



*Life*

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

# Using Life Insurance for Your Client's Smart Money

*Tip Sheet*



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 grow cash value while preserving access to as much of it as possible. Be sure to conduct a thorough needs-based analysis and determine if death-benefit coverage is necessary before proceeding.

## CLIENT PROFILE

- Between 50 and 80 years old
- Has a need for death benefit protection (often includes a desire to leave a legacy for heirs)
- Has funds that are not meeting performance needs (funds may be in savings, annuities,<sup>1</sup> or other vehicles)
- Desires the potential for cash value growth with limited exposure to market volatility
- May have recently inherited money

## NEED TO KNOW

- How much cash value is available? (After any applicable surrender charges or taxes.)<sup>2</sup>
- 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).<sup>3</sup> It's important to realize that there may be tax implications that the client needs to know when considering options.<sup>2</sup>
- The Waiver of Surrender Charge Option<sup>4</sup> can provide flexibility for clients to access funds. This option waives surrender charges upon a full or partial surrender.
- 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 protection. 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.
- Cost of insurance charges (COIs) or other charges apply with life insurance
- Depending on funding, life insurance may not guarantee avoiding loss of premium.
- Additional premiums may be necessary to continue the desired death benefit, depending on funding.

- Withdrawals may be subject to surrender charges and the amount available for policy loans (unless the Waiver of Surrender Charges option is elected.)
- 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 undesirable cash value growth occur. This will result in a lower target premium.

## PRODUCTS

- **Rapid Builder IUL®:** This is one of the most popular products 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.<sup>5,6</sup>

## 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:**<sup>7</sup> 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 may have the ability to accelerate a portion of the death benefit during their lifetime when diagnosed with a qualifying illness.<sup>8</sup>

## 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 [nalive.northamericancompany.com/NA-SmartMoney](http://nalive.northamericancompany.com/NA-SmartMoney) today to download the complete kit! Start today and help your clients gain death benefit protection and a financial safety net.

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

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. 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.
3. 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).
4. Available for an additional charge per \$1,000 per month, depending on issue age and underwriting class. Surrender charges will not be waived if the policy is surrendered under a 1035 Exchange (except in Florida). For Rapid Builder IUL - a decrease charge will be assessed if a reduction in the policy face amount is requested during the Waiver of Surrender Charge Period. However, if a partial withdrawal results in a reduction of the face amount, the decrease charge is waived.
5. 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. If we are crediting interest in excess of the guaranteed interest rate and your client's policy is in effect after the 10th policy anniversary, your client's policy will receive an Interest Bonus. The Interest Bonus is 1.0 % above the then current interest rate in years 11-20, increasing to 1.15% in years 21 and thereafter.
6. A conditionally guaranteed Premium Bonus will be added to the account value for policies that persist beyond 10 years. Money will be paid in the form of interest credited to the Account Value. The bonus is added as an interest credit at the beginning of policy years 11-15. To calculate the Premium Bonus, we first determine the average net premium. The average net premium is equal to the sum of the (total premiums paid less withdrawals taken in the first 10 years less the debt at the end of the 10th policy year) divided by 10. The Premium Bonus is the lesser of the average net premium and 120% of the commissionable target premium. The Premium Bonus is spread out over five years (20% paid annually in years 11-15). The Premium Bonus feature is only available if:
  - a. the policy is in effect;
  - b. the company declares a current interest rate that exceeds the 3% guaranteed interest rate; and the current costs of insurance rates are less than guaranteed maximum cost of insurance rates shown in the Schedule of Policy Benefits.
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. 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. There is an administrative fee at time of election.

Rapid Builder IUL is issued on policy form series LS176/LS176W with Waiver of Surrender Charge Option, 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.

***We're Here For Life***®

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