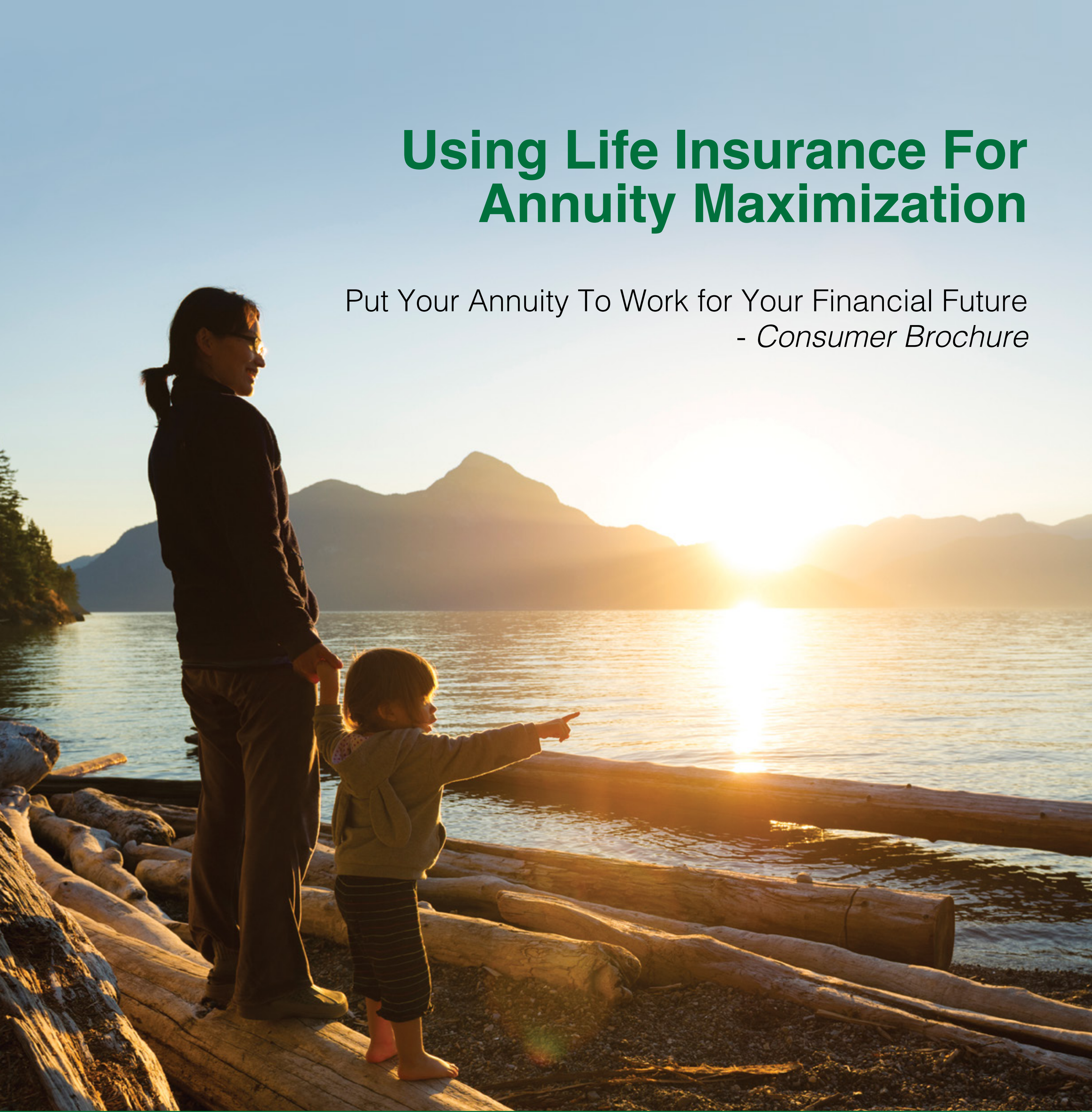

Using Life Insurance For Annuity Maximization

Put Your Annuity To Work for Your Financial Future
- *Consumer Brochure*

Life

North American Company
for Life and Health Insurance
Since 1886

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Help gain financial protection and maximize your annuity.

Even the best financial plans can run into unforeseen problems with taxation that could leave your heirs with less than you plan. By using life insurance to maximize your annuity funds, you can provide your loved ones with the most value for your annuity funds, without the limitations of income or estate taxes.[1]

HIGHLIGHTS	MAXIMIZING YOUR ANNUITY WITH LIFE INSURANCE
Who can benefit?	Any beneficiaries named on the policy, including a surviving spouse, children, and other loved ones.
Why life insurance?	Death benefit proceeds provide generally tax-free funds.
How does it work?	Annuity funds are used to purchase life insurance.

WHO CAN BENEFIT?

You may have used annuities as a savings vehicle as part of your financial plan. However, now you may find that you no longer need the money in the annuity and you want to pass the money on to your heirs.

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

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

WHY LIFE INSURANCE?

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

- the type of annuity you own,
- the total value of the annuity,
- the income tax brackets of your heirs, and
- the size of your estate.

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

HOW DOES IT WORK?

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

1. Single premium
   - Surrender your annuity and use the lump sum to purchase a paid up, guaranteed universal life insurance policy on your life.[3]
   - Leverage lump sum dollars into the largest guaranteed death benefit for your beneficiaries.
   - Your beneficiaries receive the life insurance death benefit, generally tax-free.
2. Spread out premium payments
   - Annuitize or 1035 exchange your annuity into a Single Premium Immediate Annuity (SPIA).[4]
   - Use the income stream to fund a life insurance policy.
   - You retain access to cash accumulation, if needed.
   - Your beneficiaries receive the life insurance death benefit proceeds, generally tax-free.

Both options present different advantages and disadvantages—depending on your goals. To decide which is right for you, talk to your legal or tax advisor and your North American representative about your particular circumstances.

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LIFE INSURANCE CONSIDERATIONS

There are some important considerations that you need to be aware of before you purchase a life insurance policy to determine if it fits your needs. These considerations include:

- **Cost of insurance charges (COIs) or other charges:** Life insurance comes with charges that you need to be aware of for planning purposes.
- **Maintaining the death benefit:** Additional premiums may be necessary to continue the desired death benefit, depending on funding in the policy.
- **Modified Endowment Contracts (MECs):** MECs may have tax implications that you need to know about when considering options.[5]
- **Loss or premium.** Depending on funding, life insurance may not guarantee avoiding loss or premium.
- **Surrender charges:** Withdrawals may be subject to surrender charges and the amount available for policy loans.[6]

Be sure you complete a thorough needs-based analysis with your agent and determine the need for death benefit coverage in order to help make an appropriate decision. Review illustrations thoroughly for guaranteed and non-guaranteed death benefit values and the amount available for policy loans.[7]

Gain financial protection while building a legacy for future generations. Talk to your North American representative today.

Life insurance policies have terms under which the policy may be continued in force or discontinued. Permanent life insurance requires monthly deductions to pay the policy's charges and expenses, some of which will increase as the insured gets older. These deductions may reduce the cash value of the policy. Current cost of insurance rates and current interest rates are not guaranteed. Therefore, the planned periodic premium may not be sufficient to carry the contract to maturity. For costs and complete details, refer to the policy or call or write North American Company for Life and Health Insurance, Administrative Office, Sioux Falls, SD 57193. Telephone 800-800-3656.

1 This material does not constitute tax, legal or accounting advice, and neither North American nor any of its agents or employees may offer such advice. It is not intended and cannot be used for the purpose of avoiding any tax laws or IRS penalties. You should seek advice from your own attorney, tax advisor and/or accountant based on your own particular circumstances.
2 If the original investment was pre-tax, then the full value of the annuity will be taxable income to heirs.
3 Removing funds from an annuity may result in surrender charges and/or income taxes.
4. Using a SPIA to fund the life insurance policy is not the only option and may not be the best option for you. Please make sure to review and consider the current annuitization rates before making any decisions.
5. For most policies, withdrawals are free from federal income tax to the extent of the investment in the contract, and policy loans are also tax-free so long as the policy does not terminate before the death of the insured. However, if the policy is a Modified Endowment Contract (MEC), a withdrawal or policy loan may be taxable upon receipt. Further, unpaid loan interest on a MEC may be taxable. A MEC is a contract received in exchange for a MEC or for which premiums paid during a seven-year testing period exceed prescribed premium limits (7-pay premiums).
6. 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.
7. Guaranteed death benefits are subject to premium payment requirements.