

USING LIFE INSURANCE FOR ANNUITY MAXIMIZATION

Help Your Clients Make the Most of Their Annuity

Agent Guide



North American Company
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Since 1886

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Maximize Your Client's Annuity Funds By Using Life Insurance

Even the best financial plans can run into unforeseen problems with taxation that could leave your client's heirs with less than planned. By using life insurance to maximize annuity funds, you can help provide your clients with the most value for their annuity funds, without the limitations of income or estate taxes.¹



Who Can Benefit?

Many of your clients have used annuities as a savings vehicle as part of their financial plan. Some of your clients may no longer need the money in the annuity for themselves. Instead, they plan to pass the money on to their heirs.

But did you know that the gains on your client's annuity (the portion that exceeds the original investment)² will be taxable income to heirs? In addition, the full value of the annuity is includible in your client's taxable estate, which could result in a diminished inheritance.

To maximize your client's annuity dollars, one strategy is to purchase a life insurance policy with the annuity funds. The beneficiaries of the policy would then be paid a generally tax-free death benefit and avoid the taxes associated with inheriting annuity funds.

Why Life Insurance?

Annuities are subject to income taxes and estate taxes after the owner dies. An annuity's cash value could be severely reduced after beneficiaries are hit with tax liabilities, often determined by:

- the type of annuity.
- the total value of the annuity.
- the income tax brackets of the heirs.
- the size of the estate.

Life insurance, on the other hand, provides a generally income tax-free death benefit and can be structured to be excluded from the owner's taxable estate, thereby avoiding any potential estate taxes. Using annuity funds to buy a life insurance policy can maximize the value for your client's heirs.

How Does It Work?

There are two common ways to use the annuity maximization strategy.

1. **Single premium:**

- Surrender the annuity and use the lump sum to purchase a paid up, guaranteed universal life policy on your client's life.
- Leverage lump sum dollars into the largest guaranteed death benefit for heirs.

2. **Spread out premium payments:**

- Annuitize or 1035 exchange the annuity into a Single Premium Immediate Annuity (SPIA).
- Use income stream to fund a life insurance policy.
- Your client retains access to cash accumulation, if needed.
- Heirs receive the life insurance death benefit, generally tax-free.

Both options present different advantages and disadvantages—depending on your client's goals. Talk to your client today about this strategy to maximize annuity funds for heirs.

**OFFER YOUR CLIENTS FINANCIAL
PROTECTION AND HELP TO GROW THEIR
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² If the original investment was pre-tax, then the full value of the annuity will be taxable income to heirs.



We're Here for Life[®]

North American Company
525 W Van Buren
Chicago IL 60607

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