Life

NORTH AMERICAN
A Sammons Financial Company

How a life insurance index account works

North American Company for Life and Health Insurance®

Upside potential with downside protection

Indexed universal life (IUL) insurance provides the opportunity to earn interest based on the upward movement of a stock index. However, money is not actually invested in the stocks that make up the index.

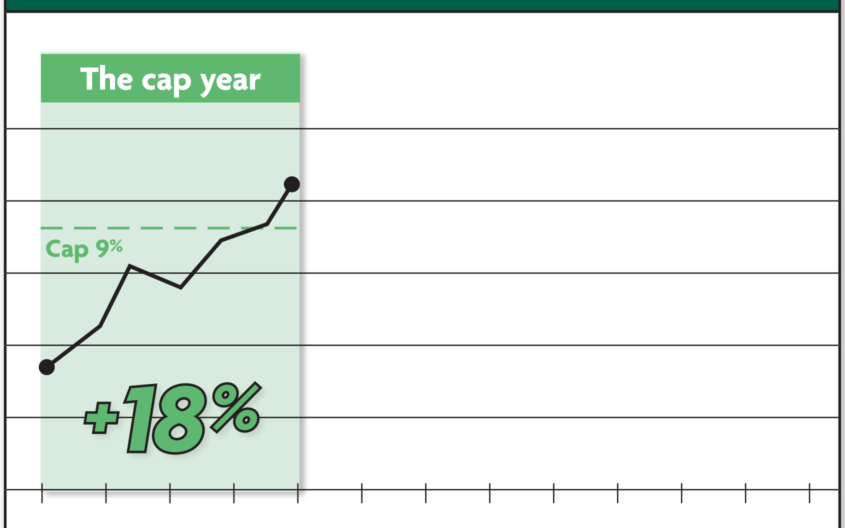
1. When premium is placed into an index account, the beginning value of the index is recorded.
2. After 12 months, the change in the index value is calculated.*
3. Based on the change in the index value, interest is credited to the index account, subject to maximum (cap) and minimum (floor). The index floor means that the index account value doesn't decrease below its annual starting point due to changes in the index value.

Let's take a look at the cause-and-effect relationship between the index and the index account using a fictional index. There are three different scenarios that could happen – the cap year, the floor year, and the between year.

The cap year

In the cap year, the index grows beyond the cap rate, so interest is credited at the cap rate. In this example, the index gains 18% for the year. An interest cap of 9% applies, so although the index gained over 18%, interest credited to the index account will be 9%. This example is only intended to show you the cause-and-effect relationship between an index and how the index account within a life insurance policy is credited. It does not take into consideration the effect of policy charges or additional annual premiums.

Hypothetical index movement and account value



Account value

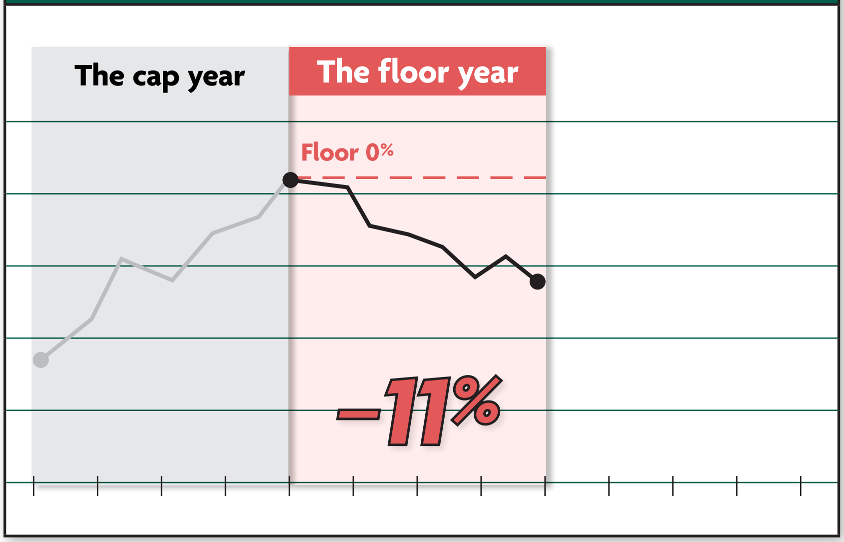
We will assume the index account started with a **$50,000** balance. The account grows to **$54,500 (9% growth)**

$50,000
+4,500
$54,500

The floor year

In the floor year, the index has negative growth, so the zero percent floor rate comes into effect. At the end of this year, we find that the index is down 11% for the year. However, because of the policy's zero percent floor, interest credited to the index account is 0% instead of -11%.

Hypothetical index movement and account value



Account value

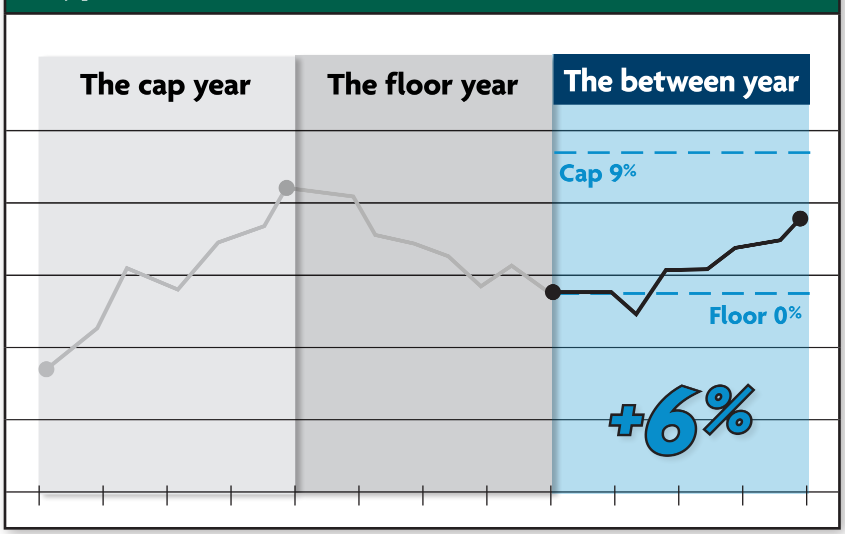
Credited at **0%** instead of **–11%**, the new account value is **$54,500**.

$54,500
– 0
$54,500

The between year

In the between year, the index grows at a rate higher than the floor rate, but lower than the cap rate. At the end of this year, we find that the index has grown 6%. The cap and floor do not come into effect. Interest credited to the index account is 6%.

Hypothetical index movement and account value



Account value

The index grew at a rate between the cap and the floor, so no adjustment is made. **6%** interest is credited on the account value.

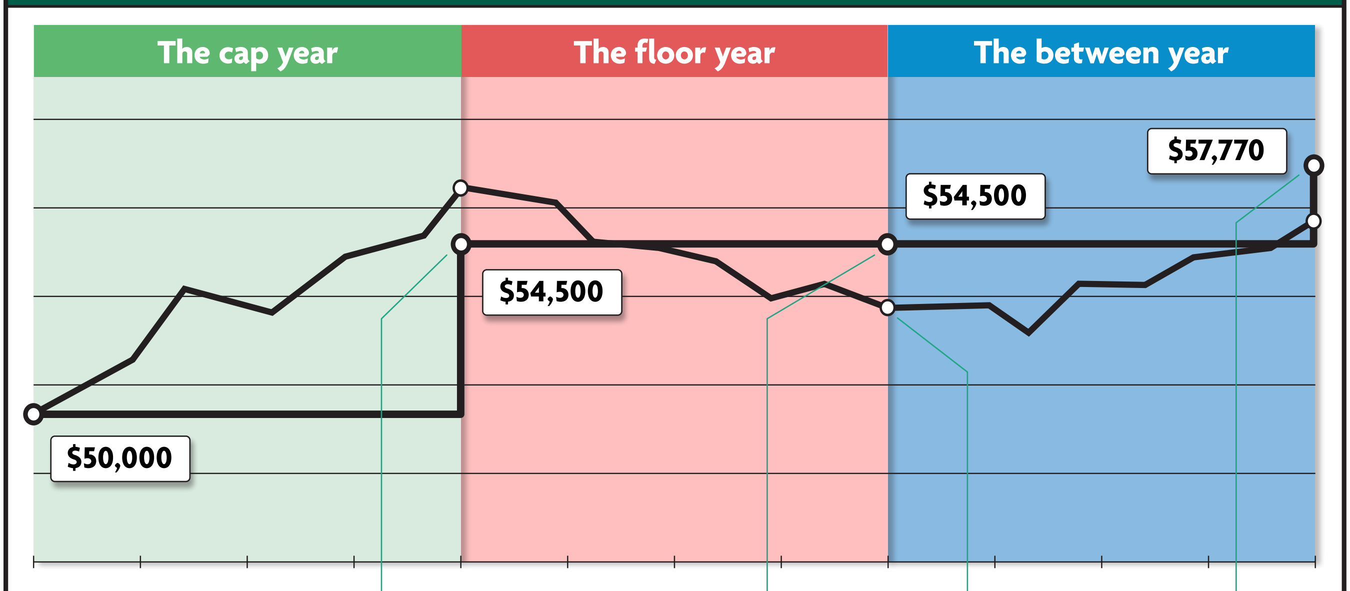
$54,500
+ $3,270
$57,770

Putting it together with an annual reset

For the purposes of this example, we'll assume that these years happen in the order shown below, although they can and do occur in any order throughout the lifespan of a policy. The zero percent floor rate and the index starting value are reset each year. Let's take a look at what that means in the graph below.

We've seen the hypothetical performance in three different scenarios. The graph below shows how the cause-and-effect relationship between the index and the index account would look if these scenarios were three years in a row.

Hypothetical index movement and account value



The index gained more than the 9% cap. The account value is credited at 9%.

The index has a negative year, so the 0% floor comes into effect. The account value starts the next year with the same value.

Index performance for the next year is measured from this point.

Neither the cap or the floor come into effect in this year.

Key points to remember

Floor

IUL offers protection from a negative return in a poorly performing market. With IUL, you don't participate directly in the stock market, and the credited interest rate is never less than zero percent, guaranteed.

Cap

The growth rate of the index, up to a declared cap, becomes the interest crediting rate. You can consider it "trading" a bit of the upside potential to gain the downside protection of the floor. Neither the top nor bottom of the index's movement apply to the policy's index account.

Annual reset

North American's IUL is designed with an annual reset, meaning that each year's credited interest is locked in on an annual basis and a new starting point is determined. The interest credited cannot be taken away due to negative index performance, and it will continue to receive potential future growth, giving you the advantage of compounding interest and continued cash value growth in future years.

Discover for yourself the value of upside potential and downside protection. Your financial professional can help you find the North American life insurance policy that is right for you.

The primary purpose of life insurance is to provide a death benefit to beneficiaries.

The above hypothetical scenario uses a fictional index and does not include dividends. For simplicity, the policy illustrated does not include policy charges, nor ongoing premiums which may or may not offset policy charges.

*The change in the index value may be calculated differently depending on the Index Crediting Method selected.

Indexed Universal Life insurance 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.

Failure to meet premium requirements may result in a lapse in the policy and participation in the Index Accounts. The Index Accounts are subject to caps and participation rates. The surrender charge varies by product, gender, issue age, underwriting class and duration. In no case will the interest credited be less than 0 percent. Please refer to the customized illustration provided by your agent for additional detail. The policy's death benefit is paid upon the death of the insured. The policy does not continue to accumulate cash value and excess interest after the insured's death. For costs and complete details, call or write North American Company, Administrative Office, One Sammons Plaza, Sioux Falls, SD 57193. Telephone (877) 872 -0757.

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