North American Company for Life and Health Insurance Since 1886 | Life

Using Life Insurance for Your Client's Smart Money

Case Study

QUICK LOOK

Smart money is money your clients want to control and be able to access during times of need. While there are several options where to keep this smart money, one that's often overlooked is permanent life insurance.

Be sure to conduct a thorough needs-based analysis and determine if death-benefit coverage is necessary before proceeding.

THE SITUATION

Meet Ryan. Ryan is a 55-year old architect looking ahead at building the second part of his life: retirement.

While he's not there yet, he's looking at his financial picture and surveying where improvements can be made. He's been holding on to a large Certificate of Deposit (CD)[1] worth $50,000 for quite a while along with $30,000 in a savings account.

Ryan's wife Ellen is an interior decorator and the couple has a grown child with a pair of twin grandchildren on the way. They are thrilled at becoming grandparents and look forward to spending time with their grandchildren in the future.

With an eye for details and not knowing what the future may hold, Ryan is looking to provide his wife with financial protection should he die prematurely. While he likes that his CD and savings account are fairly easy to access, he's not thrilled with their current performance, but views that as the cost of not being exposed to market volatility.

Is there a way to help Ryan meet his financial protection needs while retaining access, downside protection, and an opportunity for cash value growth?

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A SOLUTION

With the smart money concept using permanent life insurance, Ryan can gain several powerful benefits:

- **Death benefit protection:** The generally income tax-free proceeds could provide for Ellen, helping to ensure her financial stability.[2]
- **Cash value growth:** Ryan gains an opportunity to build cash value for financial needs down the road, like vacationing with his grandchildren.
- **Access to funds:** Life insurance offers cash surrender value that is available for unexpected or immediate needs. Funds may be taken as loans or withdrawals for any reason.[3]
- **Accelerated benefits:** Additional design elements may include the ability to accelerate the death benefit during their life when diagnosed with a chronic or terminal illness.[4]

CONSIDERATION

There are also some important considerations that Ryan should be aware of before proceeding:

- **Cost of insurance charges (COIs) or other charges:** Life insurance comes with charges that Ryan should know.
- **Loss of principal:** Depending on funding, life insurance may not guarantee avoiding loss of principal.
- **Maintaining the death benefit:** Additional premiums may be necessary to continue the desired death benefit, depending on funding.
- **Modified Endowment Contracts (MECs):** MECs may have tax implications that Ryan needs to know about when considering his options.[5]
- **Surrender charges:** Withdrawals may be subject to surrender charges.

Need help with your client's smart money case? Contact Sales Development at (800) 800-3656, ext. 10411 or email salessupport@nacolah.com.

1. Removing funds from a Certificate of Deposit may result in penalty.

2. 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.

3. In some situations, loans and withdrawals may be subject to federal taxes. North American Company for Life and Health Insurance 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.

4. Subject to eligibility requirements.

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).