



## College Funding with Permanent Life Insurance

Help Your Clients Reach Their Goals

### QUICK LOOK

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. 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-deferred<sup>1</sup> and potentially tax-free income through policy loans to supplement your clients' other saving sources for college.<sup>2</sup>
3. After helping to pay college tuition, your clients can reposition the policy and use it to help supplement retirement income while continuing to protect the family with the death benefit.

### THE SITUATION

Paul and his wife Molly are proud parents of a six-month-old girl. The couple is eager to start planning for the future and want to put together a strategy to help them meet their future financial needs.

With the added responsibility, they realize that should something happen to Paul, the family's primary source of income, it would be a challenge for Molly to keep up with expenses. With a mortgage, car loans, outstanding student debt, and all of the other household expenses, the couple currently feels financially vulnerable.

Both Paul and Molly are big supporters of a good college education. The couple has decided that they would like to help their daughter through college when the time comes. The couple is well aware of high tuition costs, having large student debt themselves. They worry that the costs of a college education will only continue to rise.

### THE SOLUTION

Paul and Molly meet with a life insurance agent to discuss their need for death benefit protection. Their first priority is life insurance protection. The agent asks several questions and takes a thorough look at the family's finances. The agent presents an option that offers financial protection plus a way to help fund their daughter's education with permanent life insurance.

***Is there a way to help Paul and Molly financially protect their family now while helping to fund college for their daughter when the time comes?***



## THE SOLUTION

Life insurance was an unexpected source of college funding for the couple, and they were happy to know they could both financially protect their family now and help provide for their daughter's future later.

Here were the key points covered by their agent:

- **Immediate death benefit protection.** The couple gains immediate peace of mind from the start with death benefit protection. The money from the policy can help Molly pay expenses and also help with college tuition costs should Paul die prematurely.
- **Parental stewardship.** Paul has control of the policy's potential cash value accumulation. Should his daughter's plans change, the potential cash value accumulation may be used for purposes other than college funding without tax consequences.<sup>3</sup> This same flexibility may not be available with other planning vehicles.
- **Tax-efficient access to potential cash values.** The couple may access funds in their life insurance policy to pay for college expenses generally tax-free through loans or withdrawals as long as the policy is not a modified endowment contract (MEC).<sup>2,4,5</sup>
- **Tax-deferred growth.** With life insurance, cash values can grow on a tax-deferred basis.<sup>1</sup>
- **Diversification.** Life insurance offers a way to help the couple 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 credited interest rate.

## CONSIDERATIONS

- **Avoid Modified Endowment Contract status (MEC).**<sup>5</sup> 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.<sup>2</sup>
- **Non-guaranteed performance.** Cash values for loans and withdrawals in later years may be more or less than originally illustrated. We encourage you to look at a variety of scenarios to see how the life insurance policy performs under different assumptions.
- **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.



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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 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.

3 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.

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4 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.

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).

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.

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