Life

North American Company for Life and Health Insurance®

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A Sammons Financial Company

Using permanent life insurance to help with retirement planning

Case Study

A sales strategy to help you succeed

Quick look

Your clients rely on you to help them navigate the many financial decisions they have to make. You can help provide clarity and guide them to solutions that can help fulfill their goals for the future.

One such goal may be balancing two different, but important financial needs: ensuring that family members are taken care of in the event of a client's unexpected death and also preparing for retirement.

Here's how life insurance can help.

The situation

Your client is a 45-year-old vice president at an engineering company and 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.

Your client is primarily 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 his mind is retirement. He and his wife 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. He wants a way to supplement his retirement income that he can control. He doesn't want one with numerous 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 your client financially protect his family now while helping him supplement his retirement dreams later?

A solution

He meets with his financial professional to discuss the situation and to take a thorough look at the family's finances. After considering several options, he decides that an indexed universal life (IUL) insurance policy may help him meet his needs today and in the future. Here's why:

- **Immediate death benefit protection.** He can feel more confident 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.
- **Mitigate market volatility.** Including an IUL insurance policy as an asset in his financial portfolio can help lower the portfolio's overall volatility due to market fluctuations. The index credited will never be less than zero percent.
- **Generally tax-free distributions.[1]** He can access 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. Premium payments are subject to guideline limits. He can make premium payments that are not subject to limitations associated with tax-qualified plans. Also, any cash values grow on a taxed-deferred basis.[2]
- **No penalties for early access and no required minimum distributions.** Should he 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 he 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) check to see if combining a term and IUL policy would be a more affordable way to reach their total death benefit needs.
- **Non-guaranteed performance.** Cash values for loans and withdrawals in later years may be more or less than originally illustrated.[3,4]
- **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.

Need help with your retirement planning cases?

Contact your MGA for more information on retirement planning or visit the Marketing Toolkit for additional resources!

Why North American?

Strong and stable

Efficient and responsive underwriting team

End-to-end digital processing

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.
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.
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).
Insurance products issued by North American, West Des Moines, IA. Products and feature/options may not be available in all states or appropriate for all clients. See product materials for further details, specific features/options and limitations by product and state.