

# CENCO STREET JOURNAL

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You will have access to:

- Quotes
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## Inside this issue:

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## Using Life Insurance For Legacy Building

Legacy building is a strategy using permanent life insurance to offer death benefit protection along with an efficient way to pass along assets to beneficiaries. In most situations, the strategy involves a single premium asset transfer into a life insurance policy.

### Two key legacy building items:

- ◆ **Maximizing the death benefit.** The main goal in a legacy-building sale is to maximize the total estate value. For clients committed to this strategy, purchasing the largest amount of death benefit that the asset transfer will provide is key to effective case design.
- ◆ **Death benefit guarantees.** The key focus is providing a death benefit, so having a guaranteed death benefit helps to ensure the benefit will be available to beneficiaries.

### Understanding the concept:

The first item for your clients to understand is that life insurance provides financial protection. The cornerstone of a solid financial plan usually begins with life insurance. With life insurance, your clients gain comprehensive death benefit protection that would pass along to beneficiaries.

The second item is that life insurance can provide a tax-efficient way to transfer funds to beneficiaries. As mentioned earlier, the proceeds are passed along generally income tax-free to beneficiaries. The death benefit proceeds can be used by the beneficiaries to improve their situation and may help them to fulfill their dreams and goals.

With legacy building, you can help your clients reduce their tax liabilities while passing along a greater death benefit to beneficiaries.

***Cenco offers a wide range of permanent life insurance products that would fit your clients needs. Call us for more information.***

## Review Individual Federal Tax Returns to Boost Sales

How many of you have studied federal income tax returns? If you're not asking for copies of tax returns to analyze, then one of your competitors probably is. But it won't do any good to start doing this if you don't know what to look for.

The first place to start in the examination of an individual tax return is the Form W-2 (wage and tax statement). First, see if there is a difference between line one (wages, tips, other compensation) and line three (Social Security wages). If so, this difference indicates that a person could be a participant in a 401(k) plan, a 403(b) plan or a Section 125 plan.

The same section of the W-2 indicates the taxable portion of group term life insurance in excess of \$50,000. The premium attributable to the first \$50,000 of group term insurance is tax-free. This information is important because it raises several questions:

- ◆ Is there a need for additional individual owned life insurance coverage?
- ◆ Is the client's employer a prospect for group and individual life insurance coverage?
- ◆ Could you position yourself to review the employer's existing employee benefit plans?

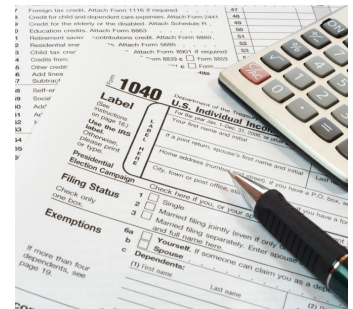
In addition to the W-2, the Form 1040 must also be assessed in order to provide clients with the highest level of service. When engaged in any type of financial planning you must always request that clients provide copies of tax returns from the last 2 to 3 years so that you can establish a thorough financial plan.

When reviewing the Form 1040 begin by evaluating the tax rate schedules for each filing status, which highlights the difference between marginal and real tax brackets. Remember that taxpayers do not pay taxes on their income at marginal tax rates. Instead, income taxes are paid based upon average tax rates.

Also, on the form 1040 is a section where dependent children of any age are listed. Addressing this section with your clients or prospects is sure to open up some important discussions and create a natural sales opportunity. Several questions should be asked at this point:

- ◆ Are you planning to set up a fund for your children's future education?
- ◆ What happens to your children if you should die or become disabled permanently?
- ◆ Are there dependents that do not live with you due to divorce or separation?
- ◆ If so, where do these dependents live and who is responsible for their care?

If you have never reviewed their tax returns, then you probably don't know everything about your clients from a financial standpoint. But if you will take the time and make the effort, you can uncover many sales opportunities, create the trust necessary for long-term relationships and become an expert at uncovering problems and needs that will make you all the more valuable.



## Breaking Into The Business Market: Selling A Key Person Insurance Policy

Key person life insurance offers business owners a flexible option to help ensure continuity of operations should a key person die or leave for another opportunity.



### Step 1: Determine the need

- Can your business survive the loss of one of these owners or key employees?
- How much money and time will it take to bring the business back to the same level?

### Step 2: Identify the key people

- Who are the key people whose daily contributions are instrumental to the operation and success of the business?
- Who has special skills and knowledge about the products, services and operations?
- Would competitors have an advantage if a certain employee was hired away or left?
- Who is the relationship builder and has the contacts that are critical to generating sales?
- Who would you trust to run the business in the event of your retirement, death or disability?

### Step 3: Implement a strategy using a life insurance policy

#### How it works:

- The business is the owner and the beneficiary of a life insurance policy it purchases insuring the key person.
- The face amount is determined by estimating the cost of losing the key person. A good rule of thumb is approximately 5-10 times the key person's salary.
- The business should include IRS Form 8925 (Report of Employer-Owned Life Insurance Contracts) as part of its Federal income tax return each year.

#### Benefits of using life insurance:

- Provides the business protection due to the death of the key person and helps replace lost revenue.
- Supplies a death benefit that can be used to pay current expenses, attract a replacement employee, make loan payments and reassure creditors.
- Provides cash value as an asset on the company's balance sheet. It can even be maintained after the key person's departure and utilized for any purpose, including recruiting a suitable replacement.
- Can be used down the road to recover costs of a non-qualified plan, or it can be transferred to the key person at retirement.

#### Taxation:

- Premiums are not tax deductible.
- Cash values accumulate tax deferred and may be accessed on a tax-advantaged basis.
- Death benefit is generally income tax-free, assuming the requirements for employer-owned policies are met.

**Contact Cenco for more information. We are here to help.**

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Guide To Partial  
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Loans For GUL And  
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- ◆ QoL Training Playbook
- ◆ QoL IUL Playbook
- ◆ QoL Term Conversion Playbook
- ◆ And more.....





# Quick Reference Guide



## Partial Surrenders and Loans for GUL and IUL Products

Our universal life policies provide your clients with lifelong coverage and the option of flexible withdrawals to help them meet financial needs that may arise.

This guide provides a brief overview of the policy disbursement rules and their impacts on our various GUL and IUL products. Please use this as a reference when providing guidance to your clients who may be weighing their options.

**NOTE:** This guide only refers to our currently marketed products as listed below. The rules and impacts may vary for older products which are no longer available. If you have questions, please contact our Producer Contact Center at 800-255-2702.

### Guaranteed Universal Life (GUL)

- QoL Guarantee Plus GUL II

#### PARTIAL SURRENDERS

##### RULES

- May be requested any time after 5th policy year.
- Partial surrender request should be received in writing at least 10 days before the allocation day.
- Available amount equals the amount up to the Accumulation Value less any outstanding loan amounts.

##### POLICY IMPACTS

- Death benefit and premium will be reduced proportionately by the amount of the surrender.
- Cash value will be reduced by the amount of the surrender.

Example: Policy has \$10,000 cash value; policy owner makes \$5,000 withdrawal. This reduces the policy cash value by \$5,000 and reduces the premium and death benefit by 50%.

#### LOANS

##### RULES

- Loans are available any time the policy is in force.
- Loan amount available is equal to or less than the Accumulation Value less surrender charge; less any prior outstanding loan amount; less the amount to be borrowed to the next policy anniversary; less interest on any prior outstanding loan amount to the next policy anniversary.
- Preferred Loans are available on the 10th policy anniversary.
- A Preferred Loan is a Standard Loan that is made at a net cost to the policy owner that is less than the net cost of other Standard Loans. "Net cost" is the amount of interest charged for the loan less interest credited to the amount of the Accumulation Value equal to a loan.
- Preferred Loan interest to the next policy anniversary is due in advance.

##### POLICY IMPACTS

- Potential impact on the guaranteed death benefit duration.
- Policy will lapse at any time if the outstanding loan amount exceeds the Accumulation Value less surrender charge.
- Interest not paid when due will be added to the outstanding loan balance.

# Index Universal Life (IUL)

- QoL Max Accumulator+
- QoL Value+ Protector

## PARTIAL SURRENDERS

### RULES

- May be requested any time after 1st policy year.
- Request should be received in writing at least 10 days before the allocation day.
- Available amount equals the Cash Surrender Value at time request is processed.

### POLICY IMPACTS

- The policy face amount will reduce by the withdrawal amount.
- May negatively impact the minimum guaranteed period, determined through an inforce illustration.

## LOANS

### RULES

- Loans are available any time the policy is in force.
- Loan amount available is equal to or less than the Accumulation Value less surrender charge; less any prior outstanding loan amount; less interest on the amount to be borrowed to the next policy anniversary; less interest on any prior outstanding loan amount to the next policy anniversary.
- For a Standard Loan, the amount of the loan will be deducted proportionally based on the values in each Index Account, the Declared Interest Account and the Interim Account.
- Preferred Loans are available on the 10th policy anniversary.
- A Preferred Loan is a Standard Loan that is made at a net cost to the policy owner that is less than the net cost of other Standard Loans. "Net cost" is the amount of interest charged for the loan less interest credited to the amount of the Accumulation Value equal to a loan.
- For a Participating Loan, the amount of the loan will not be deducted from each Index Account, the Declared Interest Account or the Interim Account. Interest will continue to be credited to these accounts as stated in the Interest Rates provision.
- For both Preferred and Participating Loans, interest to the next policy anniversary is due in advance at an annual effective rate determined by American General Life Insurance Company.

### POLICY IMPACTS

- Policy will lapse at any time if the outstanding loan amount exceeds the Accumulation Value less surrender charge.
- Interest not paid when due will be added to the outstanding loan balance.
- Participating Loans have the potential to earn arbitrage on the loan balance depending on index interest earned in relation to the loan rate charged.
- Participating Loans may result in policy lapse if poor index performance is sustained.

For additional information and resources about our GUL and IUL products, please visit the [QoL Training Playbook](#) or our [QoL Sales Tools](#) page.



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