



North American Company
for Life and Health Insurance
Since 1886

Using Permanent Life Insurance to Help with Retirement Planning

A Sales Strategy to Help You Succeed

QUICK LOOK

Life insurance provides your clients with death benefit protection, but it may also help with financial needs during their retirement years due to its cash value growth potential. Indexed universal life insurance (IUL) in particular may provide additional security for those nearing retirement. In addition to death benefit protection, IUL offers an opportunity for significant cash value growth, downside protection in a poorly performing market, and the potential for generally tax-free income.¹

THE SITUATION

Karl is a 45-year-old vice president at an engineering company. Jane, his wife, works part-time as a paralegal. The couple has two children ready to enter their teen years, and the family has a full schedule between soccer practice, piano lessons, and gymnastics.

Karl is concerned about financially protecting his family should he die prematurely. With a large mortgage, cell phone bills, automotive insurance, and kids not too far off from college, he knows there's a need to financially protect his family should he not be around for them.

The other item on Karl's mind is retirement. He and Jane have always talked about traveling during their golden years and helping their children, and possibly their grandchildren. He contributes the maximum to his qualified plan at the office and funds his children's college savings plans, but he would like to allocate more for retirement. Karl wants a way to supplement his retirement income that he can control. He doesn't want one with several restrictions, and he would like some tax advantages.¹ He's not sure how to go about doing it.

Is there a way to help Karl financially protect his family now while helping him supplement his retirement dreams later?



A SOLUTION

Through a co-worker, Karl meets with a life insurance agent to discuss the situation. Karl and the agent take a thorough look at the family's finances and consider several options. Karl decides that an indexed universal life insurance policy may help him meet his needs today and in the future. Here's why:

- **Immediate death benefit protection.** Karl gains immediate confidence in his family's future with death benefit protection. The policy also provides death benefit protection in retirement, as long as the policy stays in effect.
- **Generally tax-free distributions.**¹ Karl can access any accumulated cash values within his policy generally income tax-free in the form of loans and withdrawals,^{3,4} as long as the policy is not a Modified Endowment Contract (MEC).⁵ Withdrawals are income tax-free up to the cost basis.
- **Flexible premium.** Life insurance is not a qualified plan, so Karl's premium contributions are not subject to the limitations associated with tax-qualified plan contribution limits. Also, any cash values grow on a taxed-deferred basis.²
- **No penalties for early access and no required minimum distributions.** Should Karl need to access the policy's cash value before retirement, he can do so without a tax penalty associated with certain tax-qualified plans.¹ Plus, should Karl later discover that he doesn't need to access the cash values, he's not required to take distributions and may then leave the death benefit as a legacy for his two children.

CONSIDERATIONS

- **Avoid Modified Endowment Contract status (MEC).**⁵ A policy that is considered a MEC may be subject to tax when a client accesses the cash values with loans or withdrawals.^{3,4} Avoid this structure when putting together a retirement planning strategy.
- **Cost of insurance.** Permanent life insurance policies require monthly deductions, which include cost of insurance, expense charges, and potentially other charges. These deductions may reduce the cash value of the policy.
- **Specified amount of coverage.** Two items: 1) be sure the specified amount is enough to meet your client's pre-retirement life insurance needs, and 2) make sure the client has room to add more premium in the future, if desired. However, having a specified amount larger than necessary may limit potential cash value growth for retirement income.
- **Non-guaranteed performance.** Cash values for loans and withdrawals in later years may be more or less than originally illustrated.^{3,4}



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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.

1 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.

2 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.

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.

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).

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