive structure with lender controls and collateral dynamics—often marketed with best-case projections.

Premium financing only works when internal policy costs are less than the spread between premium loan interest and the policy interest crediting rate. If the promoter doesn't provide a written analysis of internal policy costs and stress test showing bad-case scenarios (higher interest, lower crediting, collateral calls), treat that as a red flag.

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Why IUL often fails in practice: the lapse problem and the mechanics behind it

Life insurance is designed to pay a death benefit. If a permanent policy lapses or is surrendered before death, the consumer may lose coverage and may receive far less value than expected—especially after surrender charges and internal costs.

A recurring issue across permanent life insurance categories is that a large percentage of policies are surrendered or lapse before the insured's death. The reasons vary, but the economic pattern is consistent: the consumer pays substantial premiums, then exits early—often after years of being told they were building durable "wealth."

IUL adds additional complexity because credited interest is linked to an index formula (with caps, participation rates, spreads, and other moving parts), and the policy's internal charges can change over time.

Three common drivers of IUL disappointment:

- Rising insurance costs with age, which are often under-disclosed or undisclosed.
- Crediting underperformance versus expected performance in the illustration, which is also too often under-disclosed or undisclosed.
- Premium strain and “unexpected funding.”

8.

What to request in writing (before you buy)

If you are still considering an IUL—especially as part of an IRA-focused pitch or premium financing—demand a paper trail.

Ask for:

- The full illustration and ledger showing year-by-year: premiums, charges, credited interest assumptions, surrender values, and death benefit.
- The surrender charge schedule, year-by-year.
- Any policy loan assumptions used in the pitch.
- A written explanation of what happens if credited interest is materially lower than illustrated.
- A written explanation of what happens if you stop or reduce premiums.
- A written disclosure of compensation (at least in estimated ranges) and who pays it.

If premium financing is involved, ask for:

- The lender term sheet and a plain-English explanation of collateral requirements.
- A written stress test showing how internal policy costs are covered by expected “arbitrage” as well as outcomes if borrowing costs rise and/or policy crediting falls.
- Exit scenarios that include surrender charges, loan payoff dynamics, and collateral release risks.

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If you already bought: 3 steps to take this week

If you purchased an IUL and you are uneasy—or if the “plan” is not matching the pitch—take these steps promptly.

- 1) Request an in-force illustration using current assumptions and your actual policy status (including any loans) and insist on inclusion of the pages showing year-by-year costs.
- 2) Request a detailed history of actual performance, loan history and current loan mechanics (current rate, whether it can change, how interest is credited/charged).
- 3) Gather the sales materials that created your expectations: illustrations, emails, texts, pitch decks, and notes of what you were told about premiums, performance, surrender charges, and “tax-free” income.

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If you have already bought what documents to gather (and why they matter)

If you purchased an IUL as part of an IRA rescue pitch, premium-financing structure, or a “retirement replacement” plan—and you now suspect the sale was misleading—documentation is everything.

Save and request copies of:

- the original as-issued illustration(s) and any updated in-force illustrations;
- the application and all amendments;
- policy delivery receipts and disclosures;

- marketing decks, emails, texts, and recorded calls (if any);
- replacement/1035 paperwork (if another policy was replaced);
- any “IRA rescue” written plan, spreadsheets, or proposals;
- premium finance term sheets, loan statements, collateral requirements, and lender communications;
- annual statements and in-force illustrations.

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Why this can be a legal case (not just “buyer’s remorse”)

When an IUL sale is driven by deceptive or incomplete information, especially when it is pitched as a tax or investment solution, there can be viable claims depending on the facts and the jurisdiction.

These cases may involve misrepresentations or omissions about costs, performance requirements, premium requirements and sustainability, surrender charges and liquidity constraints, the nature of “tax-free” distributions (often loans), risks and triggers in premium financing, conflicts and compensation, and suitability for the consumer’s objectives.

The parties responsible may extend beyond the individual agent depending on the facts. Wholesalers/IMOs and carriers can be implicated when sales practices are coordinated, trained, incentivized, or knowingly tolerated.

Frequently asked questions (FAQ)

Is “tax-free retirement income” from an IUL really tax-free?

Many illustrations show “income” as policy loans. Loans can be structured to be tax-advantaged in some circumstances, but they are not risk-free and can create serious problems if the policy underperforms or lapses.

Can I roll my IRA into an IUL?

Be cautious with any pitch that frames this as a simple “rollover.” Moving IRA money can trigger taxes, penalties, or suitability issues depending on the structure and your facts. Get CPA and investment-advisor review before acting.

What is an “IRA rescue” strategy?

It is marketing language typically used to sell a product-based plan that claims to reduce future IRA tax exposure. The key is to identify whether the plan is a neutral tax strategy or an insurance sale driven by compensation and reckless assumptions.

What is premium financing?

Premium financing uses borrowed funds to pay policy premiums. It adds interest-rate costs and risks, lender control, collateral requirements, and exit risks on top of the underlying policy costs and performance risk.

What is an in-force illustration?

It’s an illustration generated after the policy is issued, using the policy’s current values and current assumptions. It can show whether the policy is trending toward the original projections or drifting into trouble.

What if I stop paying premiums?

Depending on the policy’s structure and cash value, stopping or reducing premiums can materially change performance and may increase lapse risk.

Can an IUL lapse if I’m taking loans?

Yes. Loan balances and loan interest can destabilize the policy if crediting is lower than expected or if charges rise. A lapse can create catastrophic outcomes like loss of coverage and phantom-income-tax on even more than the income received depending on the facts.

What does it mean when someone says the illustration is “conservative”?

“Conservative” is often a sales characterization. Ask for the year-by-year detail of costs and performance assumptions used, what downside scenario was modeled, and what happens if crediting is materially lower than illustrated. Current regulations in most states still allow sales

materials to show low “quoted” premiums and seemingly “conservative” projections while actual internal costs can be high. That gap is why independent benchmarking and stress testing matter.

If I think I was misled, what should I do first?

Preserve the paper trail (illustrations, emails/texts, proposals), request an in-force illustration with year-by-year costs and performance requirements, and loan history, and get an independent review to include benchmarking of cost competitiveness and the reasonableness of performance requirements.

Who can be responsible besides the agent?

Depending on the facts, responsibility may extend to marketing organizations/wholesalers/IMOs and insurers—particularly when sales practices are coordinated, trained, or incentivized.

If you are considering an IUL—especially one tied to an “IRA rescue” pitch or premium financing—get a second (and third) opinion ideally to include benchmarking of costs and performance and review the proposal with your CPA and your investment advisor before you buy an IUL.

If you have already purchased an IUL and now believe the sales presentation didn’t match reality, contact Vernon Litigation Group. We are based in Naples, Florida and represent consumers nationwide.

To help us quickly evaluate the situation, send (if you have them): the original illustration, the most recent annual statement, any in-force illustration, any premium financing proposal/term sheet, and any emails/texts or marketing slides used in the pitch.

If you’re an attorney, CPA, advisor, or journalist and want a litigation-informed second opinion on an IUL sales structure, we welcome that outreach as well.

Download: one-page IUL red flags + document checklist

We've also prepared a one-page checklist you can use to pressure-test an IUL pitch or organize documents if you already own a policy.

IUL (Index Universal Life Insurance)

Checklist: Red Flags + Documents to Request

Fast screen: Is this pitch a red flag?

- ☐ Treat the pitch as high-risk if you hear multiple items below:
- ☐ "IRA rescue," "tax-free retirement," "Roth replacement," or "market upside with no downside."
- ☐ The illustration is presented like a forecast or guarantee and lacks cost disclosures.
- ☐ "You can stop paying premiums after X years" without a written downside scenario.
- ☐ Little or no explanation of caps, spreads, participation rates, or that crediting terms can change.
- ☐ Little or no explanation that illustrated "income" is often policy loans.
- ☐ Surrender charges or early-exit costs are minimized or brushed off.
- ☐ Pressure to act quickly or to proceed without CPA/investment-advisor review.
- ☐ Premium financing described as simple "arbitrage" without confirming either that costs can be covered by the "arbitrage or stress testing higher interest rates, lower crediting, collateral calls, and lender-controlled terms.

Before you buy: what to demand in writing

- ☐ Full illustration and ledger (year-by-year premiums, charges, credited interest assumptions, surrender values, and death benefit).
- ☐ Year-by-year surrender charge schedule.
- ☐ Written explanation of what happens if credited interest is materially lower than illustrated.
- ☐ Written explanation of what happens if you stop or reduce premiums.
- ☐ Policy loan assumptions used (loan rate, whether fixed/variable, and what happens if rates rise).

☐ Written disclosure of compensation (at least estimated ranges) and who pays it.

If premium financing is involved:

☐ Lender term sheet.

☐ Collateral requirements and trigger points.

☐ Written confirmation that rate “arbitrage” can reasonably cover internal policy costs.

☐ Written stress test (higher borrowing costs + lower crediting + adverse exit).

☐ Exit scenarios including surrender charges, loan payoff dynamics, and collateral release risks.

If you already bought: 3 steps to take this week

☐ Request an in-force illustration using current assumptions to include year-by-year cost disclosures and expected interest credits, and your actual policy status (including loans).

☐ Request a detailed loan history and current loan mechanics.

☐ Preserve the sales paper trail: illustration(s), emails/texts, pitch deck, notes of what you were told.

If you think the sales presentation didn't match reality: documents to gather

☐ Original illustration(s) and any updated illustrations.

☐ Application and all amendments.

☐ Policy delivery receipts and disclosures.

☐ Annual statements.

☐ In-force illustrations.

☐ Marketing decks, emails, texts, recorded calls (if any).

☐ Replacement/1035 paperwork (if another policy was replaced).

☐ Any “IRA rescue” written plan, spreadsheets, or proposals.

☐ Premium finance proposals, term sheets, loan statements, collateral calls, and lender communications.

Contact Us:

If you are considering an IUL—especially one tied to an “IRA rescue” pitch or premium financing—get a second (and third) opinion ideally to include analysis of internal policy costs relative to industry benchmarks and evaluation of performance expectations relative to asset-class benchmarks, and also review the proposal with your CPA, your attorney, and your investment advisor before you buy an IUL. And, by using the term “your” CPA, attorney, and investment advisor, we are referring to someone other than professionals recommended by the insurance salesperson who is recommending the policy/strategy.

If you have already purchased an IUL and now believe the sales presentation didn’t match reality, contact [Vernon Litigation Group](#). We are based in Naples, Florida and represent consumers nationwide.

To help us quickly evaluate the situation, send (if you have them): the original illustration, the most recent annual statement, any in-force illustration, any premium financing proposal/term sheet, and any emails/texts or marketing slides used in the pitch.

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