

A Special Publication for CENCO Related Agents

# CENCO STREET JOURNAL

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## Business Owners Protect Their Business With Key Person Disability Insurance

The loss of a key person employee could be incredibly detrimental to the future success of a company. While a majority of businesses offer **Key Person Life Insurance** should their superstar employee prematurely pass, what would they do if their key employee suffers an injury or sickness that keeps them out of work for a lengthy period of time?

### CONSIDER KEY PERSON DISABILITY INSURANCE:

Employees are 8 times more likely to suffer a disabling sickness or injury before they retire, than they are to pass away. **Key Person Coverage** provides the crucial benefits and cash flow a company needs to move forward, while maintaining profitability if a key person were to incur an injury or illness.

### HOW IT PAYS:

After 90 days, benefits for **Key Person Disability Insurance** will typically pay 150% of the employee's salary over 12 months - providing enough time to recruit, hire, and train a replacement without losing any profits. In some cases, benefits in excess of 150%, unrelated to income, may be obtained.

Companies are able to use these benefits to hire a temporary employee if the prognosis is short-term or to defray the costs related to finding a replacement if the **disability** is permanent.

A lump sum benefit could provide a capital infusion to a firm with a single cash payment. This approach is typically used when a firm has significant cash flow, or savings for a temporary **disability**. However, a long period of **disability** may cause a major financial pinch, creating the need for a lump sum benefit.

With an elimination period of 12 months, benefit amounts may be up to three times the annual income of the key person. Larger benefits are also available subject to financial justification.

## Top 10 Reasons To Sell Fixed Annuities

**Offer your clients guaranteed income options they can't outlive.**

**Here are 10 reasons to consider a fixed annuity:**

- ◆ **Competitive interest rates.** AIG offers the flexibility of several interest rate guarantee options. Your clients can lock in the initial interest rate guarantee that works best for them.
- ◆ **Tax-deferred growth. Accumulate savings faster with compounding interest.** While money remains in the annuity, the principal earns interest and the gains earn interest.
- ◆ **No up-front sales charges or administrative fees.** Once the contract is issued, 100% of your clients' money will begin earning interest.
- ◆ **Protection from market volatility.** Fixed annuities have no market participation.
- ◆ **Guaranteed death benefit.** Upon the death of the owner, the contract value is paid directly to the beneficiary, without any withdrawal charges or market value adjustment (if applicable), generally avoiding the probate process.
- ◆ **Access to funds.** AIG's fixed annuities allow for penalty-free withdrawals up to a specific amount and there are multiple withdrawal charge waivers that can be used under certain defined circumstances.
- ◆ **Systematic withdrawals of interest.** Clients can receive payments monthly, quarterly, semi-annually or annually.
- ◆ **Guaranteed income for lifetime payout option.** With annuitization, electing the lifetime payout option will convert the contract balance into a guaranteed income stream for life.
- ◆ **Diversification.** A tax-deferred fixed annuity can serve as a conservative addition to any retirement portfolio.
- ◆ **Extra help to grow your business - marketing and sales support.** AIG provides comprehensive sales training including materials for both agents and bank customers.

# Benefits of Life Insurance As Supplemental Retirement Income

## WHEN DO YOUR CLIENTS WANT TO PAY TAXES?

Essentially, every dollar that goes towards your client's retirement goes through three phases:

1. The client puts money in
2. The money grows and
3. The client takes the money out

The bad news is that the IRS will require the client to pay taxes on at least one of these three phases. The good news is that the CLIENT gets to decide which one. It all depends on the investments they choose.

In a successful retirement investment strategy, consistent long-term investment growth means that your client(s) assets continue to grow through each phase. Therefore, what your client puts in should be the smallest. As it grows it should be worth more at the end of the accumulation phase. And with continued potential growth the amount the client is able to take out should be even more.

Now that the client knows the choice is theirs - that they can choose to pay taxes on the money they put in, the growth or the money they take out - which would they prefer? Most people will answer: "I choose to pay tax on the smallest number, the money I put in."

## Life Insurance Has Tax Benefits And Other Advantages

- ◆ **Income-tax-free death benefit for beneficiaries** - In addition to everything you withdraw and borrow from the policy income-tax-free, the residual net death benefits are generally paid to your clients' beneficiaries income-tax-free.
- ◆ **No specific IRS annual limitation on premiums paid into a life insurance policy** - Once policy is purchased, there will be a maximum amount of premium clients can contribute based on the amount of death benefit they purchased.
- ◆ **No limit on gross income affecting your ability to contribute premiums** - Unlike Roth-IRA's, there's no such thing as "making too much money to contribute."
- ◆ **Missed premiums may be "made up" at a later time** - Do remember that they shouldn't skip a premium if it would cause the policy to lapse or to lose any other valuable benefits.
- ◆ **The policy's account value potentially grows income-tax-deferred, so no taxes are paid as it grows each year.**
- ◆ **Distributions using loans and withdrawals are income-tax-free when structured properly.**
- ◆ **No 10% penalty tax for accessing policy cash values prior to age 59 1/2 when structured properly.**
- ◆ **No required minimum distributions (RMDs) for owners** - take distributions as needed.
- ◆ **Self-completing upon death** (Death benefit exceeds account value).

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**December  
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Details Inside!**

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On QoL Max Accumulator+ II  
And QoL Value+ Protector II**

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# DI for Business Owners

## Business Owner Upgrade and Income Enhancer Programs

**Small businesses employ almost half of working Americans. Many have only a handful of employees and are the least likely to have group disability plans. Ameritas offers many options for business owners to protect their income if they become too sick or hurt to work.**

The Business Owner Upgrade Program helps provide cost savings with the ability to upgrade one or two occupational classes. The Business Owner Income Enhancer is a feature that allows an increase of insurable income by an additional 20% to help business owners cover the loss of company perks.

### Upgrading one occupational class

Business owner clients may be eligible for a one class upgrade if:

- The original occupational class is 4A, 3A, 2A, or A on individual DI contracts or;
- The original occupational class is 4A, 3A, 2A on Business Overhead Expense contracts and;
- They have owned at least 20% of a stable, financially successful business for the last two years (supported by appropriate financial documentation).

### Upgrading two occupational classes

Business owner clients may be eligible for a two class upgrade if:

- The original occupational class is 3A, 2A, or A on individual DI contracts or;
- The original occupation class is a 3A or 2A on BOE contracts and;
- They have owned at least 20% of a stable, financially successful business for the last two years (supported by appropriate financial documentation).
- If manual duties exceed 25%, the Managerial Duties Endorsement\* may be required.

\*Subject to state availability. If not available, most business owners are limited to a one-class upgrade.

### Example client

Owner of a small construction company:

- Six full-time employees.
- Uses contractors for larger, or specialty jobs.
- Been in business almost 20 years.
- Consistently profitable.

(The following scenarios are based on a male, age 45, non-tobacco, \$5,100 monthly benefit, 5-year benefit period, Guaranteed Renewable and Own Occupation Not Working definition, otherwise as indicated).



## What this can do for your client

<b>A</b> <b>Benefit:</b> \$3,100 of Base and \$2,000 Social Insurance Substitute rider <b>Benefit period:</b> 5 year <b>Definition available:</b> Own Occupation and Not Working <b>Riders:</b> No riders available, built-in partial  <b>Premium:</b> \$2,463 annually or \$212 monthly  <b>Policy Type:</b> Guaranteed Renewable (GR)	Upgraded to	<b>2A</b> <b>Benefit:</b> \$3,100 of Base and \$2,000 Social Insurance Substitute rider <b>Benefit periods:</b> 5 year, to age 65/67/70 <b>Definition available:</b> Own Occupation and Not Working <b>Riders:</b> Basic Residual and all other riders available <b>Premium:</b> \$2,691 annually or \$232 monthly (5-yr bp, \$2,900 FIO, \$3,240 CAT) <b>Premium:</b> \$3,805 annually or \$328 monthly (Age 65 bp, \$2,900 FIO, \$3,240 CAT) <b>Policy Type:</b> Noncancelable (NC) or Guaranteed Renewable (GR)
<b>2A</b> <b>Benefit:</b> \$3,100 of Base and \$2,000 Social Insurance Substitute rider <b>Benefit periods:</b> To age 65/67/70 <b>Definition available:</b> Own Occupation and Not Working <b>Riders:</b> Basic Residual/all other riders available <b>Premium:</b> \$3,841 annually or \$331 monthly <b>Policy Type:</b> NC or GR	Upgraded to	<b>3A</b> <b>Benefit:</b> \$5,100 of Base <b>Benefit periods:</b> To age 65/67/70 <b>Definition available:</b> Own Occupation and Not Working or 5-year Own Occupation and Not Working <b>Riders:</b> Basic and Enhanced Residual/all other riders available <b>Premium:</b> \$2,769 annually or \$239 monthly <b>Policy Type:</b> NC or GR
<b>2A</b> <b>Benefit:</b> \$3,100 of Base and \$2,000 Social Insurance Substitute rider <b>Benefit periods:</b> To age 65/67/70 <b>Definition available:</b> Own Occupation and Not Working <b>Riders:</b> Basic Residual/all other riders available <b>Premium:</b> \$3,841 annually or \$331 monthly <b>Policy Type:</b> NC or GR	Upgraded to	<b>4A</b> <b>Benefit:</b> \$5,100 of Base <b>Benefit periods:</b> To age 65/67/70 <b>Definitions available:</b> Own Occupation and Not Working or Own Occupation for the Benefit Period <b>Riders:</b> Basic or Enhanced Residual/all other riders available <b>Premium:</b> \$2,926 annually or \$252 monthly <b>Policy Type:</b> NC or GR

## Managerial Duties Endorsement

The Managerial Duties Endorsement (MDE) will be used with those qualifying business owners who perform manual duties in their usual course of daily duties. The MDE protects business owners in the event a disability prevents them from performing the managerial duties only of their occupation.

Let's assume that clients spend the majority of their time on bookkeeping, ordering supplies, scheduling personnel and advertising, but will occasionally do some manual duties. The underwriter may have concerns that the amount of time clients spend on performing manual duties could be a greater risk than is acceptable for the occupation class requested.

In this situation, the underwriter has the option of adding the MDE to the policy. In exchange, disability will be determined solely by your clients' inability to perform the managerial duties of their occupation.

Without the managerial duties endorsement the business owner may not be eligible for an upgrade.

## Business Owner Income Enhancer

The Business Owner Income Enhancer is a feature that allows an increase of insurable income to help business owners cover the loss of company perks. It allows you to increase your clients' net income by 20%, not to exceed an additional \$2,000/month issue limit. The criteria for this feature is as follows:

- Occupational classes 6A, 5A, 4A, 3A, 2A, A (non-medical), 6M, 5M, and 4M (MDs or DOs). Note, dentists and dental specialties are excluded from the income enhancer program.
- They have owned at least 20% of a stable, financially successful business for the last two years (supported by appropriate financial documentation);
- The calculation is determined by using the following formula:  $\text{insurable income} \times 1.20 = \text{new income amount}$
- For income amounts over \$500,000, you will need to confirm the benefit amount (driven from the enhancer calculation above) does not exceed \$2,000 monthly benefit;
- The total of all DI coverage in force and applied for (including the benefit driven from the enhancer calculation) may not exceed our Maximum Issue and Participation Limits.

## What this can do for your client

Look at the same construction company owner. His annual salary grosses well into six-figures, however, after all expenses, nets \$80,000. Not only can he upgrade one or even two occupational classes, he also qualifies to use the Income Enhancer.

**Net Income: \$80,000**

**Issue Limit: \$4,300**



**After Income Enhancer calculation: \$96,000**  
(1.2 times net income)

**Issue Limit: \$5,000**  
(\$700/month additional)



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