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

Using Life Insurance for Legacy Building

Financial Protection & Help with Legacy Building

QUICK LOOK

Legacy building is a strategy using permanent life insurance to offer death benefit protection along with a tax-efficient way to pass along assets to beneficiaries. Typically, the strategy starts with funds the client already plans to pass along to family. These funds are transferred to a life insurance policy, which may immediately increase the amount in the form of the death benefit.

THE SITUATION

Pam is a busy and successful 65-year-old vice president at a public relations firm.

Over the years, Pam has prepared well for her retirement and is financially stable. She's able to meet her financial needs after she leaves the corporate world and is now looking to slow down and prepare for retirement.

The only life insurance protection she has is through her employer, which she realizes is not enough to provide for her adult children. Her children are beginning families, and she wants wants them to be financially protected when she is no longer around. Pam has set aside money specifically for this purpose, but she's not sure about the best approach for passing on these funds. The funds are currently sitting in a savings account earning very little interest. Pam is uncertain of how to go about putting her wishes in place.

Is there a way for Pam to meet her life insurance needs while helping her efficiently pass funds along to her children?

A SOLUTION

Pam meets with her life insurance agent to discuss her death benefit protection needs along with her desire to pass along a legacy. The agent takes a thorough look at her finances and explains to Pam that with life insurance, she can financially protect her children now and at the same time put a plan in place that would pass the funds she has already set aside to her children. Pam decides on a life insurance policy. Here are a few reasons why she chose the policy:

- **Immediate death benefit protection.** Pam can gain peace of mind from the start with death benefit protection that will be there for her children. When Pam passes way, the death benefit passes generally income tax-free to heirs.[1]
- **Probate-free.** When Pam completes the beneficiary designation naming her children on her life insurance policy, she is using a non-probate transfer, which means the death benefit will pass directly to her children.
- **Leverage.** With life insurance, the premium can provide a larger death benefit immediately after issue.
- **Liquidity.** Should Pam's needs change, she may access funds in her life insurance policy through loans, withdrawals,[2] or accelerated death benefits, if qualifications are met.[3]

CONSIDERATION

- **Cost of insurance.** Permanent life insurance policies require monthly deductions, which include the cost of insurance, expense charges, and potentially other charges. These deductions, with any loans or withdrawls, may reduce the cash value of the policy.
- **Surrender charges.** Withdrawals may be subject to surrender charges and the amount available for policy loans.
- **Modified Endowment Contracts (MECs).** MECs may have tax implications that Pam needs to know about before considering her options.[4]
- **Maintaining the Death Benefit.** Additional premiums may be necessary to continue the desired death benefit, depending on funding.

Need help with your legacy building cases? Contact Sales Development today at (800) 800-3656 ext. 10411 or email salessupport@nacolah.com.

Agents offering, marketing, or selling accelerated death benefits for chronic illness in California 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 clients. you must provide clients with the ADBE Consumer Brochure for California NAM-3013 that includes this comparison. Comparison is for solicitation purpose only, not for conversions.

1 Neither North American Company for Life and Health Insurance nor its agents give legal or 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 In some situations, loans and withdrawals may be subject to federal taxes. 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.

3 Accelerated death benefits are subject to eligibility requirements. 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. An administrative fee is charged at the time of election of benefits.

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).

We're Here For Life®

525 W Van Buren | Chicago IL 60607