

# Premium Deposit Agreement for life insurance

Insurance products issued by North American Company for Life and Health Insurance®

The purpose of life insurance is to provide a death benefit to your beneficiaries. When funding a life insurance policy, you may want to make a lump sum premium deposit so you don't have to worry about making additional payments in the future, without creating a Modified Endowment Contract (MEC).

## That's where the Premium Deposit Agreement into a Premium Deposit Account (PDA) comes in.

It allows the policyowner to submit a lump sum for the purpose of automatically funding future annual premium payments on the policy. In the majority of states, this agreement and the account are separate from the life insurance policy.

## Why choose a PDA?

- **Worry-free premium payments.** The PDA will automatically pay your annual premium payments, so you don't have to worry about making future payments (as long as there are sufficient funds in the PDA).
- **Growth.** A competitive interest rate is applied to the funds taken from the PDA before it's used to pay your premium. The sum of the amount we withdraw plus the interest credited will be equal to the premium amount. Therefore, more money is put into your life insurance policy, so you may have a larger death benefit, and larger cash value potential.
- **Can help avoid MEC status.** By spreading out your payments over the duration of your PDA and avoiding a MEC, your policy can benefit from tax-favored access to the cash value in the policy.

## What is a Modified Endowment Contract (MEC)?<sup>1</sup>

Modified Endowment Contracts, or MECs, are life insurance policies that exceed the maximum premium funding allowed by the federal government. This can result in additional taxes when money is withdrawn from the policy.

## Here's how it works:



You would like to prepay up to 10 annual premium payments for your life insurance policy.



You deposit money into the PDA. The interest rate is locked in for that deposit. The interest is credited when premiums are taken from the PDA to pay the policy. Only your premium deposits in your PDA are held in the PDA.



Your life insurance policy's premium is automatically paid each year from the PDA while in effect.

## How far can \$100,000 go?

In this hypothetical example, let's assume you deposit \$100,000 into your PDA for a scheduled premium payment of \$10,000 over the course of 10 years. Your interest crediting rate is 4%. Interest is applied as part of the premium when money is taken from the PDA.

**55-year-old male, preferred non-tobacco** 10-pay indexed universal life insurance policy

Year	Funds taken	Interest paid	Premium
1	\$11,854.90	\$0.00	\$11,854.90
2	\$11,398.94	\$455.96	\$11,854.90
3	\$10,960.52	\$894.38	\$11,854.90
4	\$10,538.96	\$1,315.94	\$11,854.90
5	\$10,133.62	\$1,721.28	\$11,854.90
6	\$9,743.86	\$2,111.04	\$11,854.90
7	\$9,369.10	\$2,485.80	\$11,854.90
8	\$9,008.75	\$2,846.15	\$11,854.90
9	\$8,662.26	\$3,192.64	\$11,854.90
10	\$8,329.09	\$3,525.81	\$11,854.90
<b>TOTAL</b>	<b>\$100,000.00</b>	<b>\$18,549.00</b>	<b>\$118,549.00</b>

**That's over  
\$18,000 more  
total premium  
paid into the  
policy!**

Source: Web-based illustration software, July, 2023.

## Details and considerations

<b>Payment limits</b>	<b>Minimum:</b> 3 payments <b>Maximum:</b> 10 payments
<b>Deposit limits</b>	<b>Minimum:</b> \$10,000 <b>Maximum:</b> 10 times the policy's annual planned premium
<b>Cost</b>	No premium charge
<b>Interest rate</b>	Current interest rate of 4% locked in at time of deposit, subject to change for future deposits.
<b>Taxation</b>	Interest paid is subject to taxation. The policyowner will be sent a 1099-INT annually.
<b>Withdrawals</b>	Only full withdrawals are allowed in the majority of states. A full withdrawal will result in the termination of the Premium Deposit Agreement.
<b>Termination</b>	Early withdrawal of PDA deposits is allowed, but will terminate the Premium Deposit Agreement, and no interest is credited. If the Premium Deposit Agreement is terminated, it cannot be reinstated.

**Talk to your North American agent today about how a Premium Deposit Agreement can become a part of your financial strategy.**

### THIS AGREEMENT IS NOT INTENDED TO BE USED FOR INVESTMENT PURPOSES.

Your policy may automatically reject all or a portion of any premium amount if it would result in the policy becoming a Modified Endowment Contract or being disqualified as life insurance.

1. 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).

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.

Neither North American nor its agents give tax advice. Consult with or rely on a qualified legal or tax advisor before entering into or paying additional premiums with respect to such agreements.

Premium Deposit Agreement is issued on form series LR509 or state variation, by North American Company for Life and Health Insurance, West Des Moines, IA. Products, features, riders, endorsements, and issue ages may not be available in all jurisdictions. Limitations and restrictions may apply.

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