A STRATEGY FOR SMALL BUSINESS OWNERS

QUICK LOOK

Life insurance provides your clients with death benefit protection, but it may also help with financial needs during their retirement years due to its cash value growth potential. Indexed universal life insurance (IUL) in particular may provide additional stability for those nearing retirement. In addition to death benefit protection, IUL offers an opportunity for significant cash value growth, downside protection in a poorly performing market, and the potential for generally tax-free income.[1]

THE SITUATION

James is a 52-year-old owner of a small restaurant. His wife, Sue, takes care of their two kids and helps to host at the restaurant in the evenings.

James realizes that good economic times come and go, and he may not be able to fully rely on the success of the business for his future needs. The restaurant doesn't offer a retirement plan because of the cost and administration that's involved in offering a plan for a small business.

As James thinks ahead, he realizes his family would have a difficult time continuing their current lifestyle should he die prematurely. He is also concerned about retirement and whether he can maintain his lifestyle. He's counting on the value of his business to fund retirement. The value of the restaurant is unpredictable, and he won't know what the final figure will be until he tries to sell. Also, there's no certainty that a buyer will be available when he reaches retirement.

Is there a way to help James financially protect his family now while helping him supplement his retirement dreams later?

A SOLUTION

James decides on a life insurance policy that will offer death benefit protection should he die prematurely along with the potential to accumulate cash values that may be accessed during retirement. He gains immediate death benefit protection and adds to his sources of retirement income outside his restaurant. With flexible premiums, he's in control, and he likes that any accumulated cash values grow tax-deferred[2] and that upon retirement the distributions are generally tax-free.[1] Also, should he die prematurely, the funds pass to his beneficiaries generally income tax-free.[1]

- **Immediate death benefit protection.** James gains death benefit protection as soon as the policy is in-force. The policy also provides death benefit protection in retirement as long as the policy stays in effect.
- **Less restrictive.** Life insurance is not a qualified plan. James can make premium payments that are not subject to limitations associated with tax-qualified plans up to guideline premium payments. Also, any cash value grows on a tax-deferred basis.[2]
- **Generally tax-free distributions.[1]** James can access any accumulated cash values within his policy generally income tax-free in the form of loans and withdrawals,[3,4] as long as the policy is not a Modified Endowment Contract (MEC).[5] Withdrawals are income tax-free up to the cost basis.
- **No penalties for early access and no required minimum distributions.** Should James need to access the policy's cash value before retirement, he can do so without a tax penalty associated with certain tax-qualified plans.[1] Plus, should James later discover that he doesn't need to access the cash value, he's not required to take distributions and may then leave the full death benefit as a legacy for his two children.

CONSIDERATIONS

- **Avoid Modified Endowment Contract status (MEC).[5]** A policy that is considered a MEC may be subject to tax when a client accesses the cash values with loans or withdrawals.[3,4] Avoid this structure when putting together a retirement planning strategy.
- **Non-guaranteed performance.** Cash values for loans and withdrawals in later years may be more or less than originally illustrated.[3,4]
- **Surrender charges.** Withdrawals may be subject to surrender charges and the amount available for policy loans.[3]
- **Loss of premium.** Depending on funding, life insurance may not guarantee avoiding loss of premium.
- **Specified amount of coverage.** Two items: 1) be sure the specified amount is enough to meet your client's pre-retirement life insurance needs, and 2) make sure the client has room to add more premium in the future if desired. However, having a specified amount larger than necessary may limit potential cash value growth for retirement income.
- **Cost of insurance.** Permanent life insurance policies require monthly deductions, which include cost of insurance, expense charges, and potentially other charges. These deductions may reduce the cash value of the policy.

Need help with your retirement planning cases?

Contact Sales Development today at **(800) 800-3656** ext. **10411** or **salessupport@nacolah.com**.

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 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.

2 The tax-deferred feature of universal life or indexed universal life insurance is not necessary for a tax-qualified plan. In such instances, your client should consider whether other features, such as the death benefit and optional riders make the policy appropriate for the client's needs. Before purchasing a policy, your client should obtain competent tax advice both as to the tax treatment of the policy and the suitability of the product.

3 In some situations, loans and withdrawals may be subject to federal taxes. Clients should be instructed to consult with and relay on their own tax advisor or attorney for advice on their specific situation.

4 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.

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).

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