



Life

North American Company
for Life and Health Insurance
Since 1886

College Funding with Permanent Life Insurance

Help Your Clients Gain Financial Protection & Help Pay for College

Agent Guide



A FINANCIAL SHIELD AGAINST THE UNTHINKABLE & A WAY TO HELP PAY TUITION COSTS

The primary purpose of life insurance is to provide a death benefit to beneficiaries. It can be designed to meet your clients' changing needs with features such as a flexible death benefit and flexible premiums. The death benefit protection can make life insurance an attractive choice for establishing a self-completing plan to help fund a college education.

Earning a college degree today can now cost a significant amount—and that amount continues to rise faster than the rate of inflation.* With the spiraling costs of earning a diploma, your clients should review their options. An option to consider is permanent life insurance. Permanent life insurance provides death benefit protection and a way to potentially accumulate tax-deferred cash value growth.¹

Two big drivers are creating an interest for using life insurance for death benefit protection and as a possible source for college funding. The first is lack of death benefit protection for many families, and the second is the rising costs of tuition. Consider these facts:

*Husbands ages 35 to 54 and 65 or older had double-digit declines in the proportion owning individual life insurance in the past six years.**

*Over the decade from 2001-02 to 2011-12, published tuition and fees for in-state students at public four year colleges and universities increased at an average rate of 5.6% per year beyond the rate of general inflation.***

With the lack of death benefit protection and the continuing rise of tuition costs, families today need a solution to these two problems. In this guide you'll discover how to help your clients financially protect against the unthinkable while supplementing their college savings plans with the potential cash value of permanent life insurance.

*Life Insurance and Market Research Association (LIMRA), Person-Level Trends in U.S. Life Insurance Ownership, 2011.

**Trends in College Pricing. © 2011 The College Board. www.collegeboard.com.

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A CLOSE LOOK AT COLLEGE FUNDING

Research shows that only one third of Americans are covered by individual life insurance, which is the lowest level in 50 years.* Combine this with the rising tuition costs, and many families are faced with a challenge.

Life insurance can give families peace of mind. Should the insured die, his or her family will receive funds to continue their lives. The life insurance in this case may be described as “self completing” with respect to the family’s college savings goal, meaning that the death benefit can be used to complete the college savings plan and help pay for college.

Additionally, with permanent life insurance, cash values may be accessed for other emergency needs if they arise, giving families a comprehensive financial protection plan.

*Life Insurance and Market Research Association (LIMRA), Person-Level Trends in U.S. Life Insurance Ownership, 2011.

UNDERSTANDING THE CONCEPT

The first thing to remember is that life insurance provides death benefit protection. The cornerstone of a solid financial plan begins with life insurance. The college funding strategy using life insurance typically includes three parts.

1. Should a premature death occur, the life insurance death benefit could be used to complete the insured’s college savings goal and help pay for college.
2. The second part of the plan is tax-deferred¹ and potentially tax-free income through policy loans to supplement your clients’ other saving sources for college.²
3. After helping to pay college tuition, your clients can repurpose the policy and use it to help supplement retirement income while continuing to protect the family with the death benefit.

WHY LIFE INSURANCE FOR COLLEGE FUNDING?

Key Advantages

Let's take a look at several advantages of using life insurance for college funding.

- **Immediate death benefit protection.** Your clients can gain peace of mind from the start with death benefit protection. The proceeds from the policy can help the family pay expenses plus help pay for college tuition.
- **Parental stewardship.** The policyowner has control of the policy's potential cash value. Should plans change, the cash value may be used for purposes other than college funding without tax consequences.² This same flexibility may not be available with other planning vehicles.
- **Income tax-free death benefit.** When the insured passes away, the death benefit passes generally income tax-free to heirs.²
- **Tax-efficient access to potential cash values.** Parents may access funds in a life insurance policy to pay for college expenses on a tax-free basis through loans or withdrawals as long as the policy is not a modified endowment contract (MEC).^{3,4}
- **Diversification.** Life insurance offers a way to help clients allocate funds outside of other options, providing a way to spread any potential risk. Additionally, permanent life insurance offers protection from downside risk by guaranteeing a minimum return.
- **Tax-deferred growth.** With life insurance, any cash values grow on a tax-deferred basis.¹

Items to consider

There are many ways to help pay for college tuition costs, and it's important to review several options.

A thorough needs-based analysis will help your clients decide on a direction appropriate for their situation.

- **Avoid Modified Endowment Contract status (MEC).**⁴ Weigh the MEC status with other benefits and considerations in the policy. In some circumstances, a policy that is considered a MEC may be subject to tax when a client accesses the cash values with loans or withdrawals.³
- **Non-guaranteed performance.** Cash values for loans and withdrawals in later years may be more or less than originally illustrated.
- **Insurance charges.** Permanent life insurance policies require monthly deductions to pay the policy's charges and expenses, some of which will increase as the insured gets older. These deductions may reduce the cash value of the policy.

HOW IT WORKS

Your clients should use personal savings as the main source for college funding. However, a key challenge with personal savings is that if the family's primary breadwinner passes away unexpectedly, personal savings plans may come to an abrupt end. Life insurance can help ensure the funding amount is available to pay for college tuition costs.

Additionally, a client's death doesn't have to be the key trigger event. Permanent life insurance with the opportunity to accumulate cash value may be used to help pay for college costs. A policy such as indexed universal life insurance may generate cash value growth while protecting against downside risk.

The fundamentals of the strategy are quite basic.

- The client purchases a permanent life insurance policy that provides death benefit protection and a way to help accumulate cash value.
- Potential cash value growth is accumulated on a tax-deferred basis.¹
- Should the client die prematurely, the death benefit may be used to help pay college tuition costs. This event would complete the strategy.
- Without an unexpected death, when it comes time to help pay tuition costs, the client may access the policy's cash values through generally tax-free loans or withdrawals.³
- After helping to pay tuition costs, clients may repurpose the policy for other possible needs, like helping to supplement retirement income, while still providing death benefit protection.

CLIENT PROFILE

There are potentially many clients in need of financial protection and a way to help fund the costs of a college education. The typical client profile may include:

- Those with a need for life insurance protection.
- Young families with children aged zero to ten.
- People concerned about college tuition costs.
- Those who are possibly looking to help supplement income in retirement years.

WHY NORTH AMERICAN?

Turn to North American for help with your college funding 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 death benefit protection. For clients looking for solutions for college funding in addition to death benefit protection, consider products within our portfolio that can help generate cash value, like indexed universal life insurance (IUL). Here's why to consider IUL:
 - Interest credited is never less than zero percent.
 - Clients can choose from several index selections, both domestic and international, for cash value growth potential.
 - Our products guarantee that the account value has earned at least a 3% average per year calculated from policy issue every eight years.
 - Accelerated benefits are available to help with living needs should certain conditions be met.
- **Fair and consistent underwriting.** You can depend on North American to provide fast turnaround times on your submitted business.
- **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.** Our financial ratings are sound, and private ownership means we're focused on long-term value.⁵
 - 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 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.
- 2 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.

IRS Circular 230 Notice

Any U.S. tax information included in this written or electronic communication, including any attachments, is not intended as tax advice, was not intended or written to be used, and it cannot be used by you or any taxpayer, (i) 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, or (ii) promoting, marketing or recommending to another party any transaction or matter addressed herein.

- 3 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.
- 4 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).
- 5 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. For detailed information about these companies, their ratings, and to learn more about North American's financial strength, please visit the About Us section of www.NorthAmericanCompany.com.

The primary purpose of life insurance is to provide a death benefit to beneficiaries. Because of the uncertainty surrounding all funding options except savings, it is critical to encourage your clients to make personal savings the cornerstone of your clients' college funding program. However, even a well-conceived savings plan can be vulnerable. Should your clients die prematurely, their savings plan could come to an abrupt end.

To protect against this unexpected event, life insurance may be the only vehicle that can help assure the completion of a funding plan. In addition to the financial protection aspect of insurance, the tax-deferred buildup of cash values can be part of your clients' college savings plan. Generally, if the policy is not a Modified Endowment Contract then tax-free withdrawals can be made up to the contract's cost basis. Moreover, if the policy is not a Modified Endowment Contract, then loans in excess of the cost basis are also tax free as long as the policy remains in force.

Products, features, riders, endorsement or issue ages may not be available in all jurisdictions. Restrictions or limitations may apply.

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.

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