Life

North American Company
for Life and Health Insurance
Since 1886

Using Life Insurance for Your Client's Smart Money

Case Study

QUICK LOOK

Smart money is money your clients want to control and be able to access during times of need. While there are several options where to keep this smart money, one that's often overlooked is permanent life insurance.

Be sure to conduct a thorough needs-based analysis and determine if death-benefit coverage is necessary before proceeding.

THE SITUATION

Meet Ryan. Ryan is a 55-year-old architect looking ahead at building the second part of his life: retirement.

While he's not there yet, he's looking at his financial picture and surveying where improvements can be made. He's been holding onto a large Certificate of Deposit (CD)[1] worth $50,000 for quite a while, along with $30,000 in a savings account.

Ryan's wife, Ellen, is an interior decorator, and the couple has a grown child with twin grandchildren on the way.
They are thrilled at becoming grandparents and look forward to spending time with their grandchildren in the future.

With an eye for details and not knowing what the future may hold, Ryan is looking to provide his wife with financial protection should he die prematurely. While he likes that his CD and savings account are fairly easy to access, he's not thrilled with their current performance, but he views that as the cost of not being exposed to market volatility.

Is there a way to help Ryan meet his financial protection needs while retaining access, downside protection, and an opportunity for cash value growth?

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A SOLUTION

With the smart money concept using permanent life insurance, Ryan can gain several powerful benefits:

- **Death benefit protection:** The generally income tax-free proceeds could provide for Ellen, helping to ensure her financial stability.[2]
- **Cash value growth:** Ryan gains an opportunity to build cash value for financial needs down the road, like vacationing with his grandchildren.
- **Access to funds:** Life insurance offers cash surrender value that is available for unexpected or immediate needs. Funds may be taken as loans or withdrawals for any reason.[3]
- **Accelerated Death Benefits:** Additional design elements may include the ability to accelerate a portion of the death benefit during Ryan's life if he is diagnosed with a qualifying illness, subject to eligibility requirements.

CONSIDERATION

Should Ryan choose to purchase life insurance, here are some important considerations that he should consider before proceeding:

- **Cost of insurance charges (COIs) or other charges:** Life insurance comes with charges that Ryan should know.
- **Loss of premium:** Depending on funding, life insurance may not guarantee avoiding loss of premium.
- **Maintaining the death benefit:** Additional premiums may be necessary to continue the desired death benefit, depending on funding.
- **Modified Endowment Contracts (MECs):** MECs may have tax implications that Ryan needs to know about when considering his options.[4]
- **Surrender charges:** Withdrawals may be subject to surrender charges and the amount available for policy loans.[3]

Need help with your client's smart money case? Contact Sales Development at (800) 800-3656 ext. 10411 or email salessupport@nacolah.com.

Agents offering, marketing, or selling accelerated death benefits in California must be able to describe the differences between benefits provided under an accelerated death benefit for chronic illness and benefits provided under long-term care insurance to clients. You must provide clients with the ADBE Consumer Brochure for California (Form NAM-3013) that includes this comparison.

1. Removing funds from a Certificate of Deposit may result in penalty.

2. Neither North American Company nor its agents give tax advice. Please advise your customers to consult with and rely on a qualified legal or tax advisor before entering into or paying additional premiums with respect to such arrangements.

IRS CIRCULAR 230 NOTICE

Any tax advice included in this written or electronic communication, including any attachments, was not intended or written to be used, and it cannot be used by you or any taxpayer for the purpose of avoiding any penalties that may be imposed on you or any other person under the Internal Revenue Code or applicable state or local tax law provisions. Although any tax advice contained herein was written to support the promotion or marketing of the transaction(s) matter(s) addressed by the advice, it cannot be used by you or any taxpayer to, promote, market or recommend to another party any transaction or matter addressed herein. Taxpayers should seek advice based on their particular circumstances from an independent tax advisor.

3. In some situations, loans and withdrawals may be subject to federal taxes. North American Company for Life and Health Insurance does not give tax or legal advice. Clients should be instructed to consult with and rely on their own tax advisor or attorney for advice on their specific situation.

Income and growth on accumulated cash values is generally taxable only upon withdrawal. Adverse tax consequences may result if withdrawals exceed premiums paid into the policy. Withdrawals or surrenders made during a Surrender Charge period will be subject to surrender charges and may reduce the ultimate death benefit and cash value. Surrender charges vary by product, issue age, sex, underwriting class, and policy year.

4. For most policies, withdrawals are free from federal income tax to the extent of the investment in the contract, and policy loans are also tax-free so long as the policy does not terminate before the death of the insured. However, if the policy is a Modified Endowment Contract (MEC), a withdrawal or policy loan may be taxable upon receipt. Further, unpaid loan interest on a MEC may be taxable. A MEC is a contract received in exchange for a MEC or for which premiums paid during a seven-year testing period exceed prescribed premium limits (7-pay premiums).