

MONEY MYTHS SERIES

IUL for Retirement: The Tax-Free Roth Alternative Pitch, Checked (2026)

Why indexed universal life is a weak substitute for a Roth IRA for most savers, with 30 years of S&P 500 math, caps, charges, and lawsuits.

By Eric Ridley, attorney, Ridley Law · Updated September 2026 · Read online with live links: ridleylawoffices.com/iul-retirement/

Part of our [money myths series](#), where we check what social media says about money against the actual rules.

The pitch: indexed universal life (IUL) is a "tax-free Roth alternative" that rich people use. You get stock market upside with a 0% floor, so you never lose money, there's no contribution limit, and in retirement you pull out tax-free income through policy loans. Some call it a LIRP, a "life insurance retirement plan."

The verdict: for most people a Roth IRA or 401(k) does the same job better. An IUL's growth is capped and leaves out dividends, policy charges and commissions come out first, and the "tax-free" part depends on keeping the policy in force until you die. In our 30-year example, IUL-style crediting grew to about half of what a plain Roth IRA index fund did, before a single dollar of policy charges. IUL can make sense for a high earner who has maxed out every retirement account and needs permanent life insurance anyway.

**\$737,576 vs.
\$1,501,121**

\$7,500 a year, 1996 to 2025: IUL-style crediting before charges vs. a Roth IRA index fund (our calculation)

10.00%

cap on one insurer's main S&P 500 IUL strategy, down from 11.50% in 2017 (Mutual of Omaha)

Up to 62.1%

of first-24-month premium paid as commission on one universal life policy (Minnesota Life SEC filing, 2016)

\$195 million

settlement fund in a cost-of-insurance class action against Transamerica (C.D. Cal., approved 2019)

April 1, 2026

date regulators barred historical-return comparisons in new IUL illustrations (NAIC AG 49-A)

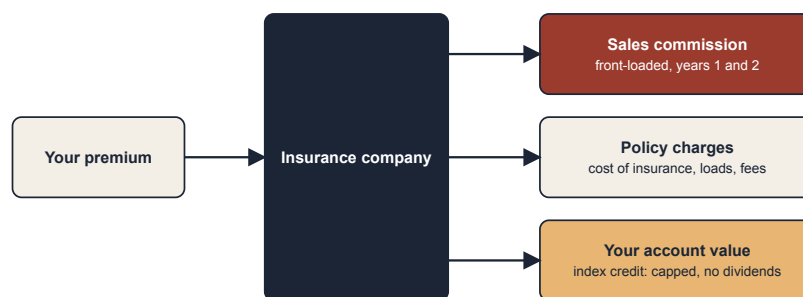
What is indexed universal life insurance?

An IUL is permanent life insurance with a flexible premium and a cash account that earns interest based on a stock index, usually the S&P 500, subject to a cap and a floor.

Each year the insurer takes your premium, deducts charges, and puts the rest in the policy's account value. If the index goes up, you're credited part of the gain, up to a cap. If it goes down, you're credited 0%. You don't own any stocks. The insurer buys options to fund the credit. A death benefit is paid to your beneficiaries when you die, and as long as the policy stays in force, you can borrow against the account value.

On social media it's sold as a retirement plan. Videos promise "tax-free" income, market gains without losses, and a strategy "the rich" use. It's the same family of pitch as [infinite banking](#), which uses whole life instead of IUL, and as [premium-financed IUL](#), which adds a bank loan.

Who gets paid. The agent is paid first and most. Insurers that register a universal life product with the SEC have to disclose commissions, and a 2016 Minnesota Life prospectus for a variable universal life policy disclosed commissions of up to 62.1% of the premium paid in the first 24 months, up to a "target premium," then 3.78% in years three through five. We didn't find a public IUL commission schedule, but IULs are sold through the same agent channels. The insurer earns from policy charges, including the cost of insurance, and from the gap between what its bond portfolio earns and what it credits you. Many "financial educators" on social media are licensed insurance agents or recruit people to become agents. None of that is illegal. It means the person calling IUL a Roth alternative is usually the person who earns a commission when you buy one.



Is an IUL like a Roth IRA?

Only partly. Both can produce tax-free money, but a Roth's tax-free withdrawals are guaranteed by statute, while an IUL's depend on borrowing against the policy and never letting it lapse.

A qualified Roth IRA distribution "shall not be includible in gross income" (26 U.S.C. 408A(d)(1)), generally once you're 59½ and the account has been open five years. The 2026 contribution limit is \$7,500 (IRS), and the account is invested however you choose.

An IUL gets its "tax-free" label from a different set of rules. The death benefit is generally income-tax-free (26 U.S.C. 101(a)). While you're alive, withdrawals from a non-MEC policy are taxed only once they exceed what you paid in (26 U.S.C. 72(e)). To get more than your basis out without tax, you borrow against the policy. That loan accrues interest. If the loans plus charges eat the account value and the policy lapses, the IRS treats the canceled loan as a payout, and the gain is taxable even though you never received a check.

In *Sanders v. Commissioner*, T.C. Memo. 2010-279, the insurer ended a policy and applied the cash value to the loans. The taxpayer "received no cash or property," and still owed tax on \$7,175. In *Doggart v. Commissioner*, T.C. Summary Opinion 2023-25, the court held that applying cash value to policy loans after a lapse was taxable, and that it was "irrelevant that no" money changed hands. A federal appeals court reached the same result in *Brown v. Commissioner* (7th Cir. 2012) 693 F.3d 765. Those cases involved whole life, but the tax rule is the same for any life insurance contract.

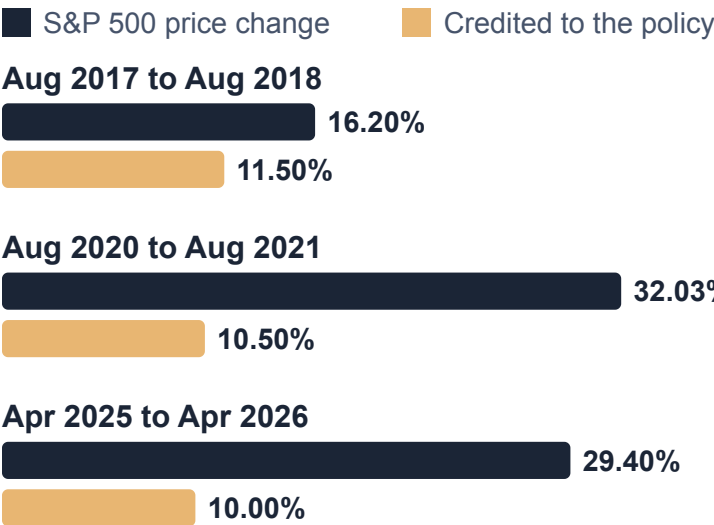
Fund a policy too fast and it becomes a modified endowment contract. Then loans are taxed like withdrawals, and a 10% additional tax can apply before 59½ (26 U.S.C. 72(e)(10), 72(v)). The "no contribution limit" pitch runs into this rule.

How do IUL caps and the 0% floor work?

The floor stops losses in a down year, but the cap limits your gain in a good year, and the index used doesn't count dividends.

The NAIC's illustration guideline defines the standard IUL account as one that credits the "percent change in S&P 500® Index value" with an annual cap and a 0% floor. That's the price change only. Lincoln Financial's own IUL disclosure says the S&P 500 "is a price index and does not reflect dividends." Dividends have been a large part of stock returns. In Aswath Damodaran's S&P 500 data (NYU Stern), the index averaged 8.36% a year from 1996 through 2025 on price alone and 10.26% with dividends reinvested.

Caps aren't fixed, either. Mutual of Omaha publishes the history for its Income Advantage IUL. The cap on its main S&P 500 strategy was 11.50% for the segment starting August 2017, 10.50% for August 2020, and 10.00% since. When the S&P 500 rose 32.03% from August 2020 to August 2021, the policy credited 10.50%. When it fell 5.11% the next year, the policy credited 0%. Mutual of Omaha also notes that policy charges reduce the accumulation value.



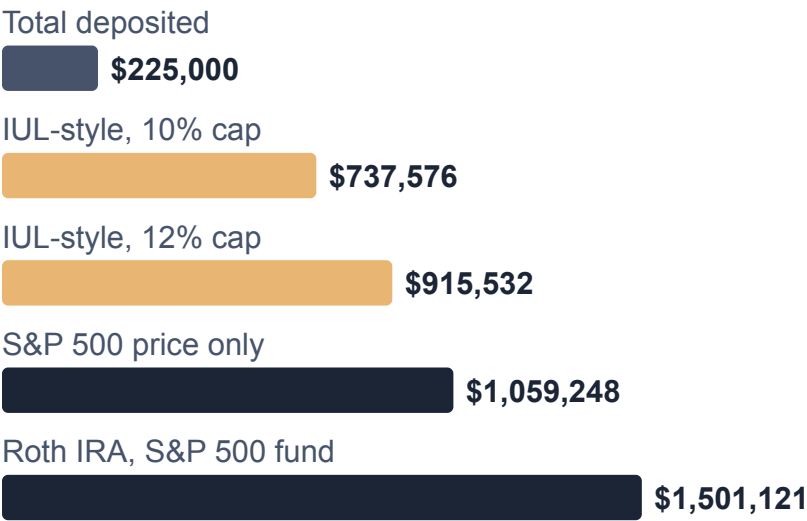
Mutual of Omaha (United of Omaha Life), Income Advantage IUL historical rates, S&P 500 one-year point-to-point, 100% participation strategy.

Segment	S&P 500 price change	Cap in effect	Credited
Aug 10, 2017 to Aug 10, 2018	16.20%	11.50%	11.50%
Aug 10, 2020 to Aug 10, 2021	32.03%	10.50%	10.50%
Aug 10, 2021 to Aug 10, 2022	-5.11%	10.00%	0.00%
Apr 10, 2025 to Apr 10, 2026	29.40%	10.00%	10.00%

What does the cap cost over 30 years?

In our example, IUL-style crediting turned \$225,000 of deposits into about \$737,576 before charges, while a Roth IRA in an S&P 500 fund grew to about \$1,501,121.

Our example is hypothetical, built on real market history. Put \$7,500 in at the start of every year from 1996 through 2025. That's \$225,000. We credited the IUL version the way the standard IUL account works: S&P 500 price change, 0% floor, 10% cap. We didn't subtract any cost of insurance, premium load, or rider charge, so the real policy would end lower. The Roth version earns the S&P 500 total return, including dividends.



Hypothetical, computed from Aswath Damodaran's S&P 500 annual data (NYU Stern). Calendar-year crediting is a simplification; real IUL segments use other dates. IUL rows exclude cost of insurance, premium loads, and other policy charges, which would lower them.

\$7,500 deposited at the start of each year, 1996 to 2025	Value at end of 2025	Average yearly growth, 1996 to 2025
Total deposited	\$225,000	n/a
IUL-style crediting: S&P 500 price change, 0% floor, 10% cap, before policy charges	\$737,576	6.74%
Same, with a 12% cap	\$915,532	7.88%
S&P 500 price change only (no dividends, no cap)	\$1,059,248	8.36%
Roth IRA in an S&P 500 index fund (dividends reinvested)	\$1,501,121	10.26%

The cap bit in 18 of the 30 years, when the index rose more than 10%. The floor helped in the 8 years it fell. Over the whole stretch, giving up the big years cost far more than the floor saved, a gap of about \$763,544.

To be fair, the floor does win in a long bad stretch. From 2000 through 2009, the S&P 500 with dividends averaged -0.95% a year, while the same capped crediting averaged 4.46%, again before charges. If what you want is protection from a lost decade, that's the trade you're buying. You pay for it in charges and in capped strong years.

Can the insurance company raise the cost of an IUL?

Yes. Universal life policies, including IUL, let the insurer raise the cost of insurance charge up to the guaranteed maximum in the contract.

The Wisconsin insurance regulator warned in 2021 that the cost of insurance is "the main expense of a universal life policy," and that policyholders who saw increases found their policies had lapsed or needed large added premiums. Policyholders have sued over these increases, and some insurers have paid to settle:

- ✓ **Transamerica.** In *Feller v. Transamerica Life Insurance Co.*, No. 2:16-cv-01378 (C.D. Cal.), class counsel described a \$195 million settlement fund. The court entered final judgment approving the settlement on February 6, 2019.
- ✓ **Lincoln National.** In *In re Lincoln National COI Litigation*, No. 2:16-cv-06605 (E.D. Pa.), Lincoln's own SEC filing reports a \$117.75 million settlement, reduced to \$109.96 million after opt-outs.
- ✓ **Equitable.** In the AXA Equitable cost-of-insurance case, No. 1:16-cv-00740 (S.D.N.Y.), the court approved a class settlement on October 17, 2023, and awarded class counsel \$101,076,853, a third of the cash fund.
- ✓ **Transamerica again.** In *Estate of Handorf v. Transamerica*, No. 1:23-cv-00032 (N.D. Iowa), over increases announced in 2022 and 2023, the settlement website describes a proposed \$57 million cash fund, with a final approval hearing set for September 28, 2026. As of October 7, 2026, we found no final approval order on the docket. Transamerica denies wrongdoing.

These cases involved universal life policies generally. IUL is a form of universal life, and its contract has the same kind of adjustable charge. Settlements don't mean the insurers admitted fault.

What do the illustration rules say?

California law and the NAIC guideline limit how rosy an IUL illustration can look, and both require warnings that the numbers aren't guaranteed.

California's illustration law exists "to ensure that illustrations do not mislead purchasers of life insurance" (Ins. Code, § 10509.950). Any illustration of non-guaranteed values must include a statement that the illustrated values assume current rates "will continue unchanged for all years shown. This is not likely to occur" (Ins. Code, § 10509.956). You sign a statement that you understand the non-guaranteed elements can change, and the agent signs one too.

The NAIC's Actuarial Guideline XLIX-A, revised in December 2025, caps the illustrated rate on the standard index account at the lower of an average drawn from rolling 25-year historical periods and 145% of the insurer's net investment earnings rate. It limits how much an illustration can show from borrowing against the policy: the illustrated loan credit can't exceed the loan rate by more than 0.50%. And for policies sold on or after April 1, 2026, illustrations can no longer show side-by-side comparisons of historical returns and must state that "Historical index changes shown in this illustration are not indicative of future returns."

Regulators aren't done. The NAIC's 2026 meeting materials show a working group asking what changes are needed to address "current regulatory concerns regarding illustrated rates and transparency," and a June 15, 2026 presentation titled "IUL and Premium Financing: It's Not Free Life Insurance," from a consumer advocate, set to review "two of the most egregious IUL sales examples."

Have IUL buyers sued over how it was sold?

Yes. In *Mamboleo v. Pacific Life Insurance Co.*, Orange County Superior Court No. 30-2021-01208045, a policyholder claimed the marketing materials and illustrations for Pacific Life's PDX IUL were misleading; Pacific Life denied it. The court approved a settlement on May 7, 2026.

The court-authorized settlement website says the PDX policy was sold from 2017 to 2019 and that Pacific Life "denies that it violated the law or that it has harmed policyowners in any way." The settlement gives class members policy credits and other benefits rather than cash.

Do IUL policies lapse?

Often enough that the industry tracks it. A 2024 Society of Actuaries and LIMRA study found that IUL "lapse rates increased significantly across all policy years" over the 2015 to 2021 study period.

A lapse is the worst outcome for a retirement IUL. You lose the death benefit, you may have paid surrender charges, and if there were loans, you can owe income tax on gains you never received.

When does an IUL make sense?

When you need permanent life insurance, you've already maxed out your tax-advantaged retirement accounts, and you can fund the policy well for decades.

Some families do need coverage that lasts for life, for example to pay estate costs, to equalize an inheritance, or to fund a buy-sell agreement. For a large estate, the policy is often owned by an [irrevocable life insurance trust](#) so the death benefit stays out of the taxable estate. A high earner who has filled a 401(k), an IRA, and other accounts may reasonably want a permanent policy with growth potential. In those cases, compare IUL against whole life and guaranteed universal life, read the illustration at guaranteed values, and get the advice from someone not paid on commission. For ownership and beneficiary choices, see our [guide to life insurance in an estate plan](#).

Comparison: IUL vs. a Roth IRA

	Indexed universal life	Roth IRA
How money comes out tax-free	Policy loans and the death benefit, if the policy never lapses	Qualified distributions after 59½ and five years
Growth	Index price change, capped, 0% floor, after charges	Whatever you invest in, including dividends
Costs	Cost of insurance, premium loads, rider fees, surrender charges, loan interest	Fund expenses, often under 0.10% for an index fund
Can terms change?	Yes, caps and charges can change within contract limits	No, aside from changes in law

	Indexed universal life	Roth IRA
Contribution limits	None, but overfunding creates a MEC	\$7,500 in 2026, with income limits
Commission to the seller	Front-loaded, often a large share of early premium	None at most brokerages
Who it suits	Maxed-out savers who need permanent coverage	Most people saving for retirement

What should you do instead?

- 1 Take the free money first**
Contribute enough to any workplace plan to get the full employer match.
- 2 Fund a Roth IRA or Roth 401(k)**
These give you statutory tax-free withdrawals without insurance charges.
- 3 Buy term life for the years people depend on you**
It's the cheapest way to protect a family while you build savings.
- 4 If someone pitches an IUL, ask three things in writing**
What does the illustration show at guaranteed rates and charges? What's the commission? What happens to the policy and my taxes if I stop paying at year 10?
- 5 Use the free look**
California gives you at least 10 days to return a new life policy, and 30 days if you're 60 or older (Ins. Code, §§ 10127.9, 10127.10).

Questions people ask

Is IUL a scam?

No. It's a regulated insurance product. The problem is selling it as a Roth substitute to people who'd do better with a Roth, often by an agent paid a large commission.

Can you lose money in an IUL?

Yes. The 0% floor applies to the index credit, not to your account value. Policy charges come out every year, including years when the credit is 0%, and surrender charges apply if you quit early.

What is a LIRP?

"Life insurance retirement plan" is a sales term, not a legal one. It usually means a heavily funded IUL or whole life policy tapped through loans.

Is IUL better than a 401(k)?

For most people, no. A 401(k) has an employer match at many jobs, higher limits than an IRA, and no insurance charges.

What happens if my IUL lapses with a loan?

The cash value pays off the loan. The IRS treats that as a distribution. You can owe tax on the gain even though you received no cash, as the Tax Court held in *Sanders* and *Doggart*.

Do wealthy people use IUL?

Some do, usually for estate planning, after they've used every other tax-advantaged account. That's different from using it in place of a Roth IRA.

Related reading in our [money myths](#) series: [infinite banking](#), [premium-financed life insurance](#), [life insurance for kids](#), and ["guaranteed" annuities](#).

This page is general information about California and federal law. It isn't legal, tax, or investment advice for your situation. The worked example is hypothetical and uses past market data, which doesn't predict future results.

SOURCES

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Questions about your own plan?

Ridley Law helps California families with trusts, wills, trust administration and probate from Port Hueneme, serving Ventura, Santa Barbara and Los Angeles counties. The first call is free and runs 30 minutes.

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