



Using Life Insurance for Your Client's Smart Money

Tip Sheet

CONCEPT

Smart money is money your clients want to control and be able to access during times of need. While there are several places to store smart money, one option that may be overlooked is life insurance. Permanent life insurance can immediately leverage a single premium into a larger death benefit. The smart money concept is an opportunity for you to show your clients the value of death benefit protection along with the potential to build cash value growth while preserving access to as much cash value as possible. Be sure to conduct a thorough needs-based analysis and determine if death-benefit coverage is necessary before proceeding.

CLIENT PROFILE

- Ages 50 to 80
- Has a need for life insurance (often includes a desire to leave a legacy for heirs)
- Has funds that are not meeting current needs (funds may be in savings, annuities,¹ Certificates of Deposit (CDs),² or other vehicles)
- Desires the potential for cash value growth with limited exposure to cash value loss

May also include

- Clients unhappy with current returns of other vehicles
- Someone who recently inherited money

NEED TO KNOW

- How much cash value is available? (After any applicable surrender charges or taxes.)³
- Is the client interested in a universal life or an indexed universal life insurance (IUL) policy?

TIPS AND TALKING POINTS

- Single premium sales are common in this concept. A single premium payment may create a Modified Endowment Contract (MEC).⁴ It's important to realize that this is really no different in tax treatment than an annuity.³
- Waiver of Surrender Charge Option.⁵ This option may provide peace of mind for clients when accessing funds. This option waives surrender charges for anything except for an outgoing 1035 exchange.
- Cash Value Accumulation Test (CVAT) will often provide the most compelling illustrations. Based on client need, this allows a very low initial face amount, which maximizes the guaranteed column performance. Use the level death benefit option when using CVAT.

- Indexed or non-indexed UL? If you need guidance on where the client may be most comfortable, take a look at where the current funds are allocated. If current funds are in fixed accounts, perhaps a fixed UL would be more appropriate. If the funds are in indexed annuities, then an IUL may be more appropriate. Remember that IUL offers both options: an indexed and a fixed account, and funds may be moved or partially allocated to the fixed account.
- Consider illustrating the middle column of an indexed illustration with a 3% interest rate. This will effectively show a more conservative assumption for clients concerned about the downside. The guarantee column will reflect 3% interest along with guaranteed charges. The center column will show 3% (minimum) interest along with current charges. The far right column will reflect an assumption rate that the agent and client choose to illustrate.
- Often times, the minimum death benefit is going to result in the best cash value performance. When using North American's software on a CVAT illustration, the minimum face solve results in a death benefit that matches the current year minimum face amount for the premium selected. However, you could also specify a face amount lower than the software will solve for, which may enhance the guarantee column. It does this by allowing the death benefit to reduce below the initial death benefit amount should poor cash value growth occur. This will result in a lower target premium.

PRODUCTS

- **Rapid Builder IUL®:** This is one of the most popular product for the smart money concept. The Waiver of Surrender Charge Option can provide peace of mind in knowing that funds are available even in the early years. Designed without premium loads, this product has the potential to generate cash value quickly.
- **Custom GrowthCV®:** Custom GrowthCV is a fixed interest rate product that also has the Waiver of Surrender Charge Option to allow for early access to cash value if needed. With a conditional interest rate bonus as well as a non-guaranteed premium bonus, the long term growth potential is marketable as well.⁶

WHY NORTH AMERICAN

- **Waiver of Surrender Charge Option:** Offers access to potential early cash-surrender value.
- **No premium load on Rapid Builder IUL:** This design element helps with early cash value growth.
- **Cash Value Accumulation Test:** This often allows for a lower face amount compared to the Guideline Premium Test. CVAT may offer better guaranteed and early non-guaranteed cash surrender values.
- **Interest rate bonuses:** Guaranteed for the Rapid Builder IUL on the index account and conditionally guaranteed for the fixed account. It is also conditionally guaranteed for Custom GrowthCV. This feature helps build mid- to long-term cash value growth potential.
- **Table shave feature:**⁷ This feature is available when the Waiver of Surrender Charge Option is selected. It allows a client that is rated up to table three to receive a standard rate class.
- **Access to funds for living needs:** Clients have the ability to accelerate the death benefit during their lifetime when diagnosed with a chronic or terminal illness.⁸

MARKETING PIECES

North American has a full set of materials on Using Life Insurance for Your Client's Smart Money —the kit includes agent and consumer brochures, checklists, and case studies.

Visit <http://goo.gl/QqnDM> (case sensitive) today to download the complete kit! Start today and help your clients gain death benefit protection & a financial safety net.

For more information, contact Sales Development at (800) 800-3656, ext. 10411 or email salesupport@nacolah.com.

Index 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. Removing funds from an annuity may result in surrender charges and/or income taxes.
2. Removing funds from a Certificate of Deposit may result in penalty.
3. 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.

IRS CIRCULAR 230 NOTICE

Any U.S. tax information included in this written or electronic communication, including any attachments, is not intended as tax advice, was not intended or written to be used, and it cannot be used by you or any taxpayer, (i) for the purpose of avoiding any penalties that may be imposed on you or any other person under the Internal Revenue Code or applicable state or local tax law provisions, or (ii) promoting, marketing or recommending to another party any transaction or matter addressed herein.

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).
5. Available for an additional charge per \$1,000 per month, depending on issue age and underwriting class.
6. Custom GrowthCV offers a conditionally guaranteed interest bonus to further help your clients build long-term cash value accumulation. Interest bonus may be earned when we declare a current interest rate that exceeds the guaranteed interest rate. Interest Bonus percentages are not guaranteed and subject to change; however, once a policy is issued, the percentage will not change. Not available in Texas. For Standard Policy Loans the interest bonus is not applied to any loaned amount.
7. When a person applies for life insurance coverage, his or her health is evaluated and a corresponding underwriting rating is applied. This product's table shaving features allow certain substandard underwriting rates (known as "table ratings") to be improved to a "standard" rating. A "standard" rating generally indicates average health and involves a lower life insurance premium than do substandard ratings.
8. Subject to eligibility requirements.

Rapid Builder IUL is issued on policy form series LS169, Custom GrowthCV is issued on policy form series LS166; or state variations by North American Company for Life and Health Insurance, Administrative Office, Sioux Falls, SD 57193. Products, features, riders and endorsements or issue ages may not be available in all jurisdictions. Limitations and restrictions may apply.

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