North American Company
for Life and Health Insurance
Since 1886

Life

Using Life Insurance For Legacy Building

Help Your Clients Gain Financial Protection & Pass Along a Legacy

Marketing Guide

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Financial Protection with the Ability to Pass On a Legacy

Many of your clients have diligently planned for retirement with prudent investment choices. They have taken sound financial steps to build an amount that will last throughout their retirement years. However, many financial plans fail to address passing wealth to heirs. For clients with excess funds, there is a price to success in the form of various tax liabilities.[1] These tax liabilities may pose unwanted surprises when it comes time to pass along funds to children or grandchildren.

There is a way to help your clients in this situation. Life insurance is designed to pass a death benefit along to beneficiaries upon death. When it comes to legacy building and transferring wealth, this key design feature can offer a favorable solution for your client.

USING LIFE INSURANCE FOR LEGACY BUILDING

Legacy building is a concept designed to help your clients attain death benefit protection and help maximize the assets that are passed along to beneficiaries. It provides a way to help transfer funds efficiently and may be one of the most favorable methods to build a legacy. One key reason for its efficiency is clear—life insurance pays a generally income tax-free[1] death benefit. In this guide you'll discover several other key client benefits and how to put this strategy to work for you.

A CLOSE LOOK AT LEGACY BUILDING

Legacy building is a strategy using permanent life insurance to offer death benefit protection along with an efficient way to pass along assets to beneficiaries. In most situations, the strategy involves a single-premium asset transfer into a life insurance policy.

Two key legacy building items:

- **Maximizing the death benefit.** The main goal in a legacy-building sale is to maximize the total estate value. For clients committed to this strategy, purchasing the largest amount of death benefit that the asset transfer will provide is key to effective case design.
- **Death benefit guarantees.** The key focus is providing a death benefit, so having a guaranteed death benefit[2] helps to ensure the benefit will be available to beneficiaries.

UNDERSTANDING THE CONCEPT

The first item for your clients to understand is that life insurance provides financial protection. The cornerstone of a solid financial plan usually begins with life insurance. With life insurance, your clients gain comprehensive death benefit protection that would pass along to beneficiaries.

The second item is that life insurance can provide a tax-efficient way to transfer funds to beneficiaries. As mentioned earlier, the proceeds are passed along generally income tax-free[1] to beneficiaries. The death benefit proceeds can be used by the beneficiaries to improve their situation and may help them to fulfill their dreams and goals.

With legacy building, you can help your clients reduce their tax liabilities[1] while passing along a greater death benefit to beneficiaries.

WHY LIFE INSURANCE FOR LEGACY BUILDING?

Key advantages

Let's take a look at several advantages of using life insurance for legacy building.

- **Immediate death benefit protection.** Your clients can gain peace of mind from the start with death benefit protection that will be there when their loved ones need it most.
- **Income tax-free transfer to heirs.** When the insured passes away, the death benefit passes generally income tax-free to beneficiaries.[1]
- **Client control.** Clients have full control of their life insurance policies to make changes based on their needs.
- **Probate-free.** When your clients complete a beneficiary designation on their life insurance policies, they are using non-probate transfer, which means that the death benefit will pass directly to the beneficiary.
- **Leverage.** With life insurance, the premium can provide a larger death benefit immediately after issue.
- **Tax-deferred growth.** With life insurance, any cash values grow on a generally tax-deferred basis.[3]
- **Liquidity.** Should the needs of clients change or for emergency purposes, they may access funds in a life insurance policy through loans, withdrawals, if needs arise[4] or accelerated death benefits if qualifications are met.
- **Performance.** Life insurance can offer a compelling internal rate of return.

Items to consider

It's important to explore several options for legacy building. A thorough needs-based analysis will help your clients decide on a direction appropriate for their situation.

- **Cost of insurance.** Permanent life insurance policies require monthly deductions, which include the cost of insurance, expense charges, and potentially other charges. These deductions along with any loans or withdrawals may reduce the cash value of the policy. Withdrawals may be subject to surrender charges and the amount available for policy loans.
- **Spousal scenarios.** For spousal situations, it may be beneficial to consider a survivorship (second-to-die) policy if that aligns with the clients' needs.
- **Modified Endowment Contracts.** Although a single premium may create a modified endowment contract (MEC)[5], which may cause loans or withdrawals to be taxable, death benefit proceeds remain generally tax-free.[1]
- **Maintaining the death benefit.** Additional premiums may be necessary to continued the desired death benefit, depending on the funding.

HOW IT WORKS

After establishing a need for death benefit protection, identify funds that the client already plans to pass along to heirs. These funds represent assets that the client doesn't plan to use for his or her own retirement needs.

The designated funds are then used to purchase a life insurance policy. These assets may immediately increase the amount in the form of a death benefit. The death benefit is passed along to beneficiaries when the insured dies, thus passing on a legacy.

CLIENT PROFILE

People who can most benefit from legacy building are those usually within retirement age that have dormant assets. These are typically assets they plan on leaving for heirs, a church, charity, or possibly to help pay educational costs for grandchildren.

These assets are often held in low interest-earning accounts or vehicles, which may not be an efficient method of wealth transfer for the purpose of legacy building. These "legacy assets" may be leveraged into a greater benefit and a more efficient method of wealth transfer using life insurance. Let's take a look at a typical profile:

- Is within the retirement ages of 55-75 and has a retirement plan in place
- Needs death benefit protection or may have an underperforming life insurance policy that needs to be reviewed
- Holds funds designated to leave to heirs or children in certificates of deposit (CDs), savings accounts, or money market accounts, especially accounts designated as "payable/transfer on death" or POD/TOD
- Has titled assets jointly with heirs
- Has annuities coming out of surrender
- Currently takes required minimum distributions (RMDs), but doesn't have a current need for the funds

Usually, there are two types of clients—those fully committed to the strategy and those who are committed now but may want to change their strategy down the road.

- **For the fully committed:** Help these clients find a life insurance product that can provide maximum death benefit that meets their needs. Consider a guaranteed death benefit product.[2]
- **For those committed now, but who may want to change:** Help these clients find a life insurance product that offers the opportunity offers to build cash value. The cash value may provide the client with alternative options, like using the potential cash value to help supplement retirement income.

WHY NORTH AMERICAN?

Turn to North American for your legacy building cases. In addition to our knowledgeable Sales Development team, you'll gain several benefits, including:

- **Competitive products.** A robust product portfolio that helps meet your clients' needs. For legacy building, consider North American's guaranteed death benefit[2] products or a product that may be able to generate cash value. Here's why:
  - Our guaranteed death benefit products[2] offer your clients both value and potential peace of mind.
  - Your clients gain access to several riders, endorsements, and other competitive features to customize a policy to fit their needs and comfort level.
  - Accelerated death benefits are available to help with living needs subject to eligibility requirements.[6]
- **Fair and consistent underwriting.** Plus you can depend on North American to provide fast turnaround times on your submitted business.
- **Competitive compensation.** Your time and commitment could possibly be well-rewarded with our generous compensation. Plus, we take a collaborative approach to helping you grow your business and are here to answer your questions and provide guidance along the way.
- **Financial stability.** Our financial ratings are sound, and private ownership means we're focused on long-term value.[7]
  - A+ (Superior) A.M. Best
  - A+ (Strong) Standard & Poor's

RESOURCES

Sales Development

Phone: (800) 800-3656 ext. 10411

Email: salessupport@nacolah.com

Hours: 7:30 – 5:00 CST, Monday through Thursday
7:30 – 12:30 Friday

North American Company
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Since 1886

Life

Agents offering, marketing, or selling accelerated death benefits for chronic Illness in California must be able to describe the differences between benefits provided under an accelerated 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 NAM-3013 that includes this comparison. Comparison is for solicitation purposes only, not for conversions.

1 Neither North American Company for Life and Health Insurance nor its agents give legal or 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.

2 Subject to premium payment requirements.

3 The tax-deferred feature of universal life or indexed universal life insurance is not necessary for a tax-qualified plan. In such instances, your client should consider whether other features, such as the death benefit and optional riders make the policy appropriate for the client's needs. Before purchasing a policy, your client should obtain competent tax advice both as to the tax treatment of the policy and the suitability of the product.

4 In some situations, loans and withdrawals may be subject to federal taxes. 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.

5 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).

6 The death benefit will be reduced by the amount of the death benefit accelerated. Since benefits are paid prior to death, a discount will be applied to the death benefit accelerated. As a result, the actual amount received will be less than the amount of the death benefit accelerated. There is an administrative fee when benefits are elected.

7 Rating Agencies: A.M. Best and Standard and Poor's are third party independent reporting and rating companies that rate insurance companies on the basis of the company's financial strength, operating performance, and ability to meet its obligations to policyholders. A+ is the second highest rating out of 15 categories for AM Best and was affirmed for North American Company as part of Sammons Financial Group on June 3, 2015. Standard and Poor's awarded its "A+" (Strong) rating for insurance financial strength on February 26, 2009 and affirmed on July 2, 2015 to North American Company, as part of Sammons Financial Group. The "A+" (Strong) rating is the fifth highest out of 22 available ratings.

We're Here For Life®

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