NORTH AMERICAN®
A Sammons Financial Company

Case study

Using life insurance for legacy building

Financial protection & help with legacy building

QUICK LOOK

Legacy building is a strategy using permanent life insurance to offer death benefit protection along with a tax-efficient way to pass along funds to beneficiaries. Typically, the strategy starts with funds the client already plans to pass along to family. These funds are used to purchase a life insurance policy, which may immediately increase the amount in the form of the death benefit.

THE SITUATION

Your female client is a 65-year-old vice president at a public relations firm.

She has met her financial needs after she leaves the corporate world and is now looking to slow down and prepare for retirement.

The only life insurance protection she has is through her employer, which she realizes is not enough to provide for her adult children. Her children are beginning families, and she wants wants them to be financially protected when she is no longer around. She has set aside money specifically for this purpose, but she's not sure about the best approach for passing on these funds.

Is there a way your client can meet her life insurance needs while helping her efficiently pass funds along to her children?

A SOLUTION

You and your client discuss her life insurance death benefit protection needs along with her desire to pass along a legacy. With this life insurance strategy, she can financially protect her children now and at the same time put a plan in place that would pass the funds she has already set aside to her children. Here are a few reasons why she chose a life insurance policy:

- **Immediate death benefit protection.** Your client can gain peace of mind from the start with death benefit protection that will be there for her children. When she passes way, the death benefit passes generally income tax-free to beneficiary.[1]
- **Probate-free.** When your client completes the beneficiary designation naming her children on her life insurance policy, she is using a non-probate transfer, which means the death benefit will pass directly to her children.
- **Leverage.** With life insurance, the premium can provide a larger death benefit immediately after issue.
- **Liquidity.** Should your client's needs change, she may access funds in her life insurance policy through loans, withdrawals,[2] or acceleration of the death benefit, if qualifications are met.[3]

LIFE INSURANCE CONSIDERATIONS

- **Cost of insurance.** Permanent life insurance policies require monthly deductions, which include the cost of insurance, expense charges, and potentially other charges. These deductions, along with any loans, withdrawls, or acceleration of death benefits, may reduce the cash value of the policy.
- **Surrender charges.** Withdrawals may be subject to surrender charges and the amount available for policy loans.
- **Modified Endowment Contracts (MECs).** MECs may have tax implications that your client needs to know about before considering her options.[4]
- **Maintaining the death benefit.** Additional premiums may be necessary to continue the desired death benefit, depending on funding.

Share this concept with your clients today!

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 Accelerated Death Benefit Endorsement Consumer Brochure for California that includes this comparison. Comparison is for solicitation purpose only, not for conversions.

1 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.

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. 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.

3 Accelerated death benefits are subject to eligibility requirements. The death benefit will be reduced by the amount of the death benefit accelerated. Since benefits are paid prior to death, a discount will be applied to the death benefit accelerated. As a result, the actual amount received will be less than the amount of the death benefit accelerated. An administrative fee is charged at the time of election of benefits.

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).

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