



# Agent Checklist

## Using Life Insurance for Your Client's Smart Money

Use the information below as a guide to help you with your smart money cases.

- Identify current death benefit needs.

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- Identify the client's smart money goals.

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- Discuss the smart money strategy in detail with the client.

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- Have your client complete the client worksheet (NAM-2313).

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- Review fund sources. These funds may be in savings, annuities, Certificates of Deposit (CDs), or other vehicles. Funds may also come from a cash windfall or inheritance. It's important to remember that removing funds from a CD or annuity may result in penalties, surrender charges, or income taxes.<sup>1</sup>

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- Consider the value of life insurance versus the access to potential cash value. Each client will have different needs to address. For example, maximizing the death benefit will result in less potential cash value accessibility. On the other hand, if the client is looking to maximize the potential cash value, a lower death benefit would result. (Often, the minimum death benefit is going to result in the best cash value performance. When using North American's illustration software on a CVAT illustration, the minimum face solve results in a death benefit that matches the current year minimum face amount for the premium selected. However, you could also specify a face amount lower than the software will solve for, which may enhance the guarantee column. It does this by allowing the death benefit to reduce below the initial death benefit amount should poor cash value growth occur.) Be sure to discuss your client's death benefit needs.

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- Discuss Modified Endowment Contract (MEC) status with your client.<sup>2</sup> Typically, the smart money concept is funded with a lump-sum transfer that will cause the policy to become a MEC. Be sure to discuss the implications with your client. While this may not cause the tax treatment to be any different than an annuity,<sup>3</sup> there are still considerations.
- Considerations may include avoiding loans when taking out funds. There are also potential issues if the client is younger than age 59 ½.<sup>4</sup>
  - With the smart money sale, the client is typically more concerned about the ability to access funds compared to the potential tax on gains. However, if MEC status is to be avoided, it can effectively be accomplished with a short-pay scenario, such as a 5-pay.

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**Client Contact Information**

<b>Name</b>		
<b>Address</b>		
<b>Phone</b>	<b>Home:</b>	
	<b>Mobile:</b>	
<b>Fax</b>		
<b>Email</b>		

**Advisor Contact Information**

<b>Accountant Name</b>	
<b>Accountant Phone</b>	
<b>Attorney Name</b>	
<b>Attorney Phone</b>	

**Client Objectives**

<b>Maximize Death Benefit</b>	Yes <input type="checkbox"/> No <input type="checkbox"/>
<b>Specific Death Benefit</b>	Yes <input type="checkbox"/> No <input type="checkbox"/>
<b>Maximize Cash Value</b>	Yes <input type="checkbox"/> No <input type="checkbox"/>

**Intended Beneficiary**

<b>Heirs</b>	Yes <input type="checkbox"/> No <input type="checkbox"/>
<b>Charity</b>	Yes <input type="checkbox"/> No <input type="checkbox"/>

**Tax Information<sup>1</sup>**

<b>Income Tax Rate</b>	
<b>Cost Basis</b>	
<b>Client Pays Out of Pocket</b>	Yes <input type="checkbox"/> No <input type="checkbox"/>

**Other**

<b>Withdrawal Type</b>	
<b>Lump Sum</b>	Yes <input type="checkbox"/> No <input type="checkbox"/>
<b>Spread Over Years</b>	
<b>Specified Amount</b>	
<b>Fund Source</b>	
<b>Surrender Charge or Penalty</b>	
<b>Client Pays Charge or Penalty Out of Pocket</b>	Yes <input type="checkbox"/> No <input type="checkbox"/>

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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 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.

2. 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).

3. Removing funds from an annuity may result in surrender charges and/or income taxes.

4. In some situations, loans and withdrawals may be subject to federal taxes. North American Company for Life and Health Insurance 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 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.

***We're Here For Life***<sup>®</sup>

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