

# Important Life Insurance Sales Practice Reminders

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North American Company for Life and Health Insurance (“the Company”) takes pride in offering valuable life insurance products to our distribution partners and customers. We appreciate your shared commitment in offering appropriate products and services.

Products change quickly in today’s marketplace and each customer’s individual circumstances and future goals must be carefully considered when making product recommendations. Please make sure you understand and review with the customer all the benefits and features of the proposed policy you are offering. That includes taking into account a death benefit appropriate for the customer’s insurance needs, premium structure, expenses, surrender charge period and any existing coverage. You must be sure that the customer understands how the product you are recommending works and how it will address their insurance needs as well as any other objectives.

It is also important that you understand the expectations that we, and many Departments of Insurance, have related to solicitation of sales of life insurance. **Life insurance products sold or described primarily as “investments” or “free insurance” have led to consumer complaints, chargebacks and state action against an agent’s license to sell insurance, which is why you need to understand and follow best practices when offering or recommending a product for sale. It is the Company’s expectation that you establish the primary intention of life insurance as the death benefit protection it provides. You must understand and establish this life insurance need before looking at other valuable secondary benefits it may provide.**

Documentation of the analysis and corresponding product presentation is key to proper compliance in any market, but is especially important with sales to vulnerable customers such as seniors. It is your responsibility to educate all prospective customers about the policy being sold and customers should, at a minimum, be knowledgeable about the following:

- How much death benefit is being applied for and how that amount was determined.
- Any ongoing costs associated with keeping the policy in force.
- That costs may increase as the insured ages.
- That contractual surrender charge percentage schedules may prevent immediate access to the full amount of funds in the policy’s value. Customers should be aware that the surrender charge percentage schedule is calculated by using the policy’s specified amount, decreases over a period of time (years), and impacts the amount available for withdrawals and loans or acceleration of death benefits.

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## Field Bulletin

- If it makes sense for a customer to decrease coverage during the life of the policy, a customer must also be aware of any charges that may be incurred for lowering the death benefit.
- Considerations that can increase/decrease policy performance or likelihood of lapse, such as policy provisions, premium payment levels, or loan and withdrawal activity.
- In some situations, loans and withdrawals, or acceleration of death benefits may be subject to federal taxes. The lapse of a policy also has potential tax consequences. Neither North American nor its agents give tax advice.

In addition to the death benefit, permanent life insurance offers the opportunity to build cash value that allows for loans or withdrawals of available cash value. **When funded properly**, permanent life insurance can help to supplement income to meet future financial or retirement objectives. However, policy cash value must be carefully managed to help ensure a policy remains in force as excessive withdrawals could cause a policy to lapse and may result in adverse tax consequences. **Life insurance cannot be referred to primarily as an investment, retirement plan or “program.”** All of these practices continue to apply even if considering an approach to life insurance that utilizes secondary benefits such as those described in programs like “Tax Free Retirement” or “The Power of Zero.”

As a valued distribution partner, demonstrating the highest ethical standards in all dealings with the Company and customers is essential to the relationship we have with you as an independent producer.

**If you have questions about illustrations or case design, please contact Agent Solutions at 800-800-3656.**

In some situations, loans and withdrawals may be subject to federal taxes. North American 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 withdrawal charges, processing fees, or 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.

Policy loans from life insurance policies generally are not subject to income tax, provided the contract is not a Modified Endowment Contract (MEC), as defined by Section 7702A of the Internal Revenue Code. A policy loan or withdrawal from a life insurance policy that is a MEC is taxable upon receipt to the extent cash value of the contract exceeds premium paid. Distributions from MECs are subject to federal income tax to the extent of the gain in the policy and taxable distributions are subject to a 10% additional tax prior to age 59½, with certain exceptions. Policy loans and withdrawals will reduce cash value and death benefit. Policy loans are subject to interest charges. Consult with and rely on your tax advisor or attorney on your specific situation.

Accelerated Death Benefits are subject to eligibility requirements.

**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 that includes this comparison. Comparison is for solicitation purpose only, not for conversions.**

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