Life

College funding with permanent life insurance

Help your clients gain financial protection and help pay for college

Marketing guide

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A financial shield against the unthinkable & a way to help pay tuition costs

There are two financial problems many of your clients can relate to - a need for death benefit protection, and rising tuition costs. How can life insurance help?

As tuition costs continue to rise, earning a college degree today can cost a significant amount – and that amount continues to rise faster than the rate of inflation.**

Not only can indexed universal life (IUL) insurance provide the death benefit protection your clients need, it also offers the potential to accumulate tax-deferred cash value growth[1], which can be used to help fund college tuition and ease the burden of rising tuition costs.

*Five in 10 households without any life insurance would have immediate trouble paying living expenses if their primary wage earner died.**

*Over the past decade, published tuition and fees for in-state students at public four-year colleges and universities increased at an average rate of 5% per year beyond the rate of general inflation.***

In this guide you'll discover how to help your clients financially protect against the unthinkable while helping supplement their college savings plans with the potential cash value of permanent life insurance.

*2023 Insurance Barometer Study (Life Insurance and Market Research Association [LIMRA] and Life Happens)

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What's inside

- **A close look at college funding**
- **Understanding the concept**
- **Why life insurance for college funding?**
  - Key advantages
  - Items to consider
- **How it works**
- **Client profile**
- **Why North American?**

A close look at college funding

Life insurance can give families protection should the insured die. Beneficiaries 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 strategy.

Understanding the concept

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 strategy is tax-deferred[1] and potentially tax-free income through policy loans to help 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 immediate death benefit protection from the start. Plus, the proceeds from the policy can help the family pay final expenses, plus help pay for college.
- **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 financial vehicles.
- **Income tax-free death benefit.** When the insured passes away, the death benefit passes generally income tax-free to beneficiaries.[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.
- **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 (MEC)[4] status.** 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.
- **Surrender charges.** Withdrawals may be subject to surrender charges and the amount available for policy loans.[3]
- **Loss of premium.** Depending on funding, life insurance may not guarantee avoiding loss of premium.
- **Maintaining the death benefit.** Additional premiums may be necessary to continue the desired death benefit, depending on funding.

How it works

Your clients should use tuition assistance programs or 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.
- Alternatively, 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 death benefit protection.
- Young families with children up to age 13.
- 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 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 credit is never less than zero percent, subject to cap on interest credits.
    - Clients can choose from several index selections, for cash value growth potential.
    - Our products guarantee that the account value has earned at least a 2.5% average per year calculated from policy issue every ten years.
    - Accelerated death 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 can be well-rewarded with our generous compensation. Plus, we take a collaborative approach to help grow 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 (2nd of 15 categories)
    - A+ (Strong) Standard & Poor's (5th of 22 categories)
    - A+ (Stable) Fitch Ratings

Resources

Sales development

Phone: 800-800-3656, ext. 10411

Email: salessupport@nacolah.com

Hours: 7:30 a.m. – 5 p.m. CT, Monday through Thursday;
7:30 a.m. – 12:30 p.m. Friday

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.

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.

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 A.M. Best is a large third-party independent reporting and rating company that rates an insurance company on the basis of the company's financial strength, operating performance and ability to meet its obligations to policyholders. A+ is the second highest rating out of 15 categories and was affirmed for North American as part of Sammons Financial Group on August 29, 2023. For the latest rating, access www.ambest.com. S&P Global Ratings awarded its "A+" (Strong) rating for insurer financial strength on February 26, 2009 and affirmed on May 24, 2023 to North American as a member of Sammons® Financial Group, inc, The "A+" (Strong) rating is the fifth highest out of 22 available ratings as a member of Sammons® Financial Group, Inc. S&P Global Ratings is an independent, third-party rating firm that rates on the basis of financial strength. Rating shown reflect the opinion of the rating agency and are not implied warranties of the company's ability to meet its financial obligations. a) Awarded to Midland National® as part of Sammons® Financial Group Inc., which consists of Midland National® Life Insurance Company and North American Company for Life and Health Insurance®. b) S&P Global rating assigned February 26, 2009 and affirmed on May 24, 2023. A+ (Stable) Rated by Fitch Ratings. Fitch Ratings, a global leader in financial information services and credit ratings, on November 30, 2023, assigned an Insurer Financial Strength rating of A+ Stable for North American. This rating is the fifth highest of 19 possible rating categories. The rating reflects the organization's strong business profile, low financial leverage, very strong statutory capitalization and strong operating profitability supported by strong investment performance. For more information, read the Fitch Ratings report at https://www.fitchratings.com/research/insurance/fitch-affirms-sammons-financialgroup-ratings-outlook-stable-30-11-2023.

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.

Sammons Financial® is the marketing name for Sammons® Financial Group, Inc.'s member companies, including North American Company for Life and Health Insurance®. Annuities and life insurance are issued by, and product guarantees are solely the responsibility of, North American Company for Life and Health Insurance.

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