North American Company
for Life and Health Insurance
Since 1886

Life

Using Life Insurance for Your Client's Smart Money

Help Your Clients Gain Death Benefit Protection and a Financial Safety Net

Marketing Guide

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USING PERMANENT LIFE INSURANCE FOR YOUR CLIENT'S SMART MONEY

To get started with this sales concept, we first need to define smart money. Smart money is money your clients want to control and be able to access during times of need.

While there are several places to "store" smart money, one option that may be overlooked is life insurance. Permanent life insurance can immediately leverage a single premium into a larger death benefit.

The value of life insurance may be immediately recognized as a benefit for heirs. However, access to cash surrender value may be a concern. The smart money concept is an opportunity for you to show your clients the value of death benefit protection along with the potential to build cash value growth while preserving access to as much cash value as possible.

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

WHO CAN BENEFIT?

Several of your clients may have funds that are no longer meeting their current needs. These funds may be in savings, annuities, Certificates of Deposit (CDs), or other vehicles. Each of these vehicles serves a purpose, so the critical question to ask is whether your clients' needs have changed. Additionally, it's important to remember that removing funds from a CD or annuity may result in penalties, surrender charges, or income taxes.[1]

While your clients' goals for these funds may be for long-term growth to benefit their families, the funds also represent important assets for an emergency or other liquid need. The current interest rates on these vehicles may be unimpressive, but ultimately being able to access the funds wins out.

Along with the options noted above, another one to consider is permanent life insurance. If you have clients seeking death benefit protection, the smart money concept using life insurance is a competitive solution. With permanent life insurance, your clients still hold two key benefits: the opportunity for cash value growth and access to the funds in case of emergency.

WHY PERMANENT LIFE INSURANCE?

Most other smart money vehicles currently earn low rates of return that may also be taxable.[1] Although maintaining the principal amount is an important benefit, it comes at a cost. The cost is the potential low rate of return and taxability.

Permanent life insurance, on the other hand, can provide a valuable solution to meet your clients' short- and long-term needs. Permanent life insurance can provide several benefits, including:

- Income generally tax-free death benefit[1]
- Access to cash value for unexpected or immediate needs[2]
- Access to a portion of the death benefit for living needs
- Competitive performance on death benefit over life expectancy and/or cash surrender value

HOW DOES IT WORK?

A life insurance policy can be funded many ways, including a lump-sum transfer. The funds may come from any type of smart money vehicle, including CDs,[3] savings, and annuities.[4] This movement of assets can purchase a policy that is projected to provide a variety of benefits.

- **Income tax-free death benefit:** The ultimate intention for many people is to leave money for their heirs or beneficiaries. Life insurance is designed to leverage funds into a larger death benefit and pass generally income tax- and probate-free to beneficiaries.[1]
- **Control and 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.[2]
- **Access to funds above and beyond cash surrender value:** Additional design elements may include Accelerated Death Benefits, which provide the policyowner with the ability to accelerate a portion of the death benefit during the insured's lifetime when diagnosed with a qualifying illness, subject to eligibility requirements.
- **Competitive performance:** Life insurance provides immediate, generally tax-free proceeds in the event of death. It also offers the potential for strong cash value growth. Features such as competitive interest rates and interest rate bonuses can help provide the potential for compelling cash value growth.

CONSIDERATIONS

There are also some important considerations that should be covered with your clients.
These considerations include:

- **Cost of insurance charges (COIs) or other charges:** Life insurance comes with charges that your clients need to be aware of for planning purposes.
- **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 your clients need to know about when considering their options.[5]
- **Loss or premium.** Depending on funding, life insurance may not guarantee avoiding loss or premium.
- **Surrender charges:** Withdrawals may be subject to surrender charges.[2]

Be sure to conduct a thorough needs-based analysis and determine the need for death benefit coverage in order to help your clients make an appropriate decision. Review illustrations thoroughly for guaranteed and non-guaranteed death benefit values and the amount available for policy loans.[6]

RESOURCES

Sales Development

Phone: (800) 800-3656, extension 10411

Email: salessupport@nacolah.com

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

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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 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. Comparison is for solicitation purposes only, not for conversion.

1. 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.

2. 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.

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

4. Removing funds from an annuity may result in surrender charges and/or income taxes.

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. Guaranteed death benefits are subject to premium payment requirements.