

# College funding

Sales idea

North American Company for Life and Health Insurance®

## College funding with indexed universal life (IUL) insurance

Is there a way to help your clients financially protect their family while helping to fund college for their children when the time comes? While the primary purpose of life insurance is to provide a death benefit to beneficiaries, it can also be designed to create a self-completing plan to help fund a college education.

### The concept

1. Life insurance death benefit protection provides goal completion in case the unthinkable happens.
2. Potentially tax-free income through loans to help supplement your client's personal savings for college, either through paying tuition bills or paying down student loan debt.
3. After paying for college, the client can repurpose the policy to help supplement retirement income while continuing to help protect the family with the death benefit.

### College funding clients

- Need for death benefit protection
- Concerned about the family's financial needs if death occurs during the working years
- Families with young children
- Concerned about the cost of college

## Benefits of North American's IUL products



#### Immediate financial protection

Death benefit protection for their loved ones.



#### No maximum contribution limit

Life insurance is not a qualified plan, so it is not subject to tax-qualified plan<sup>1</sup> contribution limits. However, there are limits on the amount of premium that may be paid into a policy to qualify as life insurance.



#### Accelerated death benefit endorsement

Can offer financial assistance in the event of a qualifying illness at a time when clients may be left wondering how they'll pay the bills.<sup>2</sup>



#### Downside protection, upside potential

Interest credited is never less than zero percent and can reach as high as the interest rate cap, and participation rate (portion of the index change used in the calculation of the index credit), if the selected index has a cap in place. The index account can't lose money due to poor index performance.



#### Generally tax-free distributions

Cash values within the policy can be taken as generally income tax-free loans and withdrawals, as long as the policy is not a Modified Endowment Contract (MEC).<sup>3,4,5</sup>

## Case design tips

- The coverage should be on the primary breadwinner. Aim for the lowest death benefit possible that still provides ample funding for college should death occur before the first child enters college. A minimum non-MEC face amount usually works.
- If the client has a lump sum and wants to avoid Modified Endowment Contract (MEC) status<sup>3</sup>, consider using a single premium immediate annuity (SPIA) to break up the lump sum and fund the policy with a 5-pay or a 7-pay.
- Illustrate variable interest participating policy loans, zero-cost loans, and fixed interest participating policy loans. We can't forecast what the interest rate environment will be in the future. Planning for each scenario can help increase your credibility during a client presentation while also setting reasonable expectations.<sup>6,7,8</sup>
- Determine whether to pay for annual college bills or to repay student loans. The older the child, the more beneficial it can be to repay student loans as this provides more time for the cash value to grow. Be mindful of the timing at which each child will enter/exit college.
- Determine whether to continue funding the policy after the college period is over. This decision depends upon the client's retirement goals.

## Hypothetical case study

The clients, a husband and wife, realize that should something happen to the primary breadwinner, it will be especially tough for the other to keep up with expenses and help pay for college for their daughter. With the help of their agent, they plan to pay \$300 per month in premiums for a Builder Plus® IUL 4 policy with a minimum non-MEC death benefit of \$243,064\*. This benefit amount is to fulfill the college funding goal and to help ensure the beneficiaries can family stay in their current home.

The couple likes the idea of continuing to fund the policy after helping their daughter pay for college. They'll continue to fund the policy at \$300 per month to continue to grow the cash value to help supplement retirement income. The illustration on the next page shows how a Builder Plus® IUL 4 policy could fit this hypothetical scenario.



\* While we are featuring this indexed universal life product, keep in mind that North American offers other life insurance products that may fit your client's needs

## Projected Policy Values

Non-guaranteed benefits and values are not guaranteed and are subject to change and may be more or less favorable than shown. This illustration assumes premiums are paid on the Monthly EFT Index Sweep Date. Values and benefits are as of the end of the policy year and will vary depending upon the amount and timing of the premium payments. The assumed payments on which the illustrated benefits and values are based shall be identified as Premium Outlay.

This illustration is based on the following Initial Premium Allocations: S&P500® Annual Pt-to-Pt 50%; High Par Fidelity Multifactor Yield Index™ 5% ER Annual Pt-to-Pt 50%;

				INTEREST AND COST SCENARIOS								
				Guaranteed			Non-Guaranteed Alternate			Non-Guaranteed Assumed		
				Maximum Charges			Current Charges			Current Charges		
				Minimum Account Value: 2.50%			Index Credits: 4.50%**			Index Credits: 6.55%**		
End of Year	Beg/End of Yr Age	Annualized Modal Premium	Dist. Amount Type	Account Value	Net Cash Surrender Value	Death Benefit	Account Value	Net Cash Surrender Value	Death Benefit	Account Value	Net Cash Surrender Value	Death Benefit
1	28/29	3,600.00	0 P	2,429	0	243,064	2,603	0	243,064	2,603	0	243,064
2	29/30	3,600.00	0 P	4,901	0	243,064	5,318	353	243,064	5,398	433	243,064
3	30/31	3,600.00	0 P	7,416	2,713	243,064	8,164	3,461	243,064	8,379	3,676	243,064
4	31/32	3,600.00	0 P	9,947	5,766	243,064	11,132	6,951	243,064	11,549	7,368	243,064
5	32/33	3,600.00	0 P	12,523	8,865	243,064	14,225	10,567	243,064	14,918	11,260	243,064
6	33/34	3,600.00	0 P	15,117	11,981	243,064	17,422	14,287	243,064	18,472	15,336	243,064
7	34/35	3,600.00	0 P	17,730	15,117	243,064	20,730	18,117	243,064	22,225	19,612	243,064
8	35/36	3,600.00	0 P	20,363	18,272	243,064	24,181	22,090	243,064	26,217	24,127	243,064
9	36/37	3,600.00	0 P	23,016	21,448	243,064	27,779	26,211	243,064	30,462	28,894	243,064
10	37/38	3,600.00	0 P	25,692	24,646	243,064	31,530	30,485	243,064	34,975	33,930	243,064
		36,000.00	0									
11	38/39	3,600.00	0 P	28,390	28,390	243,064	35,605	35,605	243,064	39,954	39,954	243,064
12	39/40	3,600.00	0 P	31,087	31,087	243,064	39,874	39,874	243,064	45,272	45,272	243,064
21	48/49	3,600.00	0 P	56,889	56,889	243,064	88,682	88,682	243,064	112,819	112,819	243,064
22	49/50	3,600.00	0 P	59,962	59,962	243,064	95,849	95,849	243,064	123,488	123,488	243,064
23	50/51	3,600.00	0 P	63,074	63,074	243,064	103,330	103,330	243,064	134,866	134,866	249,502
24	51/52	3,600.00	80,000 PFI	0	0	0	112,622	28,062	158,504	148,183	63,623	179,206
25	52/53	3,600.00	0 P	0	0	0	122,424	33,044	153,684	162,433	73,054	188,381
26	53/54	3,600.00	0 P	0	0	0	132,753	38,279	148,590	177,679	83,204	196,919
27	54/55	3,600.00	0 P	0	0	0	143,638	43,779	143,205	193,985	94,125	204,697
28	55/56	3,600.00	0 P	0	0	0	155,132	49,581	137,513	211,448	105,896	211,621
29	56/57	3,600.00	0 P	0	0	0	167,270	55,702	132,646	230,122	118,554	224,410
30	57/58	3,600.00	0 P	0	0	0	180,074	62,147	137,778	250,088	132,161	237,197
		108,000.00	80,000									
31	58/59	3,600.00	0 P	0	0	0	193,590	68,941	142,506	271,478	146,829	249,991
32	59/60	3,600.00	0 P	0	0	0	207,842	76,089	146,755	294,376	162,622	262,710
33	60/61	3,600.00	0 P	0	0	0	222,857	83,594	150,450	318,866	179,603	275,262
34	61/62	3,600.00	0 P	0	0	0	238,659	91,458	158,283	345,035	197,834	294,444
35	62/63	3,600.00	0 P	0	0	0	255,298	99,706	166,083	373,007	217,415	314,397
36	63/64	3,600.00	0 P	0	0	0	272,824	108,364	173,841	402,913	238,453	335,152
37	64/65	3,600.00	0 P	0	0	0	291,272	117,438	181,517	434,866	261,031	356,702
38	65/66	3,600.00	0 P	0	0	0	310,718	126,975	189,119	469,045	285,302	379,111
39	66/67	3,600.00	0 P	0	0	0	331,183	136,967	199,892	505,550	311,334	407,389
40	67/68	3,600.00	0 P	0	0	0	352,728	147,441	210,932	544,551	339,264	437,283
		144,000.00	80,000									
41	68/69	0.00	44,972 FL	0	0	0	372,858	108,334	171,720	583,489	318,965	418,159
69	96/97	0.00	44,972 FL	0	0	0	0	0	0	4,700,696	348,002	348,002
70	97/98	0.00	44,972 FL	0	0	0	0	0	0	5,080,894	432,564	432,564
		144,000.00	1,429,160									
71	98/99	0.00	44,972 FL	0	0	0	0	0	0	5,490,987	530,169	530,169
72	99/100	0.00	44,972 FL	0	0	0	0	0	0	5,933,229	642,112	642,112
73	100/101	0.00	44,972 FL	0	0	0	0	0	0	6,410,045	769,802	769,802
74	101/102	0.00	0	0	0	0	0	0	0	6,923,377	961,644	961,644
75	102/103	0.00	0	0	0	0	0	0	0	7,475,947	1,174,399	1,174,398
76	103/104	0.00	0	0	0	0	0	0	0	8,070,663	1,409,929	1,409,930

The client makes monthly payments of \$300.

\$80,000 lump-sum loan to help pay student loans.

Payments to age 68, followed by income through age 100

Hypothetical examples and illustrations are not intended to predict future performance. The use of alternate assumptions could produce significantly different results. Illustrations are not complete unless all pages are included.

ExactIllustrations Software, August 13, 2024.

\* Non-Guaranteed alternate Values shown for this year are based on the Minimum Account Value.

\*\* Non-guaranteed weighted average interest rates for Index Selections: 6.55% all years.

Non-Guaranteed Alternate weighted average interest rates for Index Selections: 4.50%

+ Non-Guaranteed Assumed values shown for this year are based on the Minimum Account Value.

1. The tax-deferred feature 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 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. The Accelerated Death Benefit is subject to eligibility requirements. There is no additional monthly deduction or premium charge for the Accelerated Death Benefit Endorsement. However, the actual payment received in connection with any acceleration will be discounted and is lower than the death benefit amount accelerated. In addition, there is an administrative fee required each time an election is made. Amount can vary by state.
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. In some situations loans and withdrawals may be subject to federal taxes. North American 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.
5. Neither North American Life 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.
6. The net cost of a variable interest participating policy loan could be negative if the credits earned are less 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 could be zero and the net cost of the loan would equal the maximum interest rate charged on variable interest participating policy loans. In brief, Variable Interest Participating Policy Loans have more uncertainty than Standard Policy Loans in both the interest rate charged and the interest rate credited.
7. Net Zero Cost Loans are loans charged and credited at the same interest rate percentage for a net zero cost. The policy year and amount available vary by product. Please refer to the specific product marketing guide for details.
8. The net cost of a Fixed Interest Participating Policy Loan could be negative if the credits earned are less 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 could be zero and the net cost of the loan would equal the maximum interest rate charged less any guaranteed bonus. In brief, variable interest rate loans have more uncertainty than standard policy loans in the interest rate credited.

As independent financial professionals, it is up to you to choose whether this sales concept contained in these materials might be appropriate for use with your particular sales strategy and clients. Please note that North American Life does not require you to use this sales concept; it is a resource that can be used at your option for your own individualized sales presentations if appropriate for the particular client and circumstances.

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, distributions up to the contract's cost basis are tax free. Moreover, loans in excess of the cost basis are also tax free as long as the policy remains in force.

Indexed Universal Life products are not investments in the "market" or in the applicable index. They are subject to all policy fees and charges normally associated with most universal life insurance.

**Agents offering, marketing, or selling accelerated death benefits for chronic illness in California must be able to describe the differences between benefits provided under an accelerated death benefit for chronic illness and benefits provided under long-term care insurance to clients. You must provide clients with the ADBE Consumer Brochure for California that includes this comparison. Comparison is for solicitation purpose only, not for conversions.**

Builder Plus IUL® 4 is issued on the state version of policy form PI00/ICC22PI00 including all applicable endorsements and riders, by North American Company for Life and Health Insurance®, West Des Moines, IA. Products, features, riders, endorsements, or issues ages may not be available in all jurisdictions. Limitations or restrictions may apply.

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