

# USING LIFE INSURANCE TO HELP SUPPLEMENT RETIREMENT INCOME

## A death benefit & retirement planning strategy

Agent Guide



**North American Company**  
for Life and Health Insurance  
Since 1886

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# Protect what's important for your clients now and help them enjoy freedom later

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As your clients look ahead, there may be several unknowns along the road of life. There are two key unknowns however that with the right strategy may help your clients reach their destination.

Two key unknowns:

- Premature death
- Outliving assets

Without financial protection, a premature death typically results in financial hardship for a family along with emotional distress. Outliving assets during retirement may also bring about the same unfortunate outcome. However, there is an approach to help your clients in these situations.

To help your clients protect what's important now, while giving them a way to enjoy freedom later, consider permanent life insurance to help supplement retirement income.

## **Life insurance to supplement retirement income**

The life insurance strategy to supplement retirement income is fairly straightforward—the life insurance provides your clients with death benefit protection during their working years, while the potential accumulated cash values can be accessed during retirement to provide supplemental income.

In this guide, we'll help you explore this strategy so you can put it to work and help grow your sales. Topics include:

### ***A Close Look at Supplementing Retirement Income***

- Understanding the concept

### ***Why Life Insurance to Supplement Retirement Income?***

- Key advantages
- Items to consider
- Supporting features

### ***Retirement Income Alternatives***

#### ***How it Works***

#### ***Client Profile***

#### ***Why North American?***

## A Close Look at Supplementing Retirement Income

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Permanent life insurance provides your clients with death benefit protection and can be designed to provide your clients with flexibility to address changing needs, such as adjustable death benefit and flexible premiums. Permanent life insurance may also help with financial needs during the retirement years due to its cash value growth potential. The cash value growth offers an opportunity to provide potentially tax-free income as a supplement to other retirement income<sup>1</sup>.

Retirement planning has become a key concern for many people. Here are a few reasons why:

- **Employers changing or cutting back on retirement plans.** Your clients' employers may no longer offer the same beneficial retirement plans as in the past or they may have gotten rid of the plans completely.
- **Concern about reaching maximum contribution limits.** You may have clients wishing to allocate more money to a qualified plan, but have met the contribution limit and want to make up for a possible gap in retirement income needs.
- **Lack of flexibility and protection with plan options.** Many financial planning vehicles have contribution limits and are subject to market volatility.

If you have clients with these concerns, life insurance could be a viable alternative and provide them with a solution.

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## Understanding the concept

1. Life insurance protection during the working years
2. Potential tax-free income stream at retirement<sup>1</sup>
3. Additional benefits of life insurance

### 1. Life insurance protection during the working years

The cornerstone of a solid financial plan begins with life insurance. With a life insurance strategy to supplement retirement income, your clients gain comprehensive death benefit protection to replace income should they die prematurely. Beyond the working years, it's important to remember that the life insurance protection can remain in place to pass to beneficiaries or create a legacy.

### 2. Potential tax-free income stream at retirement<sup>1</sup>

Permanent life insurance designed with the potential for cash value growth gives your clients options. The key option is the ability to withdraw the policy's potential cash values through policy loans or withdrawals<sup>2,3</sup> to provide supplemental retirement income as an added source of security.

### 3. Additional benefits of life insurance

With a North American policy, your clients can accelerate a portion of the policy's death benefit for terminal or chronic illness. This is an important living benefit that applies both through the working years and through retirement with no additional premium at the time of issue<sup>4</sup>.

# Why Life Insurance to Supplement Retirement Income?

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## Key advantages

- **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.
- **Death benefit protection for retirement years.** In addition to death benefit protection during a client's working years, the life insurance can continue into retirement and may provide a death benefit to the surviving spouse or other beneficiary.
- **Flexible premium.** With a universal life or an indexed universal life (IUL) insurance policy, your clients can adjust their premium payments based on their available resources. Additionally, life insurance is not a qualified plan, so it is not subject to tax-qualified plan contribution limits. (However, see "items to consider" on page 6 regarding Modified Endowment Contracts<sup>5</sup>.)
- **Client control.** Clients have full control of their life insurance policies to make changes based on their needs. This same flexibility may not be available with other planning vehicles.

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- **Tax-deferred growth.** With life insurance, any cash values grow on a tax-deferred basis<sup>6</sup>.
  - **Generally tax free distributions<sup>1</sup>.** Any accumulated cash values within a policy can be taken as generally income tax-free loans and withdrawals, as long as the policy is not a Modified Endowment Contract (MEC)<sup>5</sup>. Withdrawals are income tax free up to the cost basis.
  - **No penalties for early access.** Clients can access the policy's potential cash values without a tax penalty for early withdrawals<sup>3</sup> like certain qualified plans, as long as the policy is not a MEC<sup>5</sup>.
  - **No required minimum distributions (RMDs).** Your clients may leave any accumulated cash values alone and are not required to take distributions.



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## Items to consider

- **Avoid Modified Endowment Contract status (MEC)<sup>5</sup>.** Life insurance policies that surpass certain premium limits can be classified as a MEC. A policy that is considered a MEC may be subject to tax when a client accesses the cash values with loans or withdrawals. Avoid this structure when putting together a strategy to supplement retirement income.
- **Non-guaranteed performance.** Cash values for loans and withdrawals in later years may be more or less than originally illustrated<sup>2,3</sup>. Keep in mind that your client must pay sufficient premium to maintain the policy in force to provide for cash value growth, and avoid lapse if the policy becomes over-loaned.
- **Cost of insurance.** Permanent life insurance policies require monthly deductions, which include the cost of insurance, expense charges, and potentially other charges. These deductions may reduce the cash value of the policy.
- **Specified amount of coverage.** Be sure the specified amount is appropriate to meet your clients' pre-retirement life insurance needs.
- **Expected changes in premium.** While money may be tight now, a client may want to increase premiums later to help further grow supplemental retirement income. If that is a reasonable possibility, avoid a specified amount that is too low, which may cause premium limitations in the future. However, having a higher specified amount may limit potential cash value growth for supplemental retirement income.
- **An increasing death benefit option (DBO).** Increasing DBO may allow higher premiums to avoid becoming a MEC<sup>5</sup>. If choosing this option and it is consistent with your client's needs, consider changing to a level DBO in the year following the last premium payment to help limit mortality charges.
- **Husband and wife scenarios.** For husband and wife situations it may be beneficial to consider a survivorship (second-to-die) policy if that aligns with the clients' needs.

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## Supporting features

Several life insurance policies feature added benefits that help with the strategy to supplement retirement income. Consider these features found on many North American products that may offer added peace of mind as your clients look ahead.

- **Automatic Distribution Option (ADO)** – The ADO makes it easy for your clients to access potential cash value to supplement retirement income. The ADO establishes automatic monthly, quarterly, semi-annual, or annual systematic distribution (loans or partial withdrawals) from the policy as long as there is sufficient net cash surrender value. With the ADO, withdrawals are not subject to the withdrawal fee.
- **Overloan Protection Benefit** – The Overloan Protection Benefit keeps a policy from lapsing due to excessive loans, so the policy can continue to provide death benefit coverage. This benefit offers peace of mind to your clients looking to supplement retirement income because if elected, the guarantee provided by this benefit may help avoid adverse tax consequences that may result from a policy lapsing from excessive loans or withdrawals<sup>2,3</sup>.
- **Protected Death Benefit** – This benefit is an excellent option for clients who want to supplement their retirement income and wish to guarantee a specific death benefit after the policy has been in effect for a number of years. The guarantee allows the client to select a minimum death benefit amount that is guaranteed, while he or she continues to access accumulated cash values through loans or withdrawals<sup>2,3</sup>.
- **Benefits for chronic or terminal illness** – Options are available that allow a client to access a portion of the death benefit to help pay the cost of care when certain medical conditions are met.

For availability and for more information about these benefits, please contact North American's Sales Development team.

## Retirement Income Alternatives

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Your clients have several retirement income options and there are many items to consider in deciding upon the appropriate strategy. Two key considerations include a client's current financial plan and projected income needs during retirement. Overall, it's important to consider the client's entire financial picture when weighing options.

Along with the various options, you'll want to look at items such as annual contribution limits, income restrictions, early withdrawal penalties<sup>3</sup>, required distributions, and any tax differences<sup>1</sup> between the various options. Life insurance is a competitive choice within these categories and may offer your clients a way to help supplement their retirement income needs.

## How It Works

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After establishing a need for death benefit protection and help with supplementing retirement income, help your client find the appropriate universal life or indexed universal life insurance (IUL) product from North American. Here's how it works:

- The client's premiums provide death benefit protection during his or her working years.
- The death benefit would be paid generally income tax free<sup>1</sup> to the beneficiaries.
- The cash values within the policy grow tax-deferred<sup>6</sup>.
- When the client decides to retire, he or she may access any potential cash values within the policy to help provide supplemental income.

## Client Profile

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Each supplemental retirement income client will have different needs. Important considerations include age, family size, and financial standing. There may be different needs, but North American can help you bring it all together. Here you'll find common traits for clients seeking a supplemental retirement income solution.

- Ages 30 to 60
- Middle to high income
- Concerned about family's financial needs if death occurs during working years
- Interested in providing additional retirement security
- Self employed, member of a partnership, or corporate employed
- Looking to enhance financial security in retirement years

And may include those who:

- Have maxed out their qualified benefit programs (or lack a qualified plan)
- Are unhappy with planning vehicles that may lose money due to market performance
- Are looking for ways to find taxed-advantaged solutions<sup>1</sup>



## Why North American?

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

- **Competitive Products** – A robust product portfolio that meets your clients' needs. For supplemental retirement income solutions, consider North American's indexed universal life insurance (IUL) products. Here's why:
  - **Flexibility** – several index selections that offer a credited interest rate linked to domestic and international indices to help your clients build cash value within their policies without the risk of investing directly in the market.
  - **Access to policy cash values** – your clients gain a choice of options including standard loans, net zero-cost loans<sup>7</sup>, and variable interest rate loans along with withdrawals.
  - **Accelerated benefits** - Available to help with living needs should conditions be met.
- **Fair and Consistent Underwriting** – You can depend on North American to provide fast turnaround times on your submitted business that averages less than 30 days.
- **Competitive Compensation** – Your time and commitment will be well-rewarded with our generous compensation. Plus, we take a collaborative approach to growing your business and are here to answer your questions and provide guidance along the way.
- **Financial Stability** – Sound financial ratings and private ownership focused on long-term value.
  - A+ (Superior) A.M. Best<sup>8</sup>
  - A+ (Strong) Standard & Poor's<sup>9</sup>

## Resources

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### Sales Development

**Phone:** (800) 800-3656, extension 10411

**Email:** [salesupport@nacolah.com](mailto:salesupport@nacolah.com)

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



- <sup>1</sup> Neither North American Company for Life and Health Insurance 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.
- <sup>2</sup> 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.
- <sup>3</sup> 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.
- <sup>4</sup> An administrative fee is required when benefits are elected.
- <sup>5</sup> There is not a specific limit on dollars that can be paid to purchase life insurance, however there are maximum premium limits determined by a specified amount of coverage. A policy will qualify as life insurance if it meets the requirements of IRC Sec 7702, which includes limits on the amount of premium that may be paid into a specified amount of coverage and still qualify as life insurance. Tax consequences may result if withdrawals exceed premiums paid into the policy. Policy loans from life insurance policies generally are not subject to income tax, provided the contract is not a Modified Endowment Contract, as defined by Section 7702A of the Internal Revenue Code. A policy loan or withdrawal from a life insurance policy that is a Modified Endowment Contract is taxable upon receipt. Policy loans and withdrawals will reduce cash value and death benefit. Policy loans are subject to interest charges. Tax advantages may be subject to modified endowment contract rules, which may cause taxes and penalties. Tax advantages may be subject to the Alternative Minimum Tax, which may cause taxes and penalties.
- <sup>6</sup> 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.
- <sup>7</sup> Zero Cost Loans are loans charged and credited at the same percentage for a net zero cost. The policy year and amount available vary by product.
- <sup>8</sup> A.M. Best is a large third party independent reporting and rating company that rates an insurance company 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 and was affirmed for North American Company for Life and Health Insurance as part of Sammons Financial Group on June 18, 2010. For the latest rating, access [www.ambest.com](http://www.ambest.com).
- <sup>9</sup> Standard & Poor's awarded its "A+" (Strong) rating for insurer financial strength on February 26, 2009 and affirmed on March 31, 2010 to North American Company for Life and Health Insurance and Midland National Life Insurance Company as part of Sammons Financial Group. The "A+" (Strong) rating, which is the fifth highest out of 22 available ratings, reflects the financial strength of North American Company for Life and Health Insurance and Midland National Life Insurance Company, members of Sammons Financial Group.



Accelerated Benefit Endorsement is issued on form series LR352A, Accelerated Death Benefit Endorsement for Chronic Illness and Terminal Illness is issued on form series LR465, Accelerated Death Benefit Endorsement for Terminal Illness is issued on form series LR466, Chronic Illness Accelerated Benefit Rider (Accelerated Benefit Rider for Continuous Confinement in MN) is issued on form series LR450A, or state variations by North American Company for Life and Health Insurance, Executive Office, Chicago, IL 60607. Products, features, riders, endorsement or issue ages may not be available in all jurisdictions. Restrictions or limitations may apply.

Index Universal Life products are not an investment in the "market" or in the applicable index and are subject to all policy fees and charges normally associated with most universal life insurance.



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