

Life

North American Company for Life and Health Insurance®



Income protection

Using life insurance to preserve
your client's lifestyle

Marketing Guide



Help your clients prepare for the unexpected.

Ask your clients to imagine if their spouse was not there tomorrow. How comfortable would they be financially? Could they pay the bills next month? Through the next year? Would it affect their ability to retire? How would it impact their kids? If the spouse doesn't work outside the home, what additional expenses might their family experience if that person was no longer there?

The lost income and household contributions of a spouse can be a worry for many families. Everyday bills and costs—utilities and food, childcare, education, health care, housing—may be a challenge to meet with reduced household income and support. Realization of financial goals could be jeopardized if contributions to retirement or college funds were to end. In addition to debt and final expense costs, income protection could be a critical part of life insurance planning for families, especially in their earning years.

INCOME PROTECTION

Life insurance for income protection is a strategy using either term or permanent life insurance to offer death benefit protection for your clients. This can offer them financial protection in the event of death. It isn't a new concept—in fact, it lies at the heart of what life insurance is all about. However, sometimes it can get overlooked with all the other useful features that life insurance has to offer. In this guide, we'll explore how you can help your client determine his or her needs and protect their loved ones' futures.

WHAT'S INSIDE

Why life insurance?

Client profile

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- Items to consider

Why North American?

WHY LIFE INSURANCE?

Life insurance provides a death benefit during working years that offers protection to a client's family from the loss of their income in the event of death. The death benefit can also help the client's family bear the cost of services that may need to be purchased if a non-income-earning spouse were no longer there.

CLIENT PROFILE

Anyone who provides for loved ones and would like to be sure those left behind aren't saddled with debts, unpaid bills, unfunded savings vehicles, or additional household expenses, is an ideal client for income protection. Whether a client is recently married, takes on a mortgage, or starts a family, a need exists to help cover expenses or replace income in the event of loss of life.

Life insurance used for income protection also makes sense for young individuals in the workforce without dependents since coverage is usually more affordable at a younger age. That coverage can be converted or adjusted later as the individual's needs change.

HOW IT WORKS

So, how do you determine what your client's needs are? North American has several tools to help you identify the death benefit needed for income protection.

First, bring our one-page Income Protection Grid with you on appointments to give a good estimate of the lump sum needed to generate a monthly or annual income stream. To take it one step further, but still provide a fairly simple analysis, use the Life Insurance Needs Calculator on the North American software.

North American underwriting uses the guidelines in the table to the right to determine maximum death benefit amounts as a multiple of earned income. Keep in mind that this is a guideline so extenuating circumstances may allow these amounts to be increased.

It's more difficult, but still possible, to quantify the contributions of a non-wage-earner spouse. A common method involves determining the cost that would be charged to obtain child care, home care, and other domestic services that are currently being provided by that spouse. Once the annual cost for such services is determined, it is multiplied by the estimated number of years that those services would be needed. North American underwriting generally permits death benefit protection for a non-wage-earner spouse to be as great as the amount for the wage earner, up to 2 million. Face amounts above 2 million will be reviewed on an individual consideration basis.

After establishing the need for death benefit protection, help your client find the appropriate term or universal life insurance product from North American. Here's how it works:

- The client's premium provides death benefit protection. The amount of protection recommended should fit the budget and yet be able to replace lost income or cover additional expenses should your client die prematurely.
- In the event of death, the death benefit is paid generally income tax-free to the beneficiaries.
- If the insured is diagnosed with a qualifying illness, the client may choose to accelerate a portion of the death benefit with North American's accelerated death benefits endorsement.

North American offers 10-, 15-, 20- and 30-year term products.¹ ADDvantage[®] term can be a great solution for income protection—it's a low-cost solution that can be matched to the duration needed. Additionally, multiple term products can be purchased for different needs or different amounts. For example, a 20-year term policy for \$500,000 may be what the client needs for everyday income replacement, but until the mortgage is paid off, they'd like an additional \$200,000 of 15-year term protection.

Client's Age	Multiple of Client's Income
20-30	30 times
31-40	25 times
41-50	20 times
51-60	15 times
61-70	10 times
71+	5 times

Supporting features

Death is not the only thing that can jeopardize a family's income. North American's **Accelerated Death Benefit Endorsement** allows the policy owner to elect to accelerate a portion of the death benefit in the event of a chronic, critical, or terminal illness on term³ and most universal life policies.² This feature is offered without additional premium at issue and can provide financial protection.⁴

Remember, if your client's needs change, a North American **term policy can be converted into a universal life policy** to extend coverage length (subject to the terms of the policy). Although there are many universal life products that may work well for income protection, North American's Builder Plus IUL[®] 3 may be one of the more compelling solutions. Although more expensive than term, universal life can provide flexibility in three ways:

- **Funding levels.** Your client can select short-pay, single-pay, or even skip premiums if necessary.
- **Coverage amount.** Your client may decrease coverage levels as needs reduce.
- **Duration.** Your client can keep it as long as they need it. Don't assume that income protection is only needed to age 65. Every client is different, and the assumptions of today may not be true tomorrow.

Universal life also has the potential to grow **cash value**. Cash value can be used to help meet financial needs other than death or an unexpected illness. Cash value also provides an exit strategy if desired. The owner can cancel the policy and potentially get cash value back. Or, cash value can be used to help supplement another need. Retirement planning and income protection can go hand in hand.

Of course, neither term nor universal life needs to be a solution by itself. A combination of term and universal life may be ideal to meet a client's needs.

Life insurance considerations

Specified amount of coverage. Be sure the death benefit amount is appropriate to meet your clients' life insurance needs.

Cost of insurance. Permanent life insurance policies require monthly deductions, which include the cost of insurance, expense charges, and potentially other charges.

Level premium term periods. At the end of the level term period, term insurance premiums will increase annually. Be sure to conduct a "Client Review" with your client before the end of the term period to determine whether conversion to a North American universal life policy might be advisable.

Maintaining the death benefit. Additional premiums may be necessary to continue the desired death benefit, depending on funding on permanent life policies.

Surrender charges. Withdrawals may be subject to surrender charges and the amount available for policy loans on permanent life policies.⁵

Loss of premium. Depending on funding, permanent life insurance may not guarantee avoiding loss of premium.



WHY NORTH AMERICAN?

Turn to North American for help with your income protection cases. In addition to our knowledgeable sales development team, you'll gain several benefits:

- **Competitive products.** Our product portfolio is competitive not only in illustrated performance, but also in design elements that make the product more relevant to the client and marketable for the agent.
- **Accelerated death benefits.** If the need arises, a portion of the death benefit can be accelerated in the event of chronic, critical, or terminal illness on term³ and most universal life policies.²
- **Conversion potential:** North American's ADDvantage term policies are convertible to most single-life universal life products for the entire 10-, 15-, 20- or 30-year term duration (up to age 75 or age 69 for a 30-year policy). The conversion period is never less than 5 years regardless of issue age.
- **Financial stability.** Sound financial ratings and private ownership keep us focused on long-term value.⁶
 - "A+" (Superior), A.M. Best
 - "A+" (Strong), S&P Global Ratings
 - "A+" (Stable), Fitch Ratings
- **Competitive compensation.** North American offers competitive compensation. Plus, we take a collaborative approach in helping to grow your business and are here to answer your questions and provide guidance along the way.

IN CALIFORNIA: Agents offering, marketing or selling accelerated death benefits for chronic illness 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 the 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.

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. Premiums are guaranteed to remain level for the initial 10, 15, 20, or 30 year period. After the premium guarantee period, premiums will increase annually but will never exceed the Guaranteed Annual Renewal Premium.

2. Subject to eligibility requirements. Availability varies by state and product. Payment of Accelerated Death Benefits for chronic illness paid under the Endorsement is intended for favorable tax treatment under Section 101(g) of the Internal Revenue Code. Accelerated death benefit payments due to chronic illness are subject to limits imposed by the federal government and any amounts received in excess of these limits are includible in gross income. Clients should seek assistance from a qualified tax adviser for assistance with any questions they may have.

3. Critical Illness Endorsement for term is not available in the state of California.

4. An administrative fee is required when the chronic or terminal illness benefit is elected. 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.

5. 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.

6. "A+" (Superior), the second highest rating out of 15 categories, was affirmed by A.M. Best for North American Company for Life and Health Insurance as part of Sammons Financial Group on August 29, 2023. 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 ongoing obligations to policyholders. 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 Company for Life and Health Insurance, as part of Sammons Financial Group. The "A+" (Strong) rating is the fifth highest out of 22 available ratings. Fitch Ratings, a global leader in financial information services and credit ratings, assigned an Insurer Financial Strength rating of A+ Stable for North American, and affirmed on November 30, 2023. 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. <https://www.fitchratings.com/research/insurance/fitch-affirms-sammons-financial-group-ratings-outlook-stable-30-11-2023>

North American's ADDvantage Term (policy form series LS174) and Builder Plus IUL 3 (policy form series LS191), including all applicable endorsements and riders, are issued by North American Company for Life and Health Insurance, West Des Moines, IA. Products, features, riders, or endorsements may not be available in all jurisdictions. Limitations or restrictions may apply.

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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