



Life

North American Company
for Life and Health Insurance
Since 1886

Longevity Planning

Using Permanent Life Insurance to
Help Prepare for a Long, Healthy Retirement

Agent Guide



Help your clients adjust their plans for an extended retirement.

Thanks to medical advancements and a nationwide emphasis on healthy living, life expectancy is on the rise in the United States. Today, a 65-year-old man can expect to live until he is 86, and a woman of the same age can expect to live to 89.* If the upward trend continues, today's young adults can look forward to an even longer and healthier life after their working years.

A long and healthy retirement can mean a desire to travel, a new home, new hobbies, gifting assets, and countless other wants or needs that require adequate retirement funds. A long retirement can also be expensive if the client experiences an unexpected illness.

As life expectancy increases, your clients face "longevity risk," or the potential for their assets to run out during retirement. You can help them manage that risk using permanent life insurance.

LONGEVITY PLANNING

Longevity planning with life insurance provides death benefit protection during working years, and the client can access potential cash value during retirement. In this guide, we'll help you explore this concept so you can add it to your list of effective sales concepts.

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Why North American?

WHY LIFE INSURANCE?

Permanent life insurance provides your clients with death benefit protection and can be designed to provide them with flexibility to address changing needs through an adjustable death benefit, flexible premiums, and accelerated death benefits. Cash value growth can provide generally tax-free income to help cover a wide variety of future needs.

If you have clients with these concerns, life insurance could be a twofold solution:

- **Death benefit protection during working years.** A solid financial plan often begins with life insurance. Death benefit protection can replace income or fund other plans should your client die prematurely.
- **Potential source of funds to supplement retirement income.** Permanent life insurance with the potential for cash value growth gives your clients many options. A key option is the ability to access cash value through loans or withdrawals to add a source of financial security.¹ This cash value can cover recurring costs like an insurance premium or infrequent costs like deductibles or emergencies. Plus, acceleration of a portion of the death benefit for a qualifying critical, chronic, or terminal illness may help address changing needs in a client's retirement years.² (See our Accelerated Death Benefit Endorsement guide, NAM-2146, for more details.)

CLIENT PROFILE

Each client has different needs. Important considerations include age, family size, other current insurance coverage, and individual financial concerns or goals. North American can help you find a solution for a wide variety of needs.

Clients seeking a longevity planning solution are typically

- 30 to 60 years old,
- middle- to high-income earners,
- concerned about their family's financial needs if death occurs during working years, and
- interested in providing additional financial security during retirement years.

This may also include clients who

- have maxed out qualifying benefit programs (or lack a qualified plan),
- are concerned about nursing home costs or extended care,
- are concerned about their assets running out, or
- are concerned about financial security if a critical or chronic illness occurs.

HOW IT WORKS

How can these clients plan for longevity? The goal is to help protect financial assets for an extended retirement.

- **Assess potential assets.** Clients should consider which assets may be primary or secondary sources of funds in retirement. Potential sources of assets may include qualified retirement plans, annuities, and other tangible or intangible assets. Health insurance or long-term care insurance may also provide additional financial protection.
- **Explore possible cost concerns.** It's not just living expenses in retirement. What about chronic care, insurance costs, out-of-pocket costs, and potential emergency or catastrophic costs? Explore possible costs, and identify which asset sources may or may not cover these costs.
- **Imagine outliving funds.** What happens if a client and/or spouse live longer than they planned for when building their financial plan? Suppose the client spends a significant number of years in a chronic care situation—how is this care funded?

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

- The client's premium provides death benefit protection during working years. The amount of death benefit protection recommended should fit the budget and yet be able to replace lost income should your client die prematurely.
- In the event of death, the death benefit is paid generally income tax-free to the beneficiaries.
- During the client's lifetime (while the policy is in force), the potential cash value grows tax-deferred and generally tax-free via loans or withdrawals.
- The client may choose to use cash value for specified distributions, unexpected needs, or a supplemental source of income in the event their primary or secondary sources of funds are exhausted.
- If the insured is diagnosed with a critical, chronic, or terminal illness, the client may choose to accelerate a portion of the death benefit through North American's Accelerated Death Benefit Endorsement, during working years or retirement years, as a source of funds for qualifying conditions.²

Key Advantages

- **Immediate death benefit protection.** Your clients can gain confidence in their families' futures from the start with death benefit protection that will be there when their loved ones need it most.
- **Flexible premium.** With UL or IUL, your clients can adjust their premium payments based on their available resources. A strategy may be funded on a level premium payment throughout working years, a shortened premium payment plan, or variable premium levels, depending on funds.
- **Client control.** Clients have full control of their policies to make changes in coverage amounts or premium payments based on their needs.
- **Tax-deferred growth.** With life insurance, cash value growth is on a tax-deferred basis.
- **Generally tax-free distributions.** Any accumulated cash values within a policy can be taken as tax-free loans as long as the policy is not a Modified Endowment Contract (MEC).³ Withdrawals are income tax-free up to the cost basis.¹ Accelerations of a portion of the death benefit can also be generally tax-free.
- **No required minimum distributions (RMDs).** Your clients may choose to leave accumulated cash value alone if it is not needed to maximize the death benefit as a legacy or estate-building strategy.



Items to Consider

- **Specified amount of coverage.** Be sure the specified amount is appropriate to meet your client's pre-retirement life insurance needs.
- **Avoid MEC status.** Life policies that surpass certain premium limits can be classified as a MEC. A MEC may be subject to tax when a client accesses the cash value. Avoid this status when using life insurance for longevity planning, as the secondary appeal of the policy (the first being death benefit protection) is access to cash value for some future need.
- **Non-guaranteed performance.** Cash values for loans and withdrawals in later years may be more or less than originally illustrated. Keep in mind that your client must pay sufficient premiums to maintain the policy and provide for cash value growth, and avoid lapse if the policy becomes over-loaned.
- **Cost of insurance.** Life insurance policies require monthly deductions, which include cost of insurance and other possible charges. These deductions may reduce the cash value of the policy.
- **Increasing death benefit option.** This option may allow higher premiums to avoid the policy becoming a MEC, which may in turn allow for more cash accumulation. If choosing this option is consistent with your client's needs, consider changing to a level death benefit option in the year following the last premium payment to help limit mortality charges.

Supporting Features

Consider these features, found on many North American products, that may be beneficial for your clients.

- **Interest rate bonus** – An interest rate bonus, which helps provide the potential for more cash value growth, is available on many North American products.⁴
- **Capped variable-rate loans** – A variable-rate loan, which can be as low as 4% depending on the Moody's corporate bond rate as published by Moody's Investors Services, Inc., can allow for compelling non-guaranteed cash value performance on a policy even with significant loaned values. A cap (varying by product) helps keep loan interest rates from rising uncontrollably.⁵
- **Overloan Protection Benefit** – This benefit keeps a policy from lapsing due to excessive loans, so the policy can continue to provide death benefit coverage and avoid adverse tax consequences.⁶
- **Protected Death Benefit** – This benefit 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.¹
- **Accelerated Death Benefit Endorsement** – A valuable benefit for longevity planning, this feature allows the client to accelerate a portion of the death benefit for a qualifying critical, chronic, or terminal illness when certain eligibility conditions are met.²

WHY NORTH AMERICAN?

Turn to North American for help with your longevity planning cases. In addition to our knowledgeable Sales Development team, you'll gain several benefits:

- **Competitive products.** Our product portfolio is competitive not only in illustrated performance, but also in design elements that make the product more relevant to the client and marketable for the agent.
- **Competitive compensation.** North American offers generous compensation. Plus, we take a collaborative approach in helping to grow your business and are here to answer your questions and provide guidance along the way.
- **Financial stability.** Sound financial ratings and private ownership keep us focused on long-term value.⁷
 - A+ (Superior), A.M. Best
 - A+ (Strong), Standard & Poor's

RESOURCES

Marketing Department

Phone: 800-888-2829

Email: Marketing@fmiAgent.com

Hours: 8:30 – 5:00 CST, Monday through Thursday;
8:30 – 1:30 Friday



1 In some situations loans and withdrawals may be subject to federal taxes. North American Company 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.

2 Subject to eligibility requirements. Availability varies by state and product. For full details, see our Accelerated Death Benefit Endorsement Guide, NAM-2146.

3 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).

4 Some North American products offer a conditionally guaranteed interest bonus to further help your clients build long-term cash value accumulation. Interest bonus may be earned when we declare a current interest rate that exceeds the guaranteed interest rate. Interest Bonus percentages are not guaranteed and subject to change; however, once a policy is issued, the percentage will not change. May not be available in Texas.

5 The net cost of a variable interest rate loan could be negative if the credits earned are greater than the interest charged. The net cost of the loan could also be larger than under standard policy loans, if the amount credited is less than the interest charged. In the extreme example, the amount credited would be zero and the net cost of the loan would equal the maximum interest rate charged on variable interest loans. In brief, variable interest rate loans have more uncertainty than standard policy loans in both the interest rate charged and the interest rate credited.

6 The policy will remain in effect when extensive loans are taken provided the policy is not terminated due to surrender and the policyowner does not take policy loans or withdrawals during the Overloan Protection period. This benefit may reduce the Specified Amount.

The Overloan Protection Benefit cannot be elected if the Protected Death Benefit is in effect. If the Overloan Protection benefit is in effect, Accelerated Benefit riders cannot be elected.

7 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 as part of Sammons Financial Group on May 30, 2014. For the latest rating, access www.ambest.com. Standard and Poor's awarded its A+ (Strong) rating for insurer financial strength on February 26, 2009 and affirmed on May 15, 2014, to North American Company as part of Sammons Financial Group. The A+ rating is the fifth highest out of 22 available ratings.

Indexed 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.

The tax-deferred nature of the indexed universal life policy 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 your client's needs. Before purchasing this policy, your client should obtain competent tax advice both as to the tax treatment of the policy and the suitability of the product.

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.

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