Financial Independence
SALES KIT

In this kit:

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Editor's Note: We *love* this article by Sheryl J. Moore, posted on WinkIntel.com - find the original (and a lot more) here: https://www.winkintel.com/insurance-basics/annuities/

ANNUITIES 101

INTRODUCTION

You're obviously here for a reason…

Annuities have been called "complex" by some. (NOT!) Actually, when you've got the lowdown on these retirement savings products, it's pretty simple! *wink* **Now— let's assume that you don't know what an annuity is.** No worries. Most everyone knows what life insurance is, so let's just start by making a comparison to life insurance.

Life insurance protects against the risk of death, or *dying too soon*; if the insured person(s) die, the insurance company pays out a sum of money to one or more designated beneficiaries;

An annuity is sometimes referred to as "the opposite of life insurance." Annuities insure against the risk of life, or *living too long*; the insured person receives a stream of income they cannot outlive from the insurance company;

With an annuity, the purchaser pays a premium to the insurance company. In exchange, they receive a regular stream of income payments from the insurer that begin either immediately, or at some time in the future. The payment stream continues until the purchaser dies- even if that occurs at age 127 ½!

Heads up- an annuity is one of the tons of financial products that are available as a retirement income vehicle. You should work with a trustworthy professional when determining which of these vehicles best-suits your needs and retirement goals. Got it?

Hold on- before making this decision, you should also consider a fundamental principle of risk*:*

Risk/Reward Tradeoff- a direct inverse relationship between possible risk and possible reward, which holds for a particular situation. To realize greater reward, one must generally accept a greater risk, and vice versa.

In light of this fabulous tradeoff, there are three questions that must be answered, when researching what type of annuity is right for you.

1. What level of risk am I willing to assume with the annuity?

If most concerned about high minimum guaranteed interest, regardless of the lower level of interest crediting/gains, consider a Fixed Annuity.

If willing to accept a lower minimum guarantee than a fixed annuity, but looking for potentially greater interest crediting/gains, consider an Indexed Annuity.

If willing to accept no minimum guaranteed interest, and the possibility of unlimited loss in exchange for the possibility of unlimited interest crediting/gains, consider a Variable Annuity.

2. How soon will I need the regular stream of income payments from the annuity?

If income will be taken within the first year, consider an immediate annuity (offered in Fixed, Indexed, and Variable types).

If income will be taken at some time further in the future, consider a deferred annuity (offered in Fixed, Indexed, and Variable types).

3. How many premium payments will I be making into the annuity?

If only a single payment will be made into the annuity, consider a single premium immediate annuity or a single premium deferred annuity.

If making more than one payment into the annuity, consider a flexible premium deferred annuity.

Okay- got that part? There's just a little bit more…

There are also two different classifications of annuities: deferred and immediate.

What is a deferred annuity?

An insurance product whereby at least a year will elapse between when the lump sum or series of premium(s) are paid, and the annuity is transitioned into a stream of income through annuitization. Deferred annuities can be Fixed, Indexed, or Variable in nature.

What is an immediate annuity?

An insurance product whereby a lump sum premium is paid and the annuity is transitioned into a stream of income through annuitization within one year from the date of purchase. Immediate annuities can be Fixed, Indexed, or Variable in nature.

Deferred annuities typically are used as vehicles for accumulation, or building additional interest until the annuitant is ready to transition the annuity to a series of payments through a process called "annuitization." Alternatively, an immediate annuity is often used as a vehicle for individuals who are ready for their income stream to begin, well, immediately.

Both deferred and immediate annuities can have their interest credited in several different ways. The two basic types of deferred and immediate annuities are Fixed and Variable. Of the fixed variety, there are (traditional) Fixed, as well as Indexed.

Annuity Risk Spectrum

	Guaranteed Interest	Upside Potential	Indexed Participation	Client's Risk Tolerance
Fixed*(Traditional)*	Typically 1.00%	Very Limited: typically less than 5.50%	None	Low
Indexed	Typically 87.50% of premium @ 1.00%	Limited: typically capped at less than 9.00%	Gains based on the performance of an external index	Moderate
Variable	Fixed account only	Unlimited	Gains based directly on fund performance	High

(NEWSFLASH: if a salesperson suggests that Indexed Annuities provide unlimited gain potential- RUN! This individual either misunderstands or is misrepresenting the product.)

Indexed Annuities provide ***limited*** gain potential and are not intended to perform comparably to securities products. Indexed Annuities merely credit interest **based on the performance of** stock market, commodities, or bond index. Don't be confused; these annuities do not allow you to invest directly in the stock market. They do, however, provide the opportunity to outpace fixed money instruments such as Certificates of Deposit (CDs) or Fixed Annuities.

What is a Fixed Annuity (FA)?

A contract issued by an insurance company that guarantees a minimum interest rate with a stated rate of excess interest credited, which is determined by the performance of the insurer's general account. Multi-Year Guaranteed Annuities (MYGAs), a type of Fixed Annuity, guarantee a minimum interest rate for more than a one-year period; this rate is also determined by the performance of the insurer's general account. A Fixed Annuity is considered a low risk/low return annuity product.

What is an Indexed Annuity (IA)?

A contract issued by an insurance company that guarantees a minimum interest rate of zero, where crediting of any excess interest is determined by the performance of an external index, such as the Standard and Poor's 500® index. An Indexed Annuity is considered a moderate risk/moderate return annuity product.

What is a Variable Annuity (VA)?

A contract issued by an insurance company that has no minimum guaranteed interest rate, where crediting of any excess interest is determined by the performance of underlying investment choices that the annuity purchaser selects. A Variable Annuity is considered a high risk/high return annuity product.

In your evaluation of annuities, it helps to understand the "300 foot view" of the annuity transaction. The sale of an annuity has to benefit the three parties to the annuity transaction:

1. **The annuity purchaser-** via fair interest rate crediting/gains
2. **The annuity salesperson-** via fair compensation
3. **The annuity issuer (insurance company)-** via a fair profit, i.e. a spread

We refer to this as the "three-legged stool" of the annuity transaction. To fully understand, it also helps to consider how the insurance company makes money by selling annuities. Simplistically, the insurance company invests the annuity purchaser's premium payment(s) in different investment vehicles, in order to make a return that is high enough to pay administrative costs (such as the salesperson's compensation), credit interest to the annuity purchaser, and still retain a profit.

So, let's consider an example, using Fixed Annuities as a point-of-reference.

The Fixed Annuity purchaser submits a payment of $100,000 to the insurance company for her 10-year annuity;

The insurance company invests the annuity purchaser's premium payment in bonds (This ensures that they will receive a guaranteed return on the monies, and be able to pay the annuity purchaser a guaranteed interest rate);

Assume that 10-year bonds are paying a rate of 4.00% to the insurance company;

The insurance company then credits [4.00% – X] to the annuity purchaser's 10-year fixed annuity contract [the value of X is determined by knowing what amount the insurer needs to cover their expenses (i.e. salesperson's compensation) and the amount of profit the insurance company intends to keep].

TA DA! IT'S THAT SIMPLE!

Now, with Indexed Annuities, the example above is only modified slightly.

The insurance company still invests the annuity purchaser's premium payment in bonds; but not 100% of it;

The difference of less than 5% of the payment is used to purchase options (options are what give the insurance company the ability to credit interest to the annuity purchaser, based on the performance of a stock market index);

The determinant in the rate that is credited to the annuity is: a) the cost of the option, and b) the stock market index's performance.

So, we have established that there are several different types of annuities, the primary categories being Fixed and Variable. These products are very different, despite the fact that they both may be used for the same purpose. Not everyone has similar tastes after all (hence the exhaustive list of delicacies available at The Cheesecake Factory!).

Okay- so we've seen some of the likenesses in these products. So, what's different?

WHO SELLS THIS PRODUCT?

Licensed insurance agents have the ability to sell Fixed, Indexed, and Multi-Year Guaranteed Annuities, as long as they have an active life and annuity line of authority within the state that they are selling in.

Even though Indexed Annuities earn interest based on the performance of a stock market or similar index, a securities license is not required to sell Indexed Annuities. They are fixed insurance products; the annuity purchaser is never directly invested in the stock index with an Indexed Annuity.

If a securities-licensed salesperson (i.e. someone who sells stocks, bonds, mutual funds, etc.) wants to sell Fixed, Indexed, or Multi-Year Guaranteed Annuities, they can do so by obtaining a life and annuity line of authority with their local state insurance commissioner's office.

HOW IS THIS PRODUCT SOLD?

Fixed, Indexed, and Multi-Year Guaranteed Annuities, like other insurance products, are sold via an insurance contract. This document is 20 pages, give or take. By contrast, securities products (such as Variable Annuities) are sold via a prospectus; a document that is typically more than 100 pages. The fact of the matter is, if most American's don't read their mortgage paperwork, they're not going to read these documents either. Sad and scary, but true.

When an insurance agent sells any variety of fixed annuity, the sales materials and product brochures will be accompanied by the following (at a minimum):

- Annuity application
- Annuity disclosure document
- Annuity suitability form
- Annuity Buyer's Guide

More forms may be required depending on the state that the purchaser lives in, whether they are replacing another annuity or investment with the current annuity purchase, and/or whether the monies that are being used to purchase the annuity are coming from a qualified plan (just to name a few variables).

WHO CARRIES THE RISK WITH THIS PRODUCT?

Fixed Annuity

The insurance company must pay out a minimum guaranteed rate of interest, regardless of what they earn on their investments with a Fixed Annuity. Let's take a look:

- An annuity purchaser buys a Fixed Annuity with a minimum guarantee of 3.00%;
- The annuity is currently credited rate of 4.50%;
- If the market "tanks," and the insurance carrier can only earn 2.00% on the money they have invested (i.e. on the bonds purchased by the insurer at the time the annuity was acquired), the annuity purchaser is still protected by the minimum guarantee of 3.00%;
- So, the insurance company holds the risk with a Fixed Annuity. The insurer still has to make good on the minimum guarantees in the contract,

regardless of the performance of their own investments.

Indexed Annuity

The insurance company must pay out a minimum guaranteed rate of no less than 0%, regardless of what they earn on their investments with an Indexed Annuity. Let's check it out:

The insurance company must offer a secondary guarantee on Indexed Annuities, in the event the annuity purchaser dies or cash surrenders the annuity, or even in the event the index does not perform;

This guarantee is called the Minimum Guaranteed Surrender Value, or MGSV;

An annuity purchaser obtains an Indexed Annuity with a MGSV of 87.5% of premiums, credited at 3.00% interest;

On this annuity, the maximum credited interest may not exceed a cap of 8.00% if the S&P 500 rises 8.00% or more over a one-year period;

If the market "tanks," and the insurance carrier can only earn 1.00% on the money they have invested (i.e. on bonds purchased by the insurer at the time the annuity premium was paid), the annuity purchaser is still protected by the MGSV of 87.5% of the premiums paid accumulated at 3.00% interest (which accumulates to the point where a return of premiums paid would occur in the fourth contract year);

So, the insurance company holds the risk with an Indexed Annuity. The insurer still has to make good on the minimum guarantees in the contract, regardless of the performance of their own investments.

Variable Annuity

The Variable Annuity purchaser chooses to directly invest in an array of available stocks, bonds, mutual funds, and underlying subaccounts on their annuity; any gain or loss is passed directly to the annuity purchaser in whole (less fees and charges). Let's review:

There is a potential for the annuity purchaser to experience a loss of principal and gains with a Variable Annuity, in the event of poor market performance;

The variable sub-accounts have no minimum guaranteed interest, but the upside potential of a Variable Annuity is greater than that of Fixed and Indexed Annuities;

An annuity purchaser acquires a Variable Annuity with a minimum guarantee of 1.00% only on the fixed subaccount, and no minimum guarantee on the variable subaccounts;

Assuming 100% of the premiums are allocated to variable sub-accounts, if the market "tanks," the insurance company bears no risk, but passes it directly to the annuity purchaser through a loss in their annuity's value;

So, the annuity purchaser holds the risk with a Variable Annuity. The insurer has no minimum guarantees to honor in the contract (they collect their fees and charges regardless of performance), and any negative performance on the underlying investments is fully-realized by the annuity purchaser.

REGULATION

Heads up before you get deep into this regulation stuff- all financial services products have been used in the course of bad behavior, on the part of the salesperson, at one point or another. It is worth mentioning that the tool of the bad behavior is not the problem in such situations.

I liken this to a serial killer using a hammer to murder his victim and the government subsequently outlawing the use of hammers. That would make it difficult to complete tasks such as building homes and hanging pictures, but it would certainly eliminate people bludgeoning their victims with the tool. That being said, keep reading- you are doing GREAT!

Who regulates annuities? Is someone keeping tabs on these folks?

Fixed, Indexed, and Multi-Year Guaranteed Annuities (MYGAs) are fixed insurance products, and therefore regulated by state insurance laws and the insurance commissioners that enforce them.

- Insurance agents who want to sell Fixed and Indexed Annuities must obtain a life insurance license in the state where they are practicing;
- The insurance commissioner oversees the financial regulatory practices of the insurance industry as well as the solvency of the companies selling the products;
- Insurance companies, salespeople, and annuity purchasers go through their local state insurance department when they have questions or concerns about Fixed, Indexed, or MYG Annuities.

Variable Annuities are securities products, and thereby regulated by the Securities and Exchange Commission (SEC).

- Salespeople wanting to sell Variable Annuities must obtain a life insurance license in the state where they are practicing, as well as pass a securities exam(s);
- The insurance commissioner ensures the solvency of companies selling Variable Annuities;
- However- insurance companies, salespeople, and annuity purchasers go through the SEC when they have questions or concerns about Variable Annuities.

In the securities industry (where products such as Variable Annuities are sold), salespeople that are licensed to sell the products are regulated by the Financial Industry Regulatory Authority (FINRA) as opposed to the state insurance commissioner.

- FINRA is a self-regulatory organization that oversees the financial regulatory practices of the securities industry;
- In a nutshell, if you hold securities license, you must abide by the rules of the FINRA as well as the SEC, while the insurance commissioner oversees the solvency of the insurance companies you do business with.

Note that in the past, there have been a handful of Fixed and Indexed Annuities that have been filed as securities products and registered with the SEC, despite the fact that they are fixed insurance products. An insurance company's logic behind doing this may be for several reasons. One reason an insurance company may register a fixed product as a security is to accommodate a distribution that is used to selling securities products (and the prospectuses that come with them). As a comparison, historical sales of registered Indexed Annuities have been nominal in comparison to total Indexed Annuity sales. Today, there are no registered Indexed Annuity products available for sale.

Both fixed and variable insurance products have tight regulation, and rules that the insurance companies and salespeople must abide by. The insurance company's products, advertising materials, disclosures and training brochures are diligently reviewed in both the fixed and variable insurance markets. Salespeople are required to be properly licensed to sell both types of products. The market conduct of the marketing organization, broker/dealer, and salesperson are all carefully monitored, whether she/he is selling the Fixed, Indexed, or Variable variety of annuity.

THE BATTLE OVER THE SECURITIES STATUS OF INDEXED ANNUITIES

Click here for a detailed timeline of the SEC's efforts to regulate Indexed Annuities as securities products.

SEC QUESTIONS IF INDEXED ANNUITIES SHOULD BE SECURITIES-PART I

In 1997, just two years after Indexed Annuities were introduced, the SEC first explored whether these products should be treated as securities (and subject to SEC regulation), as opposed to being treated as insurance (and therefore regulated by the NAIC).

Things you should know about this:

- The primary motivation for this inquiry was the SEC's lack of information on the products; they earnestly didn't know if Indexed Annuities were, or were not, securities;
- The SEC issued a concept release, requested promotional materials explaining the products, and ultimately took no action on the matter;
- At the time, the insurance industry assumed the lack of action to mean that the SEC had decided that Indexed Annuities were not securities;
- The insurance industry's understanding of the products' regulatory framework also led them to believe that Indexed Annuities were insurance:
  - The purchaser's principal and gains were protected from any losses due to stock market volatility in an Indexed Annuity, unlike securities products;
  - Indexed Annuities met the three criteria for the SEC's Section 3(a)(8) exemption from securities regulation. This exemption was determined eight years before Indexed Annuities were ever introduced and indicated that a product was not subject to SEC regulation if
    - the annuity contract was subject to supervision by the state insurance commissioner;
    - the insurer assumed the investment risk under the annuity (as opposed to the purchaser); and
    - the annuity was not marketed primarily as an investment.

For these reason, it was believed that Indexed Annuities were fixed insurance products, not securities- particularly when the SEC took no action in 1997.

FINRA'S NOTICE TO MEMBERS 05-50

Several years later, in August of 2005, FINRA (then known as the National Association of Securities Dealers, or NASD) issued the "Notice to Members 05-50." This is separate from, but related to, the previous discussion:

- This notice suggested that broker/dealers (B/Ds) treat Indexed Annuities as if they were securities, despite their fixed insurance status;

FINRA justified their notice based on their belief that Indexed Annuities might one day be treated as securities, despite the fact that they were treated as insurance at the time the notice was issued;

For salespeople not selling securities products, NTM 05-50 did not affect their sales practices;

Alternatively, annuity salespeople with securities licenses were forced to change their sales practices in regard to Indexed Annuities; all sales of Indexed Annuities were to go through their broker/dealer forthwith;

This meant that a salesperson's B/D needed to approve the fixed insurance product that he wanted to offer his client, despite the fact that FINRA had no regulatory authority over Indexed Annuities; Regardless, salespeople holding securities licenses must abide by the rules of FINRA;

Therefore, B/Ds began the task of overseeing Indexed Annuity sales for their registered representatives in August of 2005, and still oversee them to this day.

SEC QUESTIONS IF INDEXED ANNUITIES SHOULD BE SECURITIES-PART II

In June of 2008, the SEC began a second inquiry on the matter of whether, or not, Indexed Annuities should be regulated as securities with proposed Rule 151A. The SEC's proposition was the result of years of negative and inaccurate media being published on Indexed Annuities. Here's the short and sweet of this battle:

One of the primary reasons that Indexed Annuities have received negative media attention is because of their perceived complexity.

In an effort to differentiate the many products that are available for sale today, insurance companies have invented new methods of calculating potential interest crediting;

At times, these methods are overwhelming to both the salesperson and the annuity purchaser;

However, 99.8% of the crediting methods available on Indexed Annuity products are based on very simple math (point-to-point, monthly and daily averaging, and fixed strategies). It's the other 0.2% of the strategies out there that get folks confused once in a while…

Adding fuel to the media fire is that fact that some annuity salespeople have used Indexed Annuities in the course of bad behavior. These individuals' suggestions of unsuitable annuity products resulted in some annuity purchasers being taken advantage of. Overall, this resulted in observers making the inaccurate assumption that all Indexed Annuities are "bad," or used to take advantage of seniors.

Mistakenly, the insurance industry did not foresee media outlets' disparaging and erroneous statements to be an immediate threat to Indexed Annuities; it was merely considered the newspapers and magazines' attempts to cater to their advertisers. These advertisers sold securities products (such as mutual funds and stocks), therefore no one expected the media to sing the praises of products their advertisers competed against. This folly, coupled with a lack of publicly-available, credible information on Indexed Annuities, eventually resulted in the SEC declaring that the products should fall under their purview per Rule 151A. (Not anymore! Wink is here to save the day!!)

After a two-year battle waged with regulators, litigators, and legislators, the insurance industry secured the fixed insurance status of Indexed Annuities indefinitely.

> In the end, it was an act of Congress that settled the matter;
>
> In July of 2010, President Barack Obama's signed the Dodd-Frank Wall Street Reform and Consumer Protection Act, which contained Senator Tom Harkin's (D-IA) Congressional amendment detailing and dictating Indexed Annuities' permanent insurance regulation.

Closing Thoughts

Now you should understand what an annuity is, who can sell them, and who regulates them. You should also understand quite clearly, what an annuity is not. Fixed, Indexed, and MYG Annuities are not alternatives to Variable Annuities, stocks, bonds, or mutual funds; these products are "risk money places." Fixed, Indexed, and MYG Annuities are more accurately classified as "safe money places," and generally viewed as an alternative to CDs, or other fixed-rate savings instruments. Is an annuity right for you? **Only YOU can decide.**

ANNUITY RATES

Fixed Annuities have an interest rate that is declared annually by the insurance company. Multi-Year Guaranteed Annuities are like traditional Fixed Annuities in that their interest rate is also declared by the insurance company. However, Multi-Year Guaranteed Annuities' interest rates are guaranteed for longer than a one-year period. Guarantee periods on these annuities may range anywhere from two to ten years.

Most Indexed Annuities today offer some form of fixed bucket strategy. This would be a premium allocation option that receives credited interest in a manner like that of a traditional Fixed Annuity. A declared rate is set for the fixed strategy, and the annuity purchaser receives that rate if the annuity is held for the strategy term (usually one year). Most Variable Annuities also offer a fixed bucket for clients desiring a more conservative allocation mix. However, the line between Fixed, Indexed, and Variable is drawn when it comes to differentiating how the non-guaranteed rates are credited on these products.

Remember that with a Fixed Annuity, the insurance company declares a stated credited rate for the non-guaranteed, current interest rate. A Variable Annuity is very different in that the insurance company does not limit the potential gains of the product; the client is investing directly in the market. Therefore, a Variable Annuity purchaser may realize a gain of 18.00% if the fund they invested in grows that much over a one-year period. With an Indexed Annuity, the insurance company purchases options based on an external index's performance, and the annuity purchaser receives non-guaranteed, current interest that is limited in growth (based on the option price).

Like the handful of crediting methods that can be confusing on some Indexed Annuity products, the pricing levers that are used to determine the actual rate credited can perplex others. There are three simple pricing levers that are used when calculating potential interest on Indexed products:

> **Participation Rate**—the percentage of positive index movement in the external index that will be used in the crediting calculation on an indexed product. (Note that a product with a Participation Rate may also be subject to a Cap and/or Spread.)

Cap—the maximum interest rate that will be used in the crediting calculation on an indexed product. (Note that a product with a Cap may also be subject to a Participation Rate and/or Spread.)

Asset Fee/Spread—a deduction that comes off of the positive index growth at the end of the index term in the crediting calculation on an indexed product. (Note that a product with a Spread may also be subject to a Participation Rate and/or Cap.)

Now that all of the disclaimers are aside, it can simply be said that most indexed strategies that have 100% Participation utilize a Cap as the pricing lever. In turn, most indexed strategies that have less than 100% Participation utilize the Participation Rate as the pricing lever. There are also trends among indexed crediting methods; averaging strategies tend not to have Caps more often than others, and utilize Spreads more frequently. Annual point-to-point methods generally utilize the Participation Rate or a Cap to limit potential indexed gains.

It is really quite simple when you break it down. For example, on an Indexed Annuity over a one-year term where the S&P 500® has experienced an increase of 20%:

A **Participation Rate** of 55% would afford the client potential indexed crediting of 11% (20% x 55% = 11%)

A **Cap** of 8% would pass on potential gains of 8% to the client (20% limited by an 8% cap)

A **Spread** of 3.00% would leave the client with 17% interest credited (20% – 3% = 17%)

Typically, an Indexed Annuity utilizes only one pricing lever on each strategy. This means that when the insurance company changes the annuity's rates, or the contract comes upon the policy renewal, only the one pricing lever will be adjusted upward or downward. However, an insurance company may reserve the right to adjust more than one pricing lever in the event of declining rates. This does not necessarily mean that they alter more than one pricing lever by practice. Generally, the less "moving parts," the easier the product is to convey to both the salesperson and the purchaser. For that purpose, insurance companies try to limit the number of variables needed to describe each crediting method. It is important to note that there are a handful of products that use a moving part that is unique specifically to that product. These are just other pricing levers where potential interest crediting has been limited.

Indexed Annuities are also like Fixed Annuities in that they have minimum guarantees to protect the purchaser from a downturn in current credited rates or Caps, etc. Fixed and Multi-Year Guaranteed Annuities generally offer a minimum guaranteed floor of 1.00% or more. Indexed Annuities offer a guaranteed floor of no less than 0.00%. In addition, Indexed Annuities have a secondary guarantee that is payable in the event of death, surrender, or if the external index does not perform. This secondary guarantee is referred to as a Minimum Guaranteed Surrender Value (MGSV); it credits a rate of interest between 1% and 3% on a percentage of the premiums paid in to the annuity.

MGSVs can be stated in two methods: as Account Value guarantees, which must deduct the surrender charges from the calculation, or as Surrender Value guarantees, which are net of the surrender charges on the contract. An Indexed Annuity with a first-year surrender charge of

10%, and an Account Value guarantee of 100% @ 3% may be equivalent to the Surrender Value guarantee of a second product with an MGSV of 90% @ 3%. (100% – 10% surrender charge = 90%).

When Indexed Annuities first emerged in 1997, their MGSVs were often based on 90% of premium, credited at 3% interest; i.e. 90% @ 3%. However, when market conditions began declining and insurance companies weren't able to offer indexed products with these guarantees, we saw MGSVs drop as low as 65% @ 3% for first-year premiums. It is important to note that annuity MGSVs most adhere to state Standard Non-Forfeiture Laws (SNFL), which are enforced by the state insurance departments. Today, more than three quarters of Indexed Annuity products have MGSVs that are based on 87.5% of premiums, and credited interest is based on the 5-year Constant Maturity Treasury rate (a rate between 1 – 3%). Today, annuity MGSVs cannot be less than 87.5% of premiums paid, credited at 1% interest.

A Comparison of Annuity MGSVs Based on 87.5% of Premiums Paid

Contract Year	Premium Amount	Interest Rate	Contract Year	Premium Amount	Interest Rate	Contract Year	Premium Amount	Interest Rate
	87.50%	1.0%		87.50%	2.0%		87.50%	3.0%
	$87,500.00			$87,500.00			$87,500.00	
1	$88,375.00		1	$89,250.00		1	$90,125.00	
2	$89,258.75		2	$91,035.00		2	$92,828.75	
3	$90,151.34		3	$92,855.70		3	$95,613.61	
4	$91,052.85		4	$94,712.81		4	$98,482.02	
5	$91,963.38		5	$96,607.07		5	$101,436.48	
6	$92,883.01		6	$98,539.21		6	$104,479.58	
7	$93,811.84		7	$100,510.00		7	$107,613.96	
8	$94,749.96		8	$102,520.20		8	$110,842.38	
9	$95,697.46		9	$104,570.60		9	$114,167.65	
10	$96,654.44		10	$106,662.01		10	$117,592.68	
11	$97,620.98		11	$108,795.25		11	$121,120.46	
12	$98,597.19		12	$110,971.16		12	$124,754.08	
13	$99,583.16		13	$113,190.58		13	$128,496.70	
14	$100,578.99		14	$115,454.39		14	$132,351.60	
15	$101,584.78		15	$117,763.48		15	$136,322.15	
16	$102,600.63		16	$120,118.75		16	$140,411.81	

Another very important rate to consider when evaluating which product to purchase, whether Fixed or Indexed, is the renewal rates. These are the new interest crediting rates, Caps, Participation Rates, etc. that are declared at the end of the interest crediting term (typically one year). So many products today are copied off of another popular insurance company's product. If you want to evaluate the annuity beyond the contractual features, and the service and integrity of the insurance company; renewal rates should be taken into consideration. That being said, renewal rates are one of the most difficult pieces of information to get your hands on. A scant number of insurance companies feel that their renewal rates are an integral part of their sales story, and actually publish marketing pieces publishing these rates. This gives the potential annuity purchaser an idea of what the insurance company may do to the future rates on the product that they purchase, based on past renewal rate histories.

If you do not have access to renewal rates, it may be helpful to research Fixed and Multi-Year Guaranteed Annuities' minimum guarantees and an Indexed Annuity's minimum Participation Rates and Caps, as well as their maximum Spreads. These can be an indicator of just how low the insurance company could reduce the rates on the product after it is purchased. Note however, that due to policy filing efficiencies, many insurance companies opt for unusually low rate guarantees, Participation Rates and Caps, and rather high Spreads. (This avoids the cost of potentially re-filing the product in the event that market conditions decline, forcing the insurer to dramatically lower rates.) Often, salespeople are surprised when they see the maximums and minimums on the pricing levers for Indexed Annuities in particular. From a marketing standpoint, it is important to remember that the insurance companies would most likely discontinue selling the product(s) before rates were ever reduced to these minimums/maximums.

CREDITING METHODS

Point-to-Point Methods

Annual Point-to-Point

Two-Year Point-to-Point

Term End Point

Monthly Point-to-Point

Point-to-Point with Low Watermark Features

Point-to-Point with High Watermark Features

Averaging Methods

Quarterly Point-to-Point

Monthly Averaging

Rolling Monthly Averaging

Daily Averaging

Fixed Methods

Fixed

Fixed Rate with an Equity Kicker

Fixed with Multi-Year Guarantee

Performance Triggered

Other Methods

Declared Rate/Equity Blend

Multi-Index and Rainbow crediting methods (a subset)

HISTORY OF ANNUITIES

The Very First Annuity

1100 – 1700 B. C. Archeologists reveal that the legal codes of Egypt provide evidence that an annuity was purchased by a Prince ruling in Sint, in the Middle Empire.

The First Fixed Annuity

1759— A Pennsylvania company offers the first annuity in America to Presbyterian ministers and their families.

Traditional Fixed Annuities NOW

At the close of 2019, Traditional Fixed Annuity sales were $3.6 billion.

Multi-Year Guaranteed Fixed Annuities NOW

At the close of 2019, Fixed Annuity sales were $45.8 billion.

The First Indexed Annuity

February 15, 1995—Keyport (now Delaware Life Insurance Company) sold the KeyIndex Annuity for a premium of $21,000. Over a 5-year period the annuity grew to a value of $51,779. The average CD at the time would have returned $27,554 over the same five-year period, had the client continually renewed it.

Indexed Annuities NOW

At the close of 2019, Indexed Annuities sales were $73.2 billion.

Non-Variable Deferred Annuities NOW

At the close of 2019, all Non-Variable Deferred Annuity sales were $122.8 billion

The First Structured Annuity

October 4, 2010—AXA Equitable Life Insurance Company (Equitable Holdings Inc.) launched Structured Capital Strategies B

Structured Annuities NOW

At the close of 2019, Structured Annuity sales were $17.3 billion.

The First Variable Annuity

1952— TIAA-CREF sold the first Variable Annuity for use in college and university qualified retirement plans.

Variable Annuities NOW

At the close of 2019, Variable Annuity sales were $81.6 billion.

Variable Deferred Annuities NOW

At the close of 2019, Variable Annuity sales were $99.0 billion.

Deferred Annuities NOW

At the close of 2019, All Deferred Annuity sales were $22.1 billion.

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Lincoln Financial Group®

Best practices for talking to your clients about protected lifetime income

The formula for more powerful, effective conversations

How can you inspire strong, positive reactions in clients — and get them **ready to take the next steps in the income planning process**? These three simple steps will help improve your income planning conversations:

1. Create an emotional connection with clients through a two-way dialogue on their retirement vision.
2. Focus on the solutions that can help solve their retirement income needs, not the challenges themselves.
3. Keep the conversation down to earth by not overpromising the impact of any one product, but instead describing the power of a diversified income plan.

A formula that works

1 Create the connection + **2 Focus on the solution, not the risk** + **3 Keep it down to earth** = **Simple, powerful and effective conversations**

Insurance products issued by:
The Lincoln National Life Insurance Company
Lincoln Life & Annuity Company of New York

For use with the general public.

1

Create an emotional connection with clients

Research shows that emotions are contagious: In a recent study, Facebook conducted a test where they flooded the feeds of half a million users with either positive or negative posts. The results: Users who saw more positive posts went on to post more positive messages as well, and vice versa.[1]

What does this have to do with you and your client relationships? To build positive, trusting bonds with your clients, you need to prompt them to talk about what's most important to them, raising the stakes of the conversation — and providing a way for you to help address their most meaningful needs.

Your action step
Ask open-ended questions framed in a positive way, and then truly listen and engage them in a deeper conversation. For example, try asking:

- What would your ideal retirement look like?
- What would it mean to you to realistically know what you can afford in retirement?
- What words would you like to be able to use to describe your income in retirement?

2

Focus on solutions, not risks

Have you ever noticed the urge to check your account balance several times a day when the market is up — but to avoid facing your balance completely when the news isn't rosy? If so, you're demonstrating a very human instinct to seek out positive feelings and avoid negative ones.[2]

Your clients are just the same. They already know what to worry about — running out of money, market ups and downs, and more — but such negative thoughts can make them freeze up, unable to act. Instead, help them focus on the steps they can take in the present to address their concerns, such as creating a diversified income strategy that includes protected income for life. Then reinforce the positive benefits, such as feeling more confident to cover everyday expenses and enjoy lifestyle extras.

Your action step
Using what you heard in Step 1, reframe your clients' concerns into opportunities for plausible action. For instance, try saying, "It sounds like you might feel more excited to take vacations if you knew you had a reliable source of income in addition to Social Security. How would you feel if you had a protected monthly income for life?"

[1] A.D. Kramer, J.E. Guillory, and J.T. Hancock, "Experimental Evidence of Massive-Scale Emotional Contagion Through Social Networks," *Proceedings of the National Academy of Sciences* 111, no. 24 (2014): 8788-90. http://www.pnas.org/content/111/24/8788

[2] S. H. Bracha, "Freeze, Flight, Fight, Fright, Faint: Adaptationist Perspectives on the Acute Stress Response Spectrum," *CNS Spectrums* 9, no. 9 (2004): 679–85; S. M. Korte, M. K. Jaap, J. C. Wingfield, and B. S. McEwen, "The Darwinian Concept of Stress: Benefits of Allostasis and Costs of Allostatic Load and the Trade-Offs in Health and Disease," *Neuroscience and Biobehavioral Reviews* 29, no. 1 (2005): 3–38. https://www.researchgate.net/publication/8374374_FREEZE_FLIGHT_FIGHT_FRIGHT_FAINT_Adaptationist_perspectives_on_the_acute_stress_response_spectrum_aka_Bracha's_Five_Fs_of_Fear

3

Keep solutions down to earth

Today's savvy consumers are sensitive to statements that sound too good to be true. The perception that you're "selling" to clients or appearing to overpromise the benefits of any one strategy can undermine your credibility.

Instead, tell them the main benefit a solution can provide, and be frank about its costs, limitations and tradeoffs. Not only will this down-to-earth strategy facilitate an easier initial conversation, but it will also make it more realistic to manage clients' expectations once they've decided to add an income solution to their portfolio.

Your action step
When it's time to introduce a product to your clients, be specific about the benefits it offers.
For instance, explain that an annuity with optional benefits can help provide a protected monthly income for the rest of their lives. Then take the time to patiently respond to your clients' questions as they move up the learning curve.

Words that win with clients

Ready to put the formula into action? Leverage the winning messages on the left, which got the thumbs up from clients in our research.

Messages for better conversations	Messages that miss the mark
How would you feel if we could add a reliable source of income to your retirement income plan?	You can't depend on Social Security anymore, so you need an annuity for income.
An annuity with optional benefits can help provide a protected monthly income for the rest of your life.	Annuities provide financial freedom in retirement.
Income planning may help ensure you will never outlive your money in retirement.	Consider an annuity with a 5.5% payout.
An annuity can provide a guaranteed income for the rest of your life.	A higher compounded roll-up rate can grow retirement income faster.
Is a known source of income in retirement something you'd be interested in?	An annuity will help you live your dream retirement.
By adding protected income to your plan, you're adding a safeguard for when the market stumbles, ensuring a portion of your assets are protected and an income stream you can count on.	With an annuity, you'll have the courage to take on more risks.

What's in a name?

Do you ever hesitate to finish your retirement income conversation by bringing up an annuity? Financial professionals tell us they anticipate their clients having negative concepts of these solutions due to misconceptions in the media, which can be time-consuming to counteract.

In fact, our research shows that approximately 65% of clients have a neutral or positive point of view on annuities. More than one third say they don't know much about annuities at all, leaving them ready to learn about the value of these solutions for the first time from you.[3]

Most important, 41% of clients say that having enough money to last a lifetime is their number one retirement planning goal — and they need your guidance on creating a retirement income plan that will last.[4]

[3] The Alliance for Lifetime Income, 2018.

[4] LIMRA Secure Retirement Institute. Based on 2,000 retirees and pre-retirees.

Let's keep the conversation going.

Looking for more resources on retirement income planning? Contact your Lincoln representative or visit LFG.com/income for more information!

Not a deposit
Not FDIC-insured
Not insured by any federal government agency
Not guaranteed by any bank or savings association
May go down in value

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A note about research
Lincoln conducted qualitative and quantitative research with consumers and financial professionals in collaboration with Maslansky + Partners between 2016 and 2018 to produce optimized language for more effective retirement income planning conversations between you and your clients.

All guarantees, including those for optional lifetime income benefits, are subject to the claims-paying ability of the issuer.

For use with the general public.

SINGLE PREMIUM IMMEDIATE ANNUITY (SPIA)

Income Stream Case Studies

AMERICAN NATIONAL®

Plan For Life's Adventures

What is a Single Premium Immediate Annuity (SPIA)?

A contract between you and an insurance company that allows you to convert a lump sum into a steady stream of guaranteed annuity payments, providing a guaranteed income for as long as you need it.

SINGLE PREMIUM

Fully funded with a single premium payment upfront.

IMMEDIATE

Payments to the contract owner begin on or up to a year from the issue date. This is different than a deferred annuity that would begin making payments after waiting for a period of time.

ANNUITY

A contract that provides the account owner a payment of money monthly, quarterly, or annually for the rest of their life (or for a set term of years).

Retirement Planning with Immediate Annuities

Immediate annuities provide one of the best ways to generate an income stream for retirement because it is predictable and, depending on the income option, cannot be outlived.

Inflation Concerns

If inflation concerns you, a Cost of Living Adjustment (COLA) can be added at purchase or another smaller annuity can be purchased later to keep pace with inflation. American National's SPIA allows you to add a Cost of Living Adjustment (COLA) to certain income options to allow your SPIA income payments to increase by 3%, compounded annually, alongside increasing costs of living as you age.

Cover Fixed Expenses

Using an immediate annuity to cover expenses that recur each month, not covered by social security, pension, or other source of income provides a sense of well-being. It eliminates the need to continuously review assets to determine where to draw income for that month. Covering all fixed expenses helps protect against the need to sell securities during down markets and risking your nest egg. Instead, you have the option to wait until the market recovers.

Will you have unmet fixed expenses?

Monthly Expense/Income	**Housing**	$
	Food	$
	Transportation	$
	Healthcare	$
	Personal Insurance	$
	Family Care	$
	Entertainment	$

Minus	**Social Security Income**	$
	Pension/Other Income	$

Equals	**Unmet Fixed Expenses**	$

Payout Options™ from American National

American National's Palladium SPIA provides a guaranteed income based on a number of choices you make: how often you want to receive income payments, whether you want to receive them for a specific period of time or for life, whether you want to share the income payments with a spouse, or perhaps provide income payments to a joint annuitant after you die. There are many income options—the choice is yours.

	Payment duration:	When the FIRST annuitant dies:	When the SECOND annuitant dies:	COLA available
Period Certain	Set number of years, (5–30)	Payments continue to beneficiaries until the end of the period selected	N/A	Yes
Life Only	Life of the annuitant	Payments stop	N/A	Yes
Life with Period Certain	Life of annuitant with a guarantee for a set number of years (5–20)	Payments continue to beneficiaries until the end of the period selected. If that period ended before death, payments stop at death	N/A	Yes
Joint to Survivor	Income payments are made for the life of the two annuitants	Payments continue to survivor at 50%, 60%, 66.67%, 75%, or 100% (Percentage chosen at issue)	Payments stop	Yes
Joint to Survivor with Period Certain	For the life of the two annuitants with a guarantee for a set number of years (5–20)	Payments continue to survivor at 50%, 60%, 66.67%, 75%, or 100% (Percentage chosen at issue)	Payments stop if the set period of years have passed. If the set period of years have not passed, payments will continue to beneficiaries until the period is complete.	Yes
Joint to Spouse	For the life of two spouses	100% of the payment is paid while the primary annuitant is alive. If the primary annuitant dies first, the payment is reduced to 50%, 60%, 66.67%, or 75% or remains as 100% (percentage chosen at issue). If the spouse who is the secondary annuitant dies first, payments remain at 100%.	Payments stop	Yes
Joint to Spouse with Period Certain	For the life of two spouses with a guarantee for a set number of years (5–20)	Similar to the Joint to Spouse option. The difference being that the payments continue at 100% for the certain period chosen. After this period has ended, payments are adjusted as needed if one of the annuitants have died.	Payments stop if the set period of years have passed. If the set period of years have not passed, payments will continue to beneficiaries until the period is complete.	Yes
Installment Refund	Life of the annuitant	Payments continue to beneficiaries until the amount of the income payments equals the initial premium paid.	N/A	No
Cash Refund	Life of the annuitant	Payments continue to beneficiaries until the amount of the income payments equals the initial premium paid.	N/A	No

For any of the payments mentioned above that continue to a beneficiary after death, your beneficiary may elect, in lieu of continuing to receive income payments, a lump sum death benefit. The lump sum death benefit would be equal to the commuted value of the remaining income payments.

Hypothetical Example

What Could a $250,000 SPIA Pay?

The amount you can expect to receive each month will depend on prevailing interest rates and the options you choose.

Single Life

Male, age 67

Life Only: payment guaranteed until death

$1,297.79 monthly

Life with 10 Year Period Certain: payment until death, with 10-year minimum guarantee

$1,274.69 monthly

Cash Refund: payment guaranteed for life with any remaining initial premium paid to beneficiary at death

$1,119.84 monthly

Joint Life

Male, age 67 | Female,age 67

Joint to Spouse: 100% payment guaranteed until both deaths

$1,100.79 monthly

Joint to Spouse with 10 Year Period Certain: 100% payment until both deaths, with 10-year minimum guarantee

$1,099.95 monthly

The Case (Study) for Buying Cash Flow

Single Premium Immediate Annuities provide something every family needs – Cash Flow. The declining availability of pension plans in this country has left more and more individuals nearing retirement wondering where the cash flow will come from to fund their everyday living expenses. Other individuals worry about their ability to manage their money and yet others are worry they will run out of money too soon.

As you will see from the Single Premium Immediate Annuity case studies that follow, there are many ways to convert some of your assets to monthly income that you cannot outlive.

THE CHALLENGE

Convert retirement assets to cash flow that will last for the lives of married couples

THE SOLUTION

Joint and Survivor Immediate Annuity

Creating Monthly Cash Flow

Lisa and Steve spent their careers accumulating assets for retirement. They had CDs, mutual funds, sizable 401(k)s, life insurance cash value, and annuities, mostly in qualified assets. As they approached retirement they became concerned about how to turn those assets into monthly cash flow. Other than their social security payments, they had no idea how to take money from their various assets to fund recurring monthly expenses. They were fearful to retire and lose the security of paychecks that provided income on a regular basis.

Though they had a comfortable amount saved, they also were concerned about using too much of their savings too quickly and running out of money.

They met with their financial advisor and shared their concerns. He took out two sheets of paper and on the first sheet he listed and categorized all of their investment assets (qualified or non-qualified; liquid or non-liquid) and on the second he helped them list all their recurring monthly expenses. From the recurring expenses he subtracted any recurring income sources, such as social security. What was left were the recurring expenses not covered by cash flow.

Their two largest assets were their 401(k) plans. Since a majority of their assets were in the 401(k) plans and their other non-qualified assets were a minority of their savings, he recommended they take a portion of the smaller 401(k) plan and fund a Joint and Survivor Immediate Annuity. This would allow them to cover their unmet cash flow needs while maintaining the liquidity of their non-qualified accessible assets.

Lisa and Steve liked the monthly income an immediate annuity would provide but wanted to make sure they would be prepared in case their expenses increased in the future. Their advisor explained that they could purchase an immediate annuity now and plan to purchase an additional annuity in later years if they needed it. Alternatively, they could choose to purchase an immediate annuity with an inflation factor built in to increase the monthly income each year to cover the increases in costs.

The immediate annuity would provide income that would continue for both of their lives. If markets were good they could access their other assets to take a vacation, purchase a new car, or other financial outlay and be able to pull back and not touch these assets when in a down market when their asset values were declining.

THE CHALLENGE

Unprepared to manage assets after death of a spouse and leaving a legacy

THE SOLUTION

Lifetime Immediate Annuity with a Cash Refund Option

Suddenly on Your Own Without a Guide

Christine was 69 years old when her husband Darrell died. The kids were out on their own with their own families. Darrell had always managed their money himself and Christine had never worried about finances or investments. When their insurance agent, Gavin, delivered the death benefit check from Darrell's life insurance she related that she had never been involved in managing their money and didn't know what to do with the money. There were savings in the bank but once that was gone Christine worried how she would manage and what assets she would need to liquidate to provide money to pay her bills. She knew her social security survivor benefits would not be enough to pay all the bills.

Gavin introduced a product that would provide her monthly income for the rest of her life. This was a Single Premium Immediate Annuity. He told her that once she purchased this product, income would begin the next month and pay her monthly throughout her life. She could not outlive this income even if she outlived her life expectancy or the account value went to zero.

Gavin and Christine went through the family accounts to determine what she had spent on recurring expenses for the last year. They totaled everything up and subtracted off the social security income to find the amount needed in order to meet her recurring expenses.

Gavin's first illustration for a lifetime immediate annuity would be enough to cover Christine's unmet cash flow needs but she was concerned that if something happened to her in the first few years, her children would not receive any benefits from the money. Gavin then ran an illustration for a lifetime immediate annuity with a cash refund option.

Since the immediate annuity would provide enough income to cover Christine's cash flow, Gavin pointed out that Darrell's untouched investments could continue to grow and provide funds to use for vacations, new cars, gifts to children and grandchildren, and, eventually, pass on to her children.

THE CHALLENGE

Reduce risk of liquidating assets during a downturned market

THE SOLUTION

Joint and Survivor Immediate Annuity

Calming Market Fears

Now that Lulu and Kent were retired and no longer receiving paychecks, they frequently reviewed their finances to try and avoid investment mistakes. They had not saved as much as they had liked prior to retirement so, during the last 10 years leading up to retirement, they had invested a majority of their assets in the stock market because it had the best returns.

Although they still did not think they had enough for their retirement, they were becoming increasingly worried that a significant market downturn, like the one that occurred in 2008, could cause them to run out of money. When the investments started causing Lulu to lose sleep at night, they knew it was time to reduce their stock exposure to prepare them to better handle a downturn in the market.

Lulu and Kent knew exactly how much they needed each month to pay their recurring expenses and had used gains in their stocks to make up the difference between what was needed and what they had from social security. They decided to meet with their insurance agent, Alma, to review their current life insurance needs in retirement and to ask her what she thought they could do to reduce their market risk in retirement.

Alma, a registered representative, confirmed that they had too large a percentage of their assets in the stock market for the retirement stage of their lives. She stated that reducing their stock market holdings and increasing their monthly retirement income with the purchase of an immediate annuity would lessen their risk. They would then be able to have the option of liquidating stock investments only in up markets and not in down markets.

By keeping enough liquidity to meet emergencies and increasing monthly income to cover fixed expenses, Lulu and Kent were able to reduce their market risk. They would not have to rely as much on taking gains from stocks to fund their lifestyle. With the immediate annuity, Lulu and Kent instantly had the monthly income they previously were piecing together each month from their stock portfolio.

The Single Premium Joint and Survivor Immediate Annuity they purchased reduced their risk of ever running out of money since the annuity would go on until the second spouse passed.

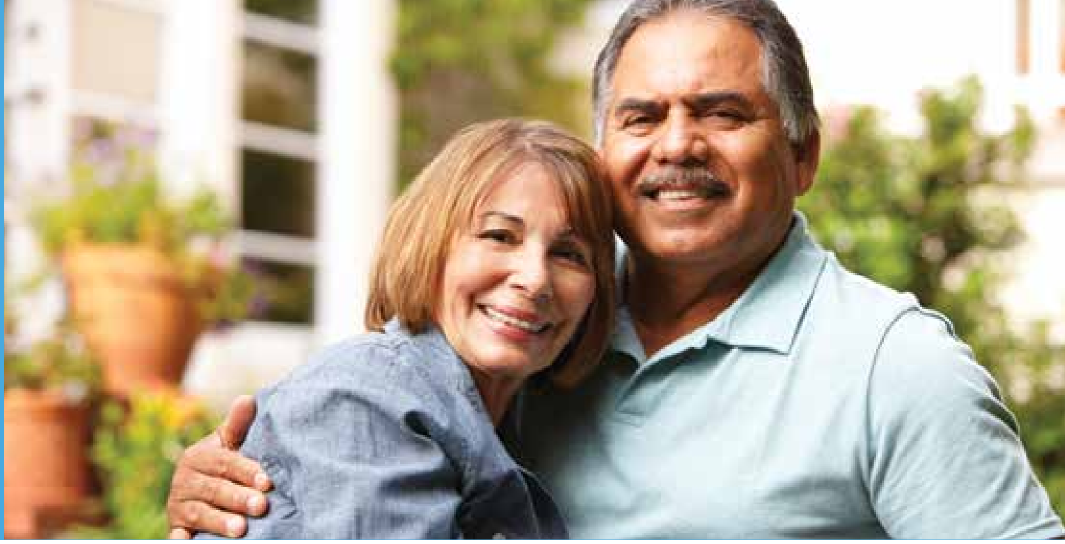
Lulu was comforted knowing that each month they would receive an income, and Lulu and Kent felt a heavy weight lifted off their shoulders as they repositioned sufficient assets to meet their lifestyle needs.

THE CHALLENGE

Create cash flow from the sale of a family business

THE SOLUTION

Joint and Survivor Immediate Annuity



Create a Do-It-Yourself Pension Plan

Ernie and his wife Isabella had saved their money and purchased a dump truck so Ernie could go into business for himself hauling materials. As the years went by, Ernie and Isabella bought a second and then a third truck. Isabella booked the jobs and kept the books and Ernie hired drivers for the other two trucks. They kept investing in the business until they had five trucks and six employees.

Eventually Ernie had a heart attack and could no longer work. He and Isabella sold their business to a competitor. At that time Ernie was 67 and Isabella was 62. They were concerned about how they would live even though they received several hundred thousand for their business.

They had never taken big salaries so they did not have much from social security. Once they received the check for the business, they visited their insurance advisor to discuss what he thought they should do. The advisor talked to them about what assets they had accumulated. Ernie and Isabella had never been in a pension plan or a 401(k) plan so they had very little assets outside of a nice home they had built and paid for and their business.

Their advisor talked to them about creating a "Do-it-Yourself Pension Plan" to provide them the retirement assets they would need. Since they had poured all of their money into the business rather than establishing a retirement plan, their advisor said they could take some of the money from the sale of their business and create a joint and survivor immediate annuity to fund their retirement.

They discussed their retirement needs and reviewed how much of the sales price should be placed in safe liquid assets in the event of an emergency vs. how much should be placed in the Single premium Immediate Annuity.

They decided to place 50% of the funds in the immediate annuity and 50% they decided to keep fairly liquid. The immediate annuity income along with their social security provided them sufficient funds to meet their lifestyle needs while still retaining half the money from the sale of the business to meet liquidity needs and provide them assets to leave to their children.

THE CHALLENGE

Provide for a financially irresponsible adult child

THE SOLUTION

Inheritance paid into an Immediate Annuity with COLA

Providing for Adult Children

Many times when planning our estates, we worry about how our children or more specifically one of our children will deal with an inheritance. When we have children that continually demonstrate that they cannot meet their obligations or save any money, handing them an inheritance can be a troubling thought. All of the hard work the parents spent saving their money can go for naught if the child goes out and spends all of the money within a few months of receiving an inheritance.

A Spendthrift is defined as someone who spends money in an extravagant, irresponsible way. One way to deal with a spendthrift child is to limit what they can access while providing them monthly income they cannot outlive. One way to do that is to direct under your last will and testament that the spendthrift child's inheritance or a majority of it must be invested in a lifetime Single Premium Immediate Annuity with a Cost of Living Adjustment (COLA). In that way, each year the annuity payout will increase based upon a pre-set inflation factor. American National's Immediate Annuity offers the option of a 3% compounding cost of living adjustment. That means the income payment will automatically increase 3% each year compounded annually. The amount of the initial payment would be less with a cost of living adjustment than it would be with a set fixed payment but it would grow with inflation and help the individual keep pace with increasing costs over the years. Cost of living adjustments or COLA is not available on the Life with cash refund or Life with Installment Refund income options.

Additionally, the SPIA contract could have an endorsement added so that the ability to surrender the contract is eliminated so the child could not convert the annuity to a lump sum distribution. By using an immediate annuity with an endorsement, it allows the child to receive payments for their lifetime which they cannot outlive. Each month they will receive the payment that can cover their rent, food, car etc. so that the child has a "retirement plan" the parents can leave them knowing they will receive monthly income long after the parents are gone.

THE CHALLENGE

Cover child support payments for a set number of years.

THE SOLUTION

Immediate Annuity with a Period Certain Payout

Divorce with a Term of Years Obligation

Joe and Meg had been married fifteen years and had one child Ann, age eight, when they got divorced. Joe was an attorney and Meg stayed home to take care of their daughter. By the time they went to court Meg had landed a job in her field. The couple agreed to an amount to be paid for child support until Ann was out of school. Meg's attorney asked the judge to impose a requirement that Joe carry life insurance on himself to insure that the child support was paid if anything happened to him.

After a discussion with Joe, his attorney proposed that Joe would purchase a ten year term immediate annuity that would pay Meg for Ann's child's support until Ann reached age 18 and graduated from high school. The annuity would not be refundable and would be for a ten year term to satisfy the obligation for Ann. Meg, through her attorney, agreed to the settlement and Joe fully funded his future obligation.

Using a term of years immediate annuity can be done with many different financial obligations whether it is alimony, child support, paying off a loan, paying for life insurance or paying an employee retirement income.

In each case, there is a financial obligation that needs to be met on a regular basis for a term of years or for a lifetime. A Single Premium Immediate Annuity is a way to provide for this recurring obligation thereby avoiding the need to search for dollars each month. The payment can be direct deposited into an account that can be drafted each moth to satisfy the obligation.

See the next story for another example of a term of years need.

THE CHALLENGE

Bridging the income gap between retirement and social security payments.

THE SOLUTION

Immediate Annuity with Period Certain Payout

Early Retirement Gap Funding

With full retirement benefits from social security gradually increasing to age 67, someone age 62 who retires will be tempted to access social security early at age 62. That would be a mistake as they would sacrifice significant future retirement income.

What would be a more sound retirement strategy would be to take out a five year Single Premium Immediate Annuity to fund the retirement gap between 62 and 67. If they retired at age 57–60 they could take a ten year immediate annuity to cover their shortfall. That way they preserve benefits and could delay taking benefits until age 70 when they could maximize the social security benefit they could have for the remainder of their retirement.

If they take benefits at age 62, they will live with 75% of the benefit they can receive at full retirement. The decrease in benefits for a non-working spouse would be dramatically reduced to 35% of the spouse's benefit at full retirement.

By using an immediate annuity to avoid taking social security benefits, the increased benefit will pay off for years to come with the significantly higher social security benefit for both spouses. The penalties for taking social security early are substantial for both spouses and should be avoided at all costs.

THE CHALLENGE

Balancing charitable donations with retirement cash flow.

THE SOLUTION

Charitable Gift Annuity

Gifts to Charity

Many individuals are charitably inclined later in life. They want to benefit their school alma mater or they want to benefit their church, synagogue or temple. They want to give away assets while they are living but would still like some form of income from those assets while they are still alive.

The Charitable Gift Annuity can satisfy the desire to make gifts while still living with the desire to improve retirement cash flow. A charitable gift annuity is a concept whereby a donor makes a gift of money or property to charity and the charity gives back an agreed upon income stream to the donor for the remainder of their life or joint lives. Many charitable and religious organizations will accept gifts for charitable gift annuities and then purchase an immediate annuity to fund the cash flow promised on a charitable gift annuity. The charity benefits, the donor benefits and the donors receive lifetime cash flow and an income tax deduction based upon the value of the gift remaining with the charity. This makes for a win-win situation for everyone.

Partial withdrawals and full surrender options and commuted value is not available in MN, NE, NJ, OR, and WA. The interest rate used to determine the death benefit's commuted value will vary by state. A commutation charge will also be assessed on partial withdrawals and full surrenders of a commuted value. All withdrawal and surrender amounts are determined as the present value of future Annuity Payments using our current SPIA pricing rate plus 0.50%. Any partial surrender must be for at least $2,000, and a commutation charge is assessed based on the following schedule:

Year:	1	2	3	4	5	6	7	8	9	10	11 +
%	No Surrenders			10	9	7	5	4	3	2	0
NY %	No Surrenders			8	7	6	5	4	3	2	0

The purchase of an immediate annuity is permanent other than the conditions mentioned for partial or full surrender options and commuted value. The annuity owner will no longer have access to the premium, which converts into a stream of income payments. The terms of the annuity, such as the choice of income payment option, payment amounts and timing, and the rates of return cannot be changed.

This contract has limitations. You should also read and understand the disclosure before completing your purchase. For specific provisions, refer to Contract Form Series: NSPA; ANY-NSPA. (Forms may vary by state). American National Insurance Company, headquartered in Galveston, Texas is licensed to conduct business in all states except New York. Business is conducted in New York by American National Life Insurance Company of New York, headquartered in Glenmont, New York. Each company has financial responsibility only for the products and services it issues.

AMERICAN NATIONAL INSURANCE COMPANY

Longevity planning

Using permanent life insurance to help prepare for a long, healthy retirement

Marketing guide

North American Company
for Life and Health Insurance
Since 1886

Life

Help your clients adjust their plans for an extended retirement.

Thanks to medical advancements and a nationwide emphasis on healthy living, life expectancy is on the rise in the United States. Today, a 65-year-old man can expect to live until he is 86, and a woman of the same age can expect to live to 89.* If the upward trend continues, today's young adults can look forward to an even longer and healthier life after their working years.

A long and healthy retirement can mean a desire to travel, a new home, new hobbies, gifting assets, and countless other wants or needs that require adequate retirement funds. A long retirement can also be expensive if the client experiences an unexpected illness.

As life expectancy increases, your clients face "longevity risk," or the potential for their assets to run out during retirement. You can help them manage that risk using permanent life insurance.

LONGEVITY PLANNING

Longevity planning with life insurance provides death benefit protection during working years, and the client can access potential cash value during retirement. In this guide, we'll help you explore this concept so you can add it to your list of effective sales concepts.

WHAT'S INSIDE

Why life insurance?

Client profile

How it works

- Key advantages
- Items to consider
- Supporting features

Why North American?

WHY LIFE INSURANCE?

Permanent life insurance provides your clients with death benefit protection and can be designed to provide them with flexibility to address changing needs through an adjustable death benefit, flexible premiums, and accelerated death benefits. Cash value growth can provide generally tax-free income to help cover a wide variety of future needs.

If you have clients with these concerns, life insurance could be a twofold solution:

- **Death benefit protection during working years.** A solid financial plan often begins with life insurance. Death benefit protection can replace income or fund other plans should your client die prematurely.
- **Potential source of funds to help supplement retirement income.** Permanent life insurance with the potential for cash value growth gives your clients many options. A key option is the ability to access cash value through loans or withdrawals to add a source of financial stability.[1] This cash value can cover recurring costs like an insurance premium or infrequent costs like deductibles or emergencies. Plus, acceleration of a portion of the death benefit for living needs may help in a client's retirement years. (See our Accelerated Death Benefit Endorsement guide for more details. In California, please see 502NM, or refer to the endorsement form LR492 for more details.)

*Society of Actuaries, RP-2014 Mortality Tables, February 2014.

CLIENT PROFILE

Each client has different needs. Important considerations include age, family size, other current insurance coverage, and individual financial concerns or goals. North American can help you find a solution for a wide variety of needs.

Clients seeking a longevity planning solution are typically

- 25 to 60 years old,
- middle- to high-income earners,
- concerned about their family's financial needs if death occurs during working years, and
- interested in providing additional financial stability during retirement years.

This may also include clients who

- have maxed out qualifying benefit programs (or lack a qualified plan),
- are concerned about nursing home costs or extended care,
- are concerned about their assets running out, or
- are concerned about financial stability if a critical or chronic illness occurs.

HOW IT WORKS

How can these clients plan for longevity? The goal is to help protect financial assets for an extended retirement.

- **Assess potential assets.** Clients should consider which assets may be primary or secondary sources of funds in retirement. Potential sources of assets may include qualified retirement plans, annuities, and other tangible or intangible assets. Health insurance or long-term care insurance provides additional financial protection.
- **Explore possible cost concerns.** It's not just living expenses in retirement. What about chronic care, insurance costs, out-of-pocket costs, and potential emergency or catastrophic costs? Explore possible costs, and identify which asset sources may or may not cover these costs.
- **Imagine outliving funds.** What happens if a client and/or spouse live longer than they planned for when building their financial plan? Suppose the client spends a significant number of years in a chronic care situation—how is this care funded?

After establishing the need for death benefit protection, help your client find the appropriate universal life (UL) or indexed universal life (IUL) product from North American. Here's how it works:

- The client's premium provides death benefit protection during working years. The amount of death benefit protection recommended should fit the budget and yet be able to replace lost income should your client die prematurely.
- In the event of death, the death benefit is paid generally income tax–free to the beneficiaries.
- During the client's lifetime (while the policy is in force), the potential cash value grows tax-deferred and generally tax-free via loans or withdrawals.[1]
- The client may choose to use cash value for specified distributions, unexpected needs, or as a supplement source of income in the event their primary or secondary sources of funds are exhausted.
- If the insured is diagnosed with a qualifying illness, the client may choose to accelerate a portion of the death benefit with North American's Accelerated Death Benefits Endorsement during working years or retirement years, as an additional source of funds.[2]

Key advantages

- **Immediate death benefit protection.** Your clients can gain confidence in their families' futures from the start with death benefit protection when their loved ones need it most.
- **Flexible premium.** With UL or IUL, your clients can adjust their premium payments based on their available resources. A strategy may be funded on a level premium payment throughout working years, a shortened premium payment plan, or variable premium levels, depending on funds.
- **Client control.** Clients have full control of their policies to make changes in coverage amounts or premium payments based on their needs.
- **Tax-deferred growth.** With life insurance, potential cash value growth is on a tax-deferred basis.[3]
- **Generally tax-free distributions.** Any accumulated cash values within a policy can be taken as tax-free loans as long as the policy is not a Modified Endowment Contract (MEC).[4] Withdrawals are income tax-free up to the cost basis.[1] Accelerated Death Benefit payments may also be generally tax-free.
- **No required minimum distributions (RMDs).** Your clients may choose to leave accumulated cash value alone if it is not needed to maximize the death benefit as a legacy or estate-building strategy.

Items to consider

- **Specified amount of coverage.** Be sure the specified amount is appropriate to meet your client's pre-retirement life insurance needs.
- **Avoid MEC status.** Life policies that surpass certain premium limits can be classified as a MEC. A MEC may be subject to tax when a client accesses the cash value. Avoid this status when using life insurance for longevity planning, as the secondary appeal of the policy (the first being death benefit protection) is access to cash value for some future need.
- **Non-guaranteed performance.** Cash values for loans and withdrawals in later years may be more or less than originally illustrated. Keep in mind that your client must pay sufficient premiums to maintain the policy and provide for cash value growth, and avoid lapse if the policy becomes over-loaned.
- **Cost of insurance.** Life insurance policies require monthly deductions, which include cost of insurance and other possible charges. These deductions may reduce the cash value of the policy.
- **Increasing death benefit option.** This option may allow higher premiums to avoid the policy becoming a MEC, which may in turn allow for more cash accumulation. If choosing this option is consistent with your client's needs, consider changing to a level death benefit option in the year following the last premium payment to help limit mortality charges.
- **Surrender charges.** Withdrawals may be subject to surrender charges and the amount available for policy loans.

Supporting features

Consider these features, found on many North American products, that may be beneficial for your clients.

- **Interest rate bonus –** An interest rate bonus, which helps provide the potential for more cash value growth, is available on many North American products.[5]
- **Capped variable-rate loans –** A variable-rate loan, which can be as low as 4% depending on the Moody's corporate bond rate as published by Moody's Investors Services, Inc., can allow for compelling non-guaranteed cash value performance on a policy even with significant loaned values. A cap (varying by product) helps keep loan interest rates from rising uncontrollably.[6]
- **Overloan protection benefit –** This benefit keeps a policy from lapsing due to excessive loans, so the policy can continue to provide death benefit coverage and avoid adverse tax consequences.[7]
- **Protected death benefit[8] –** This benefit allows the client to select a minimum death benefit amount that is guaranteed, while he or she continues to access accumulated cash values through loans or withdrawals.[1]
- **Accelerated death benefit –** A valuable benefit for longevity planning, this feature allows the client to accelerate a portion of the death benefit for a qualifying illness when certain eligibility conditions are met.[2]

WHY NORTH AMERICAN?

Turn to North American for help with your longevity planning cases. In addition to our knowledgeable sales development team, you'll gain several benefits:

- **Competitive products.** Our product portfolio is competitive not only in illustrated performance, but also in design elements that make the product more relevant to the client and marketable for the agent.
- **Competitive compensation.** North American offers generous compensation. Plus, we take a collaborative approach in helping to grow your business and are here to answer your questions and provide guidance along the way.
- **Financial stability.** Sound financial ratings and private ownership keep us focused on long-term value.[9]
  - "A+" (Superior), A.M. Best
  - "A+" (Strong), S&P Global Ratings
  - "A+" (Stable), Fitch Ratings

RESOURCES

Sales development

Phone: 800-800-3656, ext. 10411

Email: salessupport@nacolah.com

Hours: 7:30 a.m. – 5 p.m. CT, Monday through Thursday;
7:30 a.m. – 12:30 p.m. CT, Friday

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 that includes this comparison. Comparison is for solicitation purpose only, not for conversions.

1 In some situations loans and withdrawals may be subject to federal taxes. North American Company 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.

2 Subject to eligibility requirements. There is no additional Monthly Deduction or premium charge for the Accelerated Death Benefit Endorsement. However, the actual payment received in connection with any acceleration will be discounted and is lower than the Death Benefit amount accelerated. In addition, there is an administrative fee required each time an election is made. An administrative fee is required at time of election for the Chronic or terminal Illness benefit. There is no administrative fee when the Critical Illness benefit is elected. Accelerated Death Benefits are subject to eligibility requirements and availability may vary by state and product.

3 The tax-deferred feature of the indexed universal life or universal life policy 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 your client's needs. Before purchasing this policy, your client should obtain competent tax advice both as to the tax treatment of the policy and the suitability of the product.

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).

5 Some North American products offer 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 rate exceeds the guaranteed interest rate. Interest Bonus percentages are not guaranteed and are subject to change; however, once a policy is issued, the percentage will not change.

6 The net cost of a variable interest rate loan could be negative if the credits earned are greater than the interest charged. The net cost of the loan could also be larger than under standard policy loans if the amount credited is less than the interest charged. In the extreme example, the amount credited could be zero and the net cost of the loan would equal the maximum interest rate charged on variable interest loans. In brief, Variable Interest Rate Loans have more uncertainty than Standard Policy Loans in both the interest rate charged and the interest rate credited.

7 The policy will remain in effect when extensive loans are taken provided the policy is not terminated due to surrender and the policy owner does not take policy loans or withdrawals during the Overloan Protection period. This benefit may reduce the Specified Amount and will terminate the Protected Death Benefit. The Overloan Protection Benefit cannot be elected if the Protected Death Benefit is in effect. If the Overloan Protection Benefit is in effect, Accelerated Benefits cannot be elected.

8 If Policy has a Premium Guarantee Rider attached to it, such rider will be terminated upon the election of the Protected Death Benefit. The Protected Death Benefit cannot be elected if the Over loan Protection Benefit is in effect.

9 "A+" (Superior), the second highest rating out of 15 categories, was affirmed by A.M. Best for North American Company for Life and Health Insurance as part of Sammons Financial Group on July 6, 2017. A.M. Best is a large third party independent reporting and rating company that rates an insurance company on the basis of the company's financial strength, operating performance and ability to meet its ongoing obligations to policyholders. S&P Global Ratings awarded its "A+" (Strong) rating for insurer financial strength on February 26, 2009 and affirmed on October 19, 2016 to North American Company for Life and Health Insurance, as part of Sammons Financial Group. The "A+" (Strong) rating is the fifth highest out of 22 available ratings. Fitch Ratings, a global leader in financial information services and credit ratings, on May 2, 2017, assigned an Insurer Financial Strength rating of A+ Stable for North American. This rating is the fifth highest of 19 possible rating categories. The rating reflects the organization's strong business profile, low financial leverage, very strong statutory capitalization and strong operating profitability supported by strong investment performance. For more information, read the Fitch Ratings report.

Indexed universal life products are not an investment in the "market" or in the applicable index and are subject to all of the policy fees and charges normally associated with most universal life insurance.

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.

Accelerated Death Benefit Endorsement - Critical, Chronic and Terminal Illness (form series LR477), Accelerated Death Benefit Endorsement - Chronic Illness (form LR492, CA only), Accelerated Death Benefit Endorsement - Critical Illness (form LR498, CA only) are issued by North American Company for Life and Health Insurance, Administrative Office, One Sammons Plaza, Sioux Falls, SD 57193. Products, features, riders, endorsements, or issue ages may not be available in all jurisdictions. Limitations and restrictions may apply.

Life

North American Company
for Life and Health Insurance
Since 1886

We're Here For Life®

northamericancompany.com

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

Longevity planning

Client profile

Name: ______________________________ **Agent code:** ______________________

Email: ______________________________ **MGA:** ______________________

Longevity planning is a sales concept that can help your clients prepare for a long, healthy retirement.

Using permanent life insurance to help prepare for a long, healthy retirement

If your clients are…

- 25 to 60 years old
- Middle- to high-income earners
- Concerned about their family's financial needs if death occurs during working years
- Interested in providing additional financial protection during retirement years
- Have maxed out qualifying benefit programs (or lack a qualified plan)
- Are concerned about extended care costs
- Are concerned about their assets running out
- Are concerned about financial protection if a qualifying illness occurs

… Longevity planning with life insurance can be a good option.

List the names of five clients who fit the above profile.

Client name: ______________________ **Age:** ______ **Gender:** ______ **Tobacco:Y/N** ______ **State:** ____
Premium amount: ______________________ **Retirement age:** ______

Client name: ______________________ **Age:** ______ **Gender:** ______ **Tobacco:Y/N** ______ **State:** ____
Premium amount: ______________________ **Retirement age:** ______

Client name: ______________________ **Age:** ______ **Gender:** ______ **Tobacco:Y/N** ______ **State:** ____
Premium amount: ______________________ **Retirement age:** ______

Client name: ______________________ **Age:** ______ **Gender:** ______ **Tobacco:Y/N** ______ **State:** ____
Premium amount: ______________________ **Retirement age:** ______

Client name: ______________________ **Age:** ______ **Gender:** ______ **Tobacco:Y/N** ______ **State:** ____
Premium amount: ______________________ **Retirement age:** ______

Longevity Planning

Client Brochure

Using Permanent Life Insurance to Help Prepare for a **Long, Healthy Retirement**

North American Company for Life and Health Insurance
Since 1886

Life

186NM-2

1/18

Protect yourself and those you love by being prepared for an extended retirement.

Thanks to medical advancements and a nationwide emphasis on healthy living, life expectancy is on the rise in the United States. Today, a 65-year-old man can expect to live until he is 86, and a woman of the same age can expect to live to 89.* If the upward trend continues, today's young adults can look forward to an even longer and healthier life after their working years.

A long and healthy retirement can mean a desire to travel, a new home, new hobbies, gifting assets, and countless other wants or needs that require adequate retirement funds. A long retirement can also be expensive if you experience an unexpected illness.

As life expectancy increases, you might face "longevity risk," or the potential for your assets to run out during retirement. In addition to providing death benefit protection, permanent life insurance can help you manage that risk.

* Society of Actuaries, RP-2014 Mortality Tables. February 2014.

KEY BENEFITS	
Why life insurance?	Learn how a permanent life insurance policy can provide death benefit protection as well as help supplement retirement income in case your primary or secondary sources of funds are exhausted.
Who can benefit?	Explore whether using permanent life insurance is right for you, based on what you think you might need in the future.
How does it work?	Find out how you can put a permanent life insurance plan in place today.

WHY LIFE INSURANCE?

Permanent life insurance provides death benefit protection that can help you protect your loved ones in the future. Plus, it can be designed with the flexibility to address changing needs throughout your life.

Life insurance can be a twofold strategy as part of your financial plan:

- **Death benefit protection during working years.** A solid financial plan often begins with life insurance. In the event of death, the proceeds are distributed to your beneficiaries generally income tax-free.[1]
- **Potential source of funds to help support a longer retirement.** Your premium payments on a permanent life insurance policy may accumulate cash value on a tax-deferred[2] basis. Through policy loans and withdrawals, the cash value may then be used to help pay for a wide variety of needs in retirement.[3] These could be planned distributions for planned expenses, or potential cash value may be used as additional funds to help protect you from outliving other retirement income sources or unplanned expenses. You may also qualify for accelerated death benefits which allow you to access a portion of this death benefit during your lifetime in case of an unexpected illness if eligibility requirements are met.[4]

WHO CAN BENEFIT?

Longevity planning is becoming a key concern for many people. Here are a few reasons why:

- Loss of a wage earner during working years could disrupt family finances, including retirement plans, house payments, or a child's tuition.
- Employers may no longer offer defined benefit plans or retirement health care.
- As cited previously, life expectancy—and therefore, the length of time people live in retirement—continues to grow.
- Some form of long-term care is a 70% probability for those over age 65.[5] The average cost of a private room can be over $92,000 a year.[6]

How would your family handle these uncertainties? Are your needs adequately protected?
Life insurance could be a viable solution.

HOW DOES IT WORK?

After a thorough needs-based discussion with your life insurance representative to determine if permanent life insurance is right for you, you select a life insurance policy that meets your needs. Your representative will help structure a policy to match the desired death benefit coverage and cash value growth potential.

Contact your North American representative to start planning for an extended retirement today.

North American Company
for Life and Health Insurance
Since 1886

Life

North American Company for Life and Health Insurance has been providing quality life insurance products since 1886. As one of the leading life insurance companies in the U.S., we'll make it as easy as possible for you to become one of our insureds. Please visit our Website at www.NorthAmericanCompany.com to find out more about our company.

1 Neither North American Company nor its agents give legal or tax advice. Please 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 the indexed universal life policy is not necessary for a tax-qualified plan. In such instances, you should consider whether other features, such as the death benefit and optional riders make the policy appropriate for your needs. Before purchasing this policy, you should obtain competent tax advice both as to the tax treatment of the policy and the suitability of the product.

3 Policy loans from life insurance policies generally are not subject to income tax, provided the contract is not a Modified Endowment Contract (MEC), as defined by Section 7702A of the Internal Revenue Code. A policy loan or withdrawal from a life insurance policy that is a MEC is taxable upon receipt to the extent cash value of the contract exceeds premium paid. Distributions from MECs are subject to federal income tax to the extent of the gain in the policy and taxable distributions are subject to a 10% additional tax prior to age 59½, with certain exceptions. Policy loans and withdrawals will reduce cash value and death benefit. Policy loans are subject to interest charges. Consult with and rely on your tax advisor or attorney on your 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 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 required at time of election.

5 U.S. Department of Health and Human Services, "How Much Care Will You Need?" http://longtermcare.acl.gov/the-basics/how-much-care-will-you-need.html, accessed January 2018.

6 U.S. Department of Health and Human Services, "Costs of Care," http://longtermcare.acl.gov/costs-how-to-pay/costs-of-care.html, accessed January 2018.

Life Insurance policies have terms under which the policy may be continued in force or discontinued. Current cost of insurance rates and interest rates are not guaranteed. Therefore, the planned periodic premium may not be sufficient to carry the contract to maturity. The policy's death benefit is paid upon the death of the insured. The policy does not continue to accumulate cash value and excess interest after the insured's death. For costs and complete details, call or write North American Company, One Sammons Plaza, Sioux Falls, SD 57193. Telephone 877-872-0757.

TEXAS RESIDENTS: Receipt of acceleration-of-life-insurance benefits may affect your, your spouse's or your family's eligibility for public assistance programs such as medical assistance (Medicaid), Aid to Families with Dependent Children (AFDC), supplementary social security income (SSI), and drug assistance programs. You are advised to consult with a qualified tax advisor and with social service agencies concerning how receipt of such a payment will affect your, your spouse's and your family's eligibility for public assistance.

We're Here For Life®

www.NorthAmericanCompany.com

Risk Profile Questionnaire

VARIABLE UNIVERSAL LIFE INSURANCE

This questionnaire must be accompanied by the consumer brochure and a current prospectus for a specific variable universal life insurance policy.

You should consider the policy and the underlying funds' investment objectives, risks, charges, and expenses carefully before investing. The policy prospectus, the underlying funds' prospectuses, and, if available, the summary prospectus contain this and other important information. You should read them carefully before purchasing a policy.

Prudential
Bring Your Challenges®

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1025191-00001-00 Ed. 10/2019

Determining Your Risk Profile

This questionnaire can help determine your tolerance for risk, and help establish your risk profile.

It is a tool that you and your financial professional can discuss and use to help evaluate your overall attitude toward risk when selecting underlying investment options. Please note the questions are not specific to any particular product.

After completing this questionnaire and providing your financial professional with other relevant information, including a description of your other assets and investments, you and your financial professional may determine an appropriate asset allocation to be used within your Variable Universal Life insurance policy.

Please check the most appropriate response to each of the questions below and record the corresponding score.			SCORE
My **current age** is:	☐ 50 or younger. ☐ 51 to 69 years. ☐ 70 or older.	3 2 1	
I may want to **access cash value** from this policy in:	☐ More than 20 years, if ever. ☐ 5 to 20 years. ☐ Less than 5 years.	3 2 1	
My **goal** is to:	☐ Accumulate cash value aggressively. ☐ Accumulate cash value with caution. ☐ Avoid losing money.	3 2 1	
Assuming **normal market conditions**, what would you expect from your investments over time?	☐ To generally keep pace with the stock market. ☐ To trail the stock market, but make a moderate profit. ☐ To have a high degree of stability, but only modest profits.	3 2 1	
Suppose the **stock market performs unusually poorly** over the next decade. Then what would you expect from your investments?	☐ I would be willing to accept a loss. ☐ I want to at least break even. ☐ I would want a small profit.	3 2 1	
Which of these statements would best describe your attitude about the **next three years**' performance of your investments?	☐ I would be willing to accept a loss. ☐ I want to at least break even. ☐ I would want a small profit.	3 2 1	
Which of these statements would best describe your attitude about the **next three months**' performance of your investments?	☐ One calendar quarter is too short for me to be concerned. ☐ If I suffered a loss of greater than 10%, I'd get concerned. ☐ I can tolerate small short-term losses.	3 2 1	

NAME ______________________ **DATE** __________ **TOTAL SCORE** 0

Conservative (7 – 11)
Moderate (12 – 16)
Growth (17 – 21)

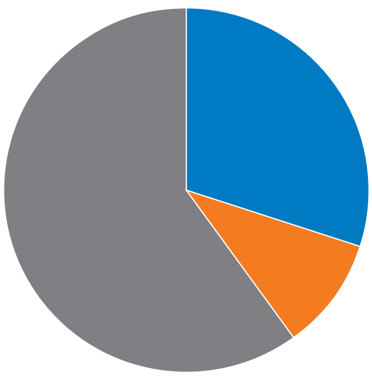
IMPORTANT NOTE: If you have **at least one 1-point** answer **and at least one 3-point** answer, consider stopping and evaluating your responses. It is important that your goals and expectations are realistic. Consider discussing your goals and expectations with your financial professional.

A Note About Risk

Your score indicates your approximate risk profile, which corresponds here to an asset allocation. Stocks and bonds are the two most common broad categories of investments and are often the two most commonly held categories within a portfolio. Their ratio is often referred to as an asset allocation. While both can gain and lose money, stocks generally tend to offer higher risk and return characteristics while bonds comparatively offer more stability with lower returns. Because of this, portfolios with higher allocations to stocks are often considered to have higher risk and return potential.

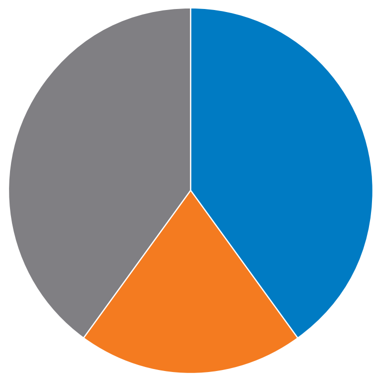
It is important to realize that investments can have many other types of risk; but in this aide, equity allocation is used as the main factor to determine risk.

Conservative: 0 – 50% Equity



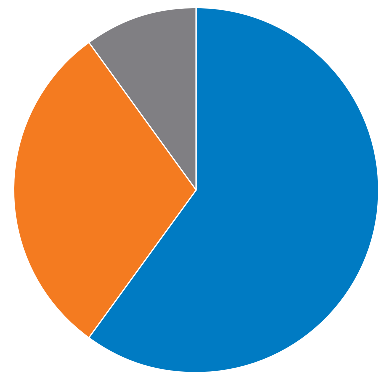
US Equity	0 – 50%
International Equity	0 – 25%
Fixed Income	50 – 100%

Moderate: 50 – 70% Equity



US Equity	25 – 70%
International Equity	0 – 25%
Fixed Income	30 – 50%

Growth: 70 – 100% Equity



US Equity	0 – 100%
International Equity	0 – 50%
Fixed Income	0 – 30%

The results of this questionnaire and the hypothetical asset allocations provided above are designed to be used as a starting point as you select or build a portfolio within your variable universal life insurance policy.

The score you get from this questionnaire may help lead to choosing or building a portfolio with higher or lower degrees of equity exposure within a category. For example, a score of 12 may suggest choosing or building a portfolio closer to the lower range of the hypothetical 50% to 70% equity exposure within the Moderate risk category. Similarly, a score of 16 may suggest choosing one at the higher end of the same equity range.

About Asset Allocation Portfolios

While asset allocation may be a sensible way to balance investment risk and reward, it does not guarantee a profit or protect against a loss.

No assurance can be given that any of the asset allocation portfolios will achieve their respective underlying investment objectives.

Risks Associated with the Underlying Investment Options

The Separate Account invests in the shares of one or more open-end management investment companies registered under the Investment Company Act of 1940. Each underlying investment option has its own investment objective and associated risks, which are described in the accompanying fund prospectuses. The income, gains, and losses of one underlying investment option have no effect on the investment performance of any other underlying investment option. We do not promise that the underlying investment options will meet their investment objectives. Amounts you allocate to the underlying investment options may grow in value, decline in value, or grow less than you expect, depending on the investment performance of the underlying investment options you choose. You bear the investment risk that the underlying investment options may not meet their investment objectives. It is possible to lose your entire investment in the underlying investment options.

US Equity Risk – The value of a particular stock or equity-related security held by a Portfolio could fluctuate, perhaps greatly, in response to a number of factors, such as changes in the issuer's financial condition or the value of the equity markets or a sector of those markets. Such events may result in losses to the Portfolio.

International Equity Risk – International equity may be adversely affected by: changes in currency exchange rates; differing regulatory and taxation requirements; alternative financial reporting standards, including less publicly available information; and political, social and economic changes. International markets, and in particular Emerging Markets (EM), are generally more volatile than U.S. markets.

Fixed Income Risk – Fixed income investments are subject to risk, including credit and interest rate risk. Because of these risks, an underlying investment option's share value may fluctuate. If interest rates rise, bond prices usually decline. If interest rates decline, bond prices usually increase. The prices of longer-term bonds are generally more sensitive to changes in interest rates than those of shorter-term bonds.

Learn More About the Underlying Investment Options

Before allocating amounts to the underlying investment options, you should read the current fund prospectuses for detailed information concerning their investment objectives, strategies, and investment risks.

It is possible to lose money by investing in securities.

Life insurance policies contain exclusions, limitations, reductions of benefits, and terms for keeping them in force. Your financial professional can provide you with costs and complete details.

Variable universal life policies are issued by Pruco Life Insurance Company in all states except New York, where they are issued by Pruco Life Insurance Company of New Jersey. Both companies are located at 213 Washington Street, Newark, NJ 07102. They are offered through Pruco Securities, LLC (member SIPC), 751 Broad Street, Newark, NJ 07102. All are Prudential Financial companies. Each is solely responsible for its own financial condition and contractual obligations. They are also offered by broker-dealers who have entered into agreements with Pruco Securities, LLC.

Guarantees are based on the claims-paying ability of the issuing company and do not apply to the underlying investment options.

This material is being provided for informational or educational purposes only and does not take into account the investment objectives or financial situation of any client or prospective clients. The information is not intended as investment advice and is not a recommendation about managing or investing your retirement savings. If you would like information about your particular investment needs, please contact a financial professional.

Investment and Insurance Products:

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1025191-00001-00 Ed. 10/2019

EDUCATIONAL COMMENTARY

For advisors

CONSUMER RESEARCH FOR THE MARKET VOLATILITY PHONE CONVERSATION

The Alliance for Lifetime Income has invested in research to understand how people think, feel and make decisions about retirement planning. With the current market volatility, financial professionals are getting many concerned calls from clients. We thought it would be helpful to share our research insights with financial professionals to help address people's emotional anxieties at this emotional time.

Now is *NOT* the time to deviate from a strong financial plan, particularly one that includes sources of protected lifetime income to cover essential expenses. These insights can help financial professionals navigate people's concerns and reassure them – so they don't make mistakes that can jeopardize the life they **PLAN TO LIVE**.

CONSUMER RESEARCH INSIGHTS

Most clients want to know how the current volatility changes their hopes and desires, NOT the history of the market or complicated product performance data.

Remind them of the **SMART** and **RESPONSIBLE** decisions they have made with their money for situations just like this. Together, you've built a plan. That plan is meant to help reach their goals in retirement. The current volatility doesn't change that.

If you know their goals, talk about them. If you don't, our research shows that close to 71% of people will be happy if they can live what we call a **FULL LIFE** in retirement. That means that as they grow older, they are secure, independent, and free to live as they choose.

Right now, people want reassurance that they are prepared for adversity, and still remain in control of their finances. Remind them of the **SAFE** and **SECURE** protected income streams that the market cannot affect. If anything, it is now more important than ever to remain smart and responsible.

Demonstrate that you have covered their M.U.G. The acronym represents essential monthly expenses people often need to cover in retirement, like a mortgage or medical expenses, utilities, groceries, gym fees or car payments. If you can calculate their monthly M.U.G. and show that it is covered by social security and other protected income streams like an annuity, you will demonstrate the safety and security they desire.

The final point from our research is to reassure your clients that they can maintain their lifestyle. They should still feel OPTIMISTIC and PROUD about the decisions they have made and the future in front of them.

In review, what you need to communicate to your clients is:

- You've made smart and responsible decisions with your money.
- Together, we've built a plan.
- That plan is meant to help you reach your goals in retirement.
- The current volatility doesn't change that.
- If we stick to the plan, you can still live the full life you want as you grow older.
- We've provided security through protected income streams to cover your essential expenses. This offers protection against market fluctuations.
- I remain optimistic and proud about our plan, the decisions you have made and the future in front of you.
- Is there anything else you wanted to discuss today?

Financial professionals can use these insights to help clients avoid making decisions that deviate from a strong financial plan and risk their financial future. Some financial professionals may still face client concerns about their plans, particularly plans that don't cover essential expenses with protected lifetime income – instead relying heavily on probable income. People need to know they are secure before they can be optimistic about the future.

For additional information on
The Alliance for Lifetime Income Positioning Research,
contact us at info@alincome.org.

Learn more at Resources.ProtectedIncome.org.

Income Advantage℠ IUL

Sales Idea:

The Costs that Come With Waiting

After meeting with your client and discussing his planning needs, it's clear that an accumulation-focused IUL product, like Income Advantage℠ IUL, would be a valuable addition to his portfolio. This IUL satisfies the client's current need for having some additional life insurance protection, it provides him with an additional source of supplemental income for retirement, and it offers him early access to the death benefit if he were diagnosed with a terminal or chronic illness.

But then your client tells you he wants to think about it – maybe wait a few years before getting started.

We all know there are risks that come with waiting:

- What happens if the client unexpectedly dies and doesn't have the death benefit?
- What if the client is diagnosed with an illness that no longer allows him to be insurable?

But a consequence the client may not be aware of is the impact waiting could have on the amount of income he can take from his policy down the road. Waiting even just a few years could change the income potential by thousands of dollars a year.

Let's look at a case study that helps illustrate the costs of waiting

Mutual of Omaha

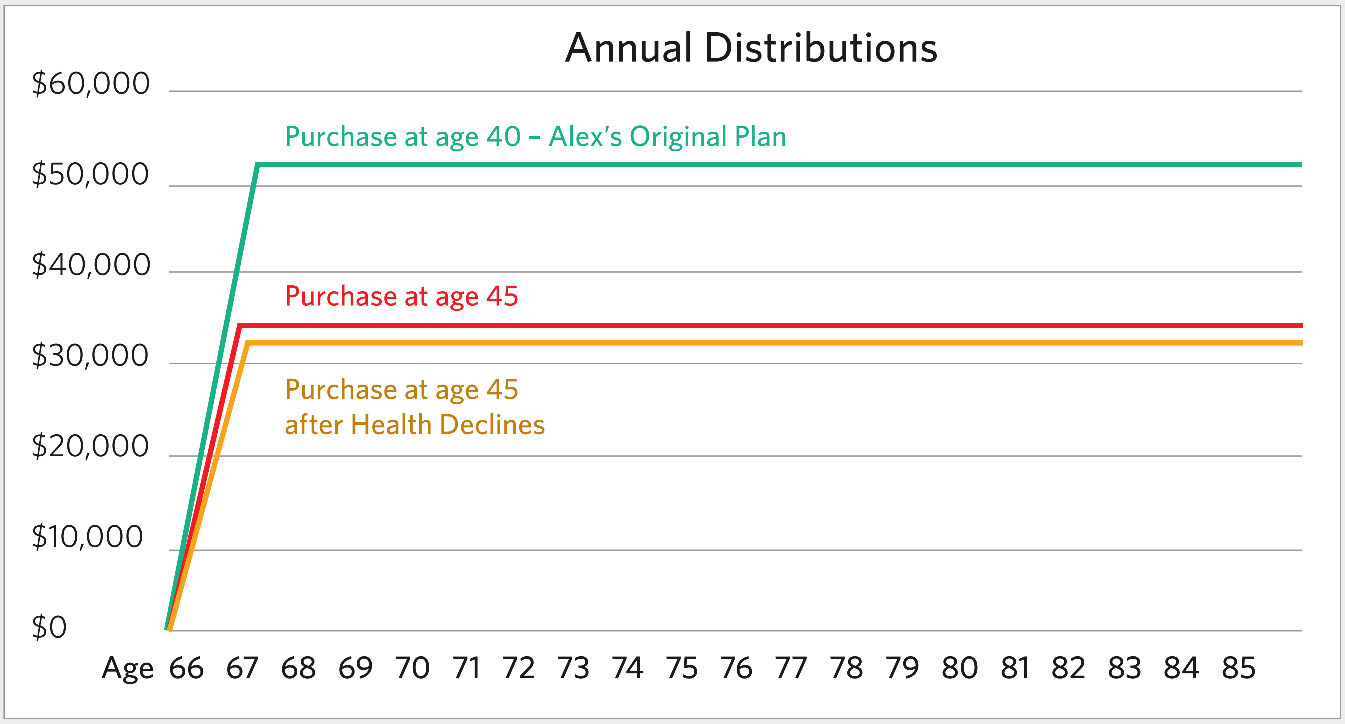
Underwritten by
United of Omaha Life Insurance Company
A Mutual of Omaha Company

Alex is a healthy 40-year-old who owns a successful business and has already maxed out contributions to his qualified retirement plan.

During your initial meeting with Alex, you showed him how his Income Advantage IUL policy could perform, assuming he contributed $1,000 per month for 25 years ($300,000 in cumulative contributions), and then started taking 20 years of distributions beginning at age 66.*

The solve for 20 years of projected income starting at age 66 results in $51,685 per year ($1,033,000 in cumulative distributions).

The following chart shows what could happen if Alex waits 5 years to purchase his Income Advantage IUL policy.



If Alex waits to purchase until age 45:

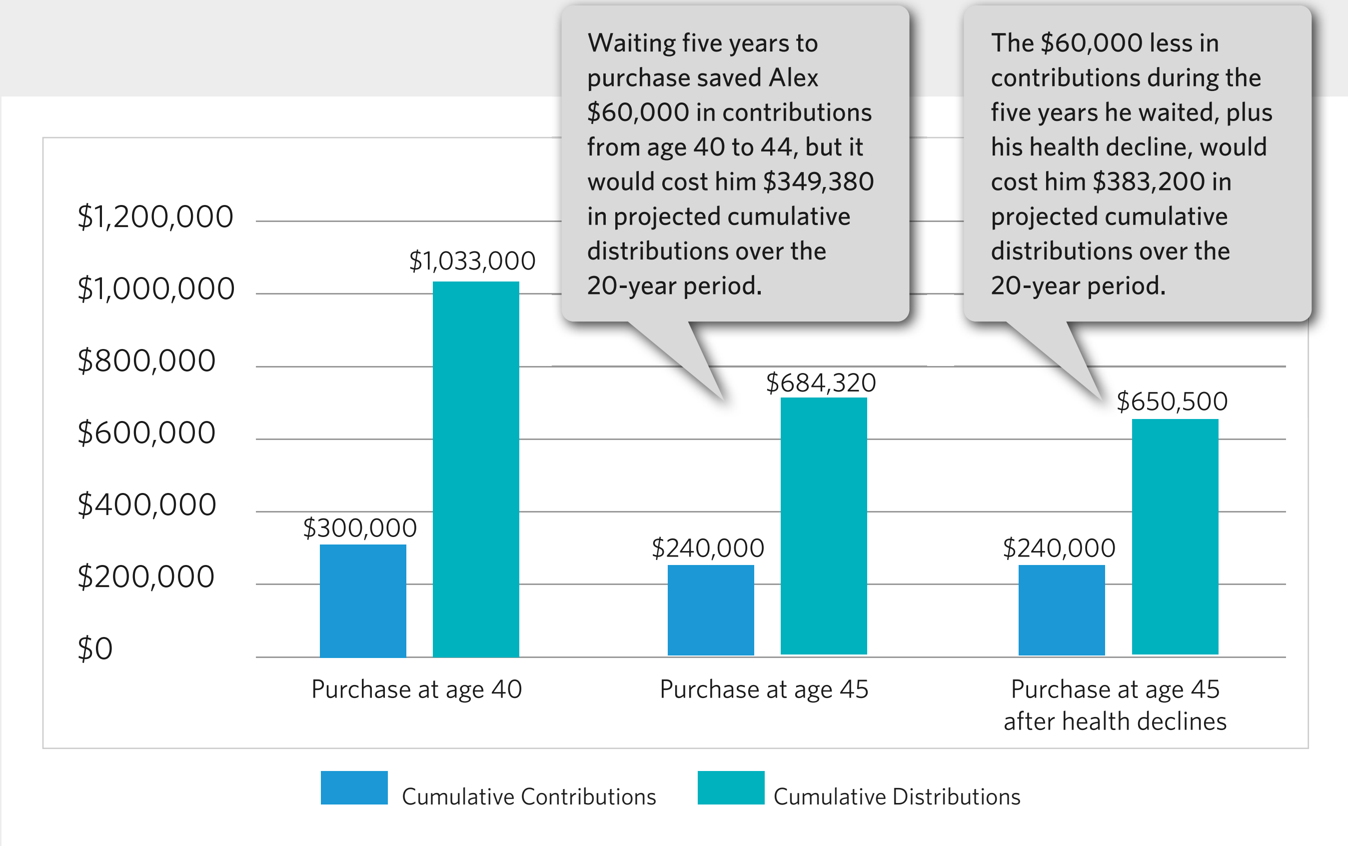
- He is now only projected to get only **$34,216** per year
- He didn't pay premiums from age 40-45, saving him $60,000 BUT it **cost him $349,380 in projected cumulative distributions over the 20-year period**

If Alex waits to purchase until age 45 and his health declines:

- Alex is now a Standard Nonsmoker, which increases his policy costs. He is now only projected to get **$32,525** per year.
- The $60,000 less in contributions during the five years he waited, plus his health decline, **cost him $383,200 in projected cumulative distributions over the 20-year period**

**Additional assumptions: PNT rate class, minimum face solve, increasing death benefit for 25 years, switching to a level death benefit at age 66, 6.0% hypothetical illustrated rate, maximum distribution solve using index loans*

Let's take a closer look at the difference in Alex's cumulative contributions and his cumulative distributions over the life of his policy...

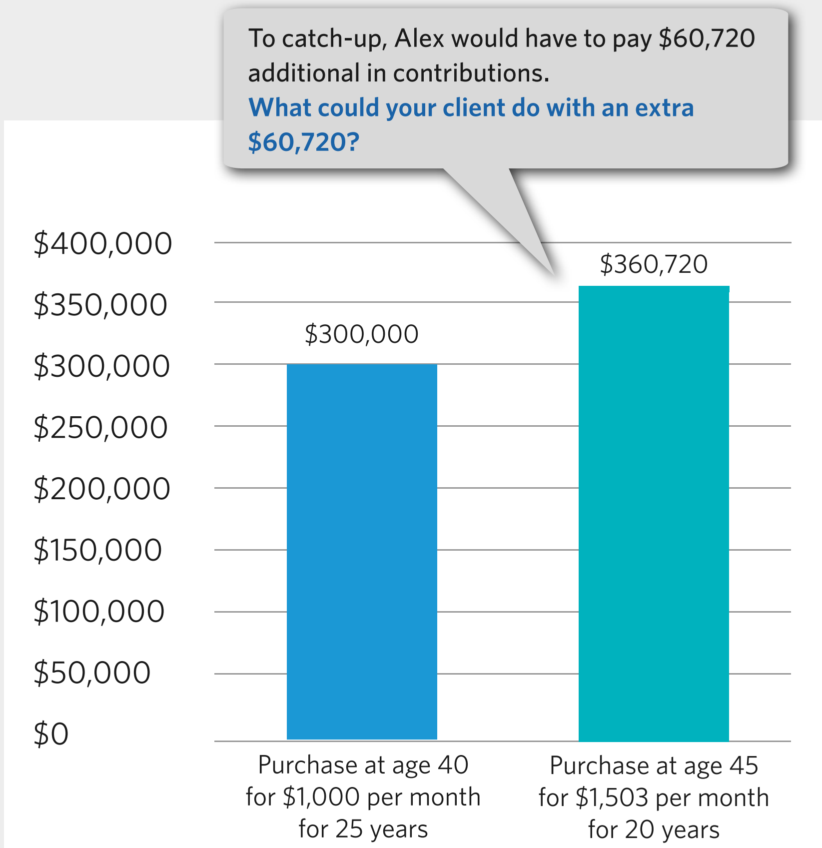


Playing 'catch-up' to achieve the same distributions...

If Alex waits until age 45, he does have the option to try to play catch-up and pay more premium each month to get back to a projected distribution of $51,685 per year. To catch-up, Alex would have to pay $1,503 monthly instead of the $1,000 per month he originally planned on. This higher premium results in $360,720 in cumulative premiums over the 20-year period (instead of his original plan of $300,000 in cumulative premiums over the 25-year period).

Take the next steps...

If you have a client who is a good candidate for an IUL product but is hesitant to get started, make sure you show him some of these scenarios using the WinFlex illustration software. The scenarios can really help illustrate what your client might be giving up, just by waiting.



Indexed Universal Life Express®

Sales Idea:

Consider IUL Express as an Alternative For Insureds Who Are Too Old to Get Term with ROP

Our Term Life Express 30-year policy has the option to include a Return of Premium (ROP) feature, which can be a motivating feature for younger clients. But because this feature isn't available to clients 51 or older, an IUL Express policy can be a great alternative.

IUL Express is a permanent policy that can last for the clients lifetime as long as the required premiums are paid. Policies also come with a minimum death benefit guarantee that lasts for 20 years or to age 80, whichever comes first, as long as the minimum no-lapse protection premium is paid. It also has the potential to build a cash value[1], and the client has the option to surrender their policy at any time and receive the cash surrender value.

So as an example, let's take a look at some numbers for a 51-year old client using a $100,000 policy. Since we are unable to calculate a TLE 30-year ROP premium once a client reaches age 51, we'll use the age 50 premium for our comparison.

	Monthly Premium	Cumulative Premiums at 30 Years	Return at 30 Years
TLE 30-Year ROP policy (age 50)	$168.54	$60,674.40	$60,674.40 Return of Premium
IUL Express Easy Solve Premium (age 51)	$143.98	$51,832.80	$51,957 Projected Cash Surrender Value*
IUL Express Specified Premium equal to TLE 30-Year ROP policy	$168.54	$60,674.40	$80,955 Projected Cash Surrender Value*

*Assumes a 5.75% illustrated rate on the IUL Express policy

If the client no longer wanted his policy once the initial 30 years was over, he could surrender his policy and receive the cash surrender value.

The IUL Express policy cash value is non-guaranteed; however, as you can see in the example above, at a 5.75% rate:

- When paying the Easy Solve premium, the cash surrender value would nearly equal the premiums paid at year 30.
- And, if the client chose to pay a higher premium of $168.54 (which was equivalent to the Term Life Express ROP premium), the cash surrender value would be significantly greater than the cumulative premiums at $80,955.

If the client no longer wanted his policy, he could surrender his policy and receive the cash surrender value.

An Additional Living Benefit of IUL Express

One additional benefit of the IUL Express policy is that your client's policy will include the Living Benefit Riders. This means that your client could access a portion of the death benefit early for a qualifying terminal, chronic or critical illness.

So if you have clients who are no longer eligible for a Term Life Express ROP policy, be sure to show them an IUL Express illustration as an alternative. It could be just the solution they need to bring a similar peace of mind that ROP can provide.

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[1]The amount that may be available through loans or withdrawals, as defined in the contract.

Indexed Universal Life Express®

Sales Idea:

IUL Express as an Alternative When Clients Need More Death Benefit Than a Final Expense Policy Allows

A final expense product is a great solution for clients who are looking to cover their funeral expenses, as well as other end-of-life expenses their families could incur. But for younger clients a maximum death benefit of $40,000 may not be enough.

Let's take a look at what a funeral and burial that would cost $13,135 today would cost in the future based on a 2.4% inflation rate, which is the average U.S. inflation rate for the 30-year period from 1990-2020:

	When Death Occurs		
	Today	Age 75	Age 85
45-year old	$13,135	$26,756	$33,917
55-year old	$13,135	$21,107	$26,756

National Funeral Directors Association, 2019 Cost of Adult Funeral with Viewing and Burial: $9,135 Cemetery, Monument/Marker Costs, Flowers: $4,000

While a $40,000 policy may be enough to cover the funeral and burial expenses, it may not be enough to cover other end-of-life expenses, such as the healthcare services received in the days or months leading up to a death, any outstanding bills that must be paid, or any legal services that may be needed.

For these clients, you may want to consider Indexed Universal Life Express as an alternative. IUL Express offers higher face amounts, which will allow your clients to be better prepared for the end-of-life expenses their loved ones may incur.

Here are how the monthly premiums for the maximum final expense policy coverage of $40,000 compares to an IUL Express policy for double the coverage amount using the IUL Express Easy Solve:

Male, Nonsmoker	$40,000 Final Expense	$80,000 IUL Express Easy Solve
45-year old	$98.83	$72.53
50-year old	$113.10	$108.91
55-year old	$134.18	$138.86
60-year old	$165.43	$190.36
65-year old	$216.31	$249.05

The Easy Solve premium is the premium that results in the surrender value equaling or exceeding the death benefit at age 120 (assuming the current illustrated rates for the 100% participation rate strategy)

When talking through this strategy with clients, here are some additional differences in the two products to keep in mind:

Guarantee Periods:

- **IUL Express:** Guaranteed for a minimum of 20 years as long as the minimum premium is paid (to age 80 for clients 61+). Even when illustrated at a conservative rate of return, the policy can continue on a non-guaranteed basis for the client's lifetime as long as the required premiums continue to be paid.
- **Final Expense:** Guaranteed for the client's lifetime as long as the required premiums continue to be paid.

Underwriting Requirements:

Please be aware that underwriting questions may differ between the two products. It's important to field underwrite your clients using the underwriting guide and the qualification questions on the application. While your healthier clients may benefit from IUL Express, there may be some clients who could qualify for final expense who may not qualify for IUL Express due to their health history.

With increasing health care and funeral costs, clients may need more death benefit than they think to protect their loved ones from financial strain after they pass. So if you're working with clients who need more death benefit than a final expense policy can provide, consider IUL Express as an alternative.

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Which Policy Is Right for My Client?

Life Protection Advantage IUL vs. a Fully-Guaranteed UL Policy

A fully-guaranteed universal life insurance policy can be a great option for clients who are certain they need a death benefit for their entire lifetime – if they can afford the cost in all years. However, clients who are looking for a more affordable premium and want more flexibility may want to consider a Life Protection Advantage IUL policy. Here's how the two compare:

	A Fully-Guaranteed UL Policy	Life Protection Advantage IUL
Death Benefit Guarantee	Clients pay a no-lapse guarantee premium that fully guarantees their policy for a period they choose: • Typically, for a lifetime (to age 120) • Options to dial-back the guarantee period to the duration the client chooses	Clients are encouraged to pay the long-term no-lapse protection premium, which guarantees coverage up to age 85.[1] The death benefit protection can last beyond the no-lapse protection period as long as the surrender value is sufficient to cover the monthly policy charges.
Cash Value[2] Accumulation	Uses a fixed interest rate. Typically, the cost of insurance charges are higher, which means the policy results in little to no cash value accumulation.	Based on the performance of a market index, allowing greater potential for cash value accumulation.
Future Flexibility	• Since GUL policies do not typically build much cash value, there is little opportunity to 1035 exchange into a different policy in the future, or to access the cash value for emergency expenses • Clients typically have to pay their premiums in all years in order for the death benefit to continue. Most fully-guaranteed UL policies do not offer flexibility to skip or reduce premium payments • Some fully-guaranteed UL policies come with a refund option, which allows clients to get their premiums back during specified periods if their needs change (this feature may be at an additional cost)	An IUL has the potential to build cash value,[2] giving your clients additional options down the road: • If their needs change, they can 1035 the surrender value into a new policy • If their policy performs well, they have flexibility to reduce or stop paying their premiums • If they need access to their cash value[2] to help supplement retirement income or for emergency expenses, they can take a loan or a withdrawal • If the policy doesn't perform as expected or their needs change, the client has an option to exercise the Guaranteed Refund Option Rider[3] and get all or a portion of their premiums back

(continued)

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[1] For insureds issue ages 75 and above, this guarantee is provided by paying the short-term no-lapse protection premium. Insureds issue age 80 and over receive a 5-year guarantee.
[2] The amount that may be available through loans or withdrawals, as defined in the contract.
[3] The GRO rider is not available for clients age 60 or above (regardless of risk class), for substandard or tobacco cases under age 50 or for substandard tables 5-16 at ages 50 and above. In order to remain eligible for the rider, the client must continue to make their required premium payments as defined in the rider.

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Product Similarities

Although the differences are substantial, there are also similarities between the two policies:

- An income tax-free death benefit that is paid to the client's beneficiaries [4]
- Opportunities to access a portion of the death benefit early for terminal illness, chronic illness or long-term care expenses (although these types of riders can vary by policy and by company)

All these points are important to consider as you work with your clients on choosing the product that is right for them.

A Hypothetical Example

Jack is 40 years old and has a $500,000 life insurance need. He's currently in good health and would receive a Preferred Nontobacco rate class. It's important to him that his death benefit lasts as long as he does. Jack is still relatively young, so although he may not realize it now, his current life insurance needs could change in the future. Here are a couple of products for Jack to consider:

A fully-guaranteed UL policy:

- Jack can pay approximately $3,500 to $3,750 annually for a fully-guaranteed UL policy. Paying this premium every year would guarantee coverage for his lifetime (to age 120)

A Life Protection Advantage IUL policy:

- Jack can pay the long-term no-lapse protection premium of $2,950. This guarantees his coverage until 85, which is beyond his current life expectancy of age 78.5
- At a projected interest rate of 5.5 percent, based on non-guaranteed assumptions, this premium results in:
  - $282,522 in cash value at age 85
  - a death benefit that lasts to age 120 with $1,282,105 in cash value remaining

A Life Protection Advantage policy also offers these opportunities:

- If Jack's needs change, or if a different type of life insurance policy that better meets Jack's needs is developed, he has a surrender value that can be 1035 exchanged into a new policy (assuming Jack is still insurable)
- If Jack's policy performs better than what he originally projected, he has the option to use his policy's cash value to pay for his monthly policy charges (as long as the surrender value is positive). This gives him the flexibility to reduce – or even possibly stop – paying his premiums in the future
- If Jack needs access to cash to help pay for his children's college education expenses or to help supplement his retirement income, or for other emergency expenses, he can take a loan or withdrawal from his policy's cash value

The Right Policy

Recommending a policy to your clients is an important responsibility. Knowing the differences between the available policies will help you in your efforts to successfully solve your clients' life insurance needs.

For further details about United of Omaha's Indexed Universal Life products, visit discoveriul.com.

[4] Death benefit proceeds from a life insurance policy are generally not included in the gross income of the taxpayer/beneficiary (Internal Revenue Code Section 101(a)(1)). There are certain exceptions to this general rule including policies that were transferred for valuable consideration (IRC §101(a)(2)).

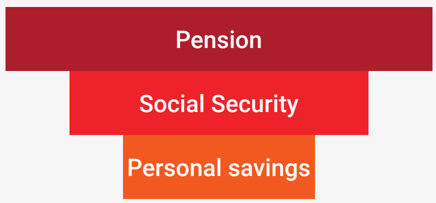
Where is your safety net?

3 questions to help uncover any gaps in your retirement plan

The retirement income safety net that past generations were able to rely on has been turned upside down. Those retirees relied on protected income from their pensions and Social Security to create a stable and regular income stream in retirement.

Today, Social Security is still in place, but pensions have mostly disappeared — leaving retirees responsible for generating most of their income from their personal savings.

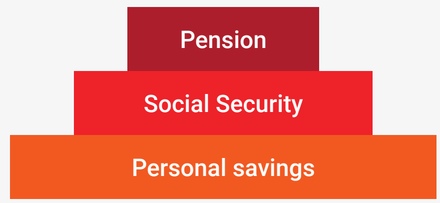
The way it was



In 1990

- 43% of workers were covered by pension plans[1, 2]
- Interest rates averaged above 8%[3]

The way it is today



Today

- 17% of workers are covered by pension plans[1, 2]
- Interest rates average below 2.5%[4]

The need for protected income

Protected income from pensions and Social Security meant that less income was required from personal savings. And higher interest rates allowed savings accounts to generate more income.

Things are different for today's retirees who are searching for more income and more return. Never before have retirees been responsible for managing so much risk on their own.

Fortunately, there are three basic questions that can help uncover potential gaps in the way you're managing retirement challenges.

1. How much protected income do you have today from sources like pensions, Social Security and annuities?
2. Will you have enough protected sources of income to cover your essential living expenses throughout retirement?
3. How are you addressing risks from the market, and the likelihood of living longer?

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Lincoln Life & Annuity Company of New York
For use with the general public.

Talk with your financial professional to help secure the safety net you need to face retirement with confidence.

Not a deposit
Not FDIC-insured
Not insured by any federal government agency
Not guaranteed by any bank or savings association
May go down in value

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[1] https://www.workforce.com/2016/06/21/the-history-of-retirement-benefits/.

[2] https://www.bls.gov/opub/ted/2018/51-percent-of-private-industry-workers-had-access-to-only-defined-contribution-retirement-plans-march-2018.htm.

[3] 10-Year Treasury rate average for 1990.

[4] 10-Year Treasury rate average for last 12 months as of 9/16/2019.

Important information:

Affiliates include broker-dealer/distributor Lincoln Financial Distributors, Inc., Radnor, PA, and insurance company affiliates The Lincoln National Life Insurance Company, Fort Wayne, IN, and Lincoln Life & Annuity Company of New York, Syracuse, NY.

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THE TAX ADVANTAGES OF LIFE INSURANCE

PREPARING FOR RETIREMENT

As you accumulate assets for retirement, consider how to protect those assets as well as the people you'd like to leave them to. A life insurance policy with cash value can be an important component of a financial strategy for your retirement years by:

- Providing financial protection for those who rely on you.
- Allowing you to reap tax advantages.

Its death benefit, cash value accumulation, and access to that cash value are either tax-free or tax-deferred.

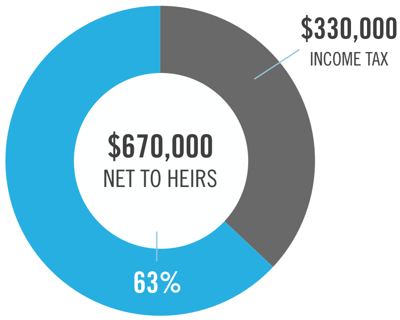
TAKE CONTROL OF TAXES

Since many retirement assets generate a tax bill, taxes can undermine your plans and leave you with less than you expect. And with more and more potential changes in the tax code, no one can predict what you will face when you retire. Fortunately, in addition to a typically federal income tax-free death benefit for your loved ones, life insurance can also help by providing supplemental income that is usually income tax-free.[1]

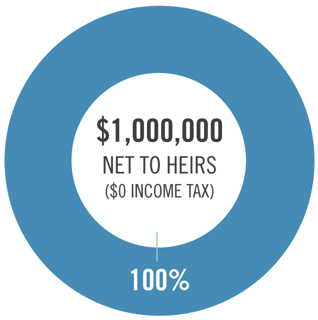
Life insurance with cash value growth potential can be a valuable tool for taking more control of your taxes in retirement in three ways:

1 A GENERALLY FEDERAL INCOME TAX-FREE DEATH BENEFIT.

While most financial vehicles create taxable income, life insurance does not. So, instead of receiving the "after-tax" amount, your loved ones can receive the full death benefit amount that you've intended for them.



QUALIFIED TAX-DEFERRED ASSET
DEATH BENEFIT: $1,000,000



LIFE INSURANCE
DEATH BENEFIT:* $1,000,000

*Life insurance policies are purchased with after-tax dollars.

Prudential
Bring Your Challenges®

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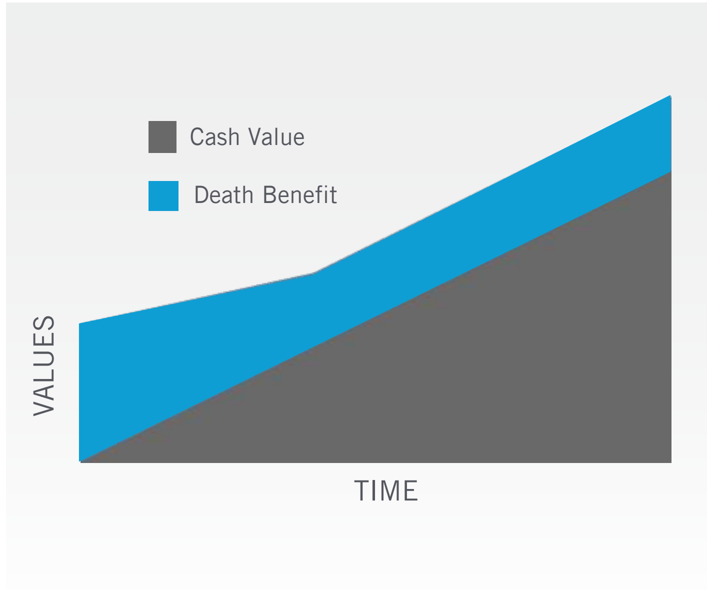
2 INCOME TAX-FREE GROWTH

Any cash value that accumulates in a life insurance policy grows tax-free. In some policies, you can choose a death benefit option that enables the death benefit to increase if the cash value does. This can help you leave even more to your heirs. (If the cash value grows beyond a certain point, the death benefit will be increased. This is to ensure that your policy continues to qualify as life insurance under tax law, and this will also ensure that the tax advantages still apply.)



3 TAX-FREE "LIVING BENEFITS"

Living benefits are benefits paid out to you (while you are alive, of course). These are also generally tax-free and can include:

- **Accessing the death benefit** early—accelerating it—because of a chronic illness. This can be helpful, especially since 5 out of 10 people over the age of 65 will experience a chronic illness or disability.[2] Someone turning 65 today can expect to incur $138,000 in long-term care services and support costs in their lifetime.[3] If family members provide most of your care, you might still like to reimburse them for their lost wages and travel or other costs associated with helping you.
- **Accessing cash value accumulation.** You can access any cash value that builds in your policy for any reason you choose.[4] And you can do so regardless of your age; there is no age 59½ threshold or other limitations. You can access the money in two ways:
  - **Withdrawals** from the policy can generally be taken tax-free up to the amount of premiums you've paid.
  - **Loans** can be taken from the policy tax-free as long as the policy is still in force.

DID YOU KNOW?

YOU CAN USE CASH VALUE IN A POLICY TO HELP SUPPLEMENT RETIREMENT INCOME.

It's true! If your policy accumulates enough cash value, you could take a one-time or regular loans or withdrawals from it after you retire.

Since you likely have other assets to pass to your heirs, you might not need the highest death benefit possible. If so, consider choosing a lower face amount, to ensure your family is protected, and paying higher premiums than what's required. This will help to maximize the policy's tax-deferred cash value growth potential.

Please note that federal tax law limits the amount of premium contributions that can be made to a policy for it to keep its tax advantages, so you'll need to stay within certain limits.[5]

Learn more about how you can benefit from the tax advantages of life insurance. Talk with your financial professional today.

[1]According to IRC §101(a).

[2]Alliance for Aging Research, The Growing Older Population, Accessed 3/2018.

[3]Kathleen Ujvari, AARP Public Policy Institute, "Disrupting the Marketplace: The State of Private Long-Term Care Insurance," 2018 Update, August 2018.

[4]Note that loans are charged interest. Taking loans or withdrawals will reduce the policy's cash value and the death benefit paid to your beneficiaries. Withdrawals could also shorten any guarantee against lapse that's in place. If there is an unpaid loan, the no-lapse guarantee will not protect your policy from lapsing, and you might need to pay more into the policy than you originally expected. Loans outstanding if the policy lapses or is surrendered will become immediately taxable to the extent of gain in the policy. Withdrawals that are more than what you put into the policy may be taxable.

[5]When premium contributions exceed this limit, the policy is classified as a modified endowment contract (MEC). Distributions from MECs (such as loans, withdrawals, and collateral assignments) are taxed less favorably than distributions from policies that are not MECs to the extent there is gain in the policy. For distributions from a MEC before age 59½, a federal income tax penalty may apply to the extent there is gain in the policy. Please consult a tax advisor.

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Life insurance policies contain exclusions, limitations, reductions of benefits, and terms for keeping them in force. A financial professional can provide you with costs and complete details.

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ADVANCED PLANNING

Cash Value

Life Insurance in Retirement Planning

Life insurance provides death benefit protection in the event of a premature death, for any number of needs, including to pay off a mortgage, replace a salary, pay estate and transfer taxes, or fund a college education.

But did you also know that life insurance can have living benefits?
The policy's cash value can grow tax-deferred, and any accumulated cash value can be accessed tax-free via loans and withdrawals, as long as they are properly structured.

Moreover, these features can also make the policy cash value a good choice to supplement primary sources of retirement income.

LIFE INSURANCE IN RETIREMENT PROVIDES THE FOLLOWING BENEFITS:

1. In the event of premature death during your working years, the income tax-free death benefit can protect your family, replace income, and complete financial obligations.[1]
2. The policy's cash value can be used to help supplement the income from your other retirement assets.

Take a look at the chart below.

COMPARISON OF RETIREMENT INCOME SOURCES

	Supplemental Income from Cash Value	Primary Sources of Retirement Income				
	Life Insurance	**Taxable Investments**	**Qualified Plan/ Traditional IRA**	**ROTH IRA**	**Non-Deductible IRA**	**Muni Bonds**
Deductible Contributions	No*	No	Yes	No	No	No
Tax-Favored Withdrawals	Yes	No	No	Yes[12]	Yes[7]	Yes[11]
Mandatory Withdrawals	No	No	Yes	No	Yes	No
Tax-Deferred Accumulation	Yes	No[6]	Yes	Yes	Yes	Yes[9]
Income Tax-Free Death Benefit[13]	Yes[1]	No	No	No	No	No
Tax Penalties for Early Withdrawals[10]	No[2]	No[5]	Yes	Yes	No[8]	No
Contribution Limits[2]	No	No	Yes	Yes	Yes	No
Cost of Insurance Charges	Yes	No[3]	No	No	No	No
Market Risk	Yes[4]	Yes	Yes	Yes	Yes	Yes

* Paying more than the required minimum premium can help build cash value.
[1] Life insurance death benefit proceeds are generally excludible from a beneficiary's gross income for income tax purposes per IRC §101(a). There are a few exceptions, such as when a life insurance policy has been transferred for valuable considerations.
[2] Provided sufficient death benefit is purchased to ensure the policy is not a Modified Endowment Contract (MEC).
[3] If the investment is a deferred annuity, cost of insurance charges may apply.
[4] There is no downside market risk when using certain Prudential products.
[5] If the taxable investment is a non-qualified annuity, withdrawals taken prior to age 59½ may be subject to an additional 10% federal income tax penalty.
[6] If investment is a non-qualified deferred annuity, tax-deferred accumulation applies. Also, the capital gain can be deferred in a taxable investment until shares are sold.
[7] Withdrawals will be pro-rata (partially taxable and partially nontaxable) if you have other traditional IRAs or gain in the contract.
[8] The tax penalty only applies to taxable amounts from an early withdrawal. Withdrawals will be pro-rata (partially taxable and partially nontaxable) if you have other traditional IRAs or gain in the contract.
[9] Tax-deferred accumulation refers to appreciation in the context of municipal bonds.
[10] Withdrawals and distributions of taxable amounts are subject to ordinary income tax and, if made prior to age 59½, may be subject to an additional 10% federal income tax penalty.
[11] May impact taxation of Social Security benefits and may have AMT consequences.
[12] Qualified withdrawals are federal income tax-free. To be a qualified withdrawal, the withdrawal must occur after the owner (1) has had a Roth IRA for at least 5 tax years, and (2) is age 59½, is disabled, or has died.
[13] Some account balances that transfer to a surviving spouse may transfer tax-free.

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BENEFITS OF LIFE INSURANCE IN RETIREMENT PLANNING

1. The life insurance death benefit will generally be received income tax-free by heirs.
2. The life insurance cash values can grow tax-deferred.
3. As long as the policy is not a Modified Endowment Contract (MEC), the client can generally take tax-free withdrawals up to basis out of the policy, and tax-free loans thereafter from the available cash value.
4. Accumulated cash value may be accessed by you or remain in the policy.

The chart on the previous page outlines some of the important features of a variety of financial vehicles. An understanding of these features may help you to determine which of these products may meet your needs and whether cash value life insurance can complement an existing financial portfolio. Some additional information you may wish to consider:

THINGS TO CONSIDER

The primary purpose of life insurance is for death benefit protection, and this strategy assumes this to be a priority objective for the policyowner.

1. Life insurance premiums are not tax-deductible.
2. Life insurance policies classified as Modified Endowment Contracts (MECs) may be subject to tax when a loan or withdrawal is made, and a federal tax penalty of 10% may also apply to a MEC if the loan or withdrawal is taken prior to age 59½.
3. The policy cash value available for loans and withdrawals may be worth more or less than the original investment amount, depending on the performance of the policy crediting rate. Life insurance policies may also have surrender charges in the early policy years. Other factors that will affect cash values are the timely payments of premium and the performance of underlying investment accounts, where applicable.
4. Withdrawals and loans can reduce the policy death benefit and cash surrender value and may cause the policy to lapse. Lapse of a life insurance policy can cause the loss of the death benefit. Lapse of a life insurance policy with an outstanding loan may cause adverse income tax consequences.
5. For life insurance, the cash value available for loans and withdrawals may be worth more or less than the original premiums paid. Withdrawals from a life insurance policy may be subject to income tax after withdrawals exceed cost basis.
6. Taxable investments may be subject to income tax and/or capital gains tax.
7. Distributions from non-deductible IRAs must be pro-rated if the client has deductible IRA monies or earnings in the non-deductible IRA.
8. Contributions to qualified plans and traditional IRAs may be tax-deductible, subject to certain limits.
9. While qualified distributions from a ROTH IRA are generally federal income tax-free, if the ROTH IRA is a rollover IRA, a waiting period may apply before distributions will be tax-free.
10. The tax treatment of income from municipal bonds will vary with the type of bond and the issuing municipality.

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