

# MULTI-GENERATIONAL DISTRIBUTION OPTIONS: A SUMMARY

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By taking a little extra time and asking a few simple questions you could create a plan that may pay great dividends to your client and yourself. The new tax changes make it easy to explain and initiate. With a few simple steps and a good plan you could ensure a legacy that may last for generations, and provide endless opportunities for the future.

**CONTACT YOUR MANAGING GENERAL AGENT OR THE ANNUITY SERVICE CENTER AT (866) 322-7066  
FOR ANY QUESTIONS OR CONCERNS.**

## PORTRAIT OF FINANCIAL SECURITY

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**Since 1886, Chicago-based North American Company for Life and Health Insurance has established a tradition of producing quality insurance products. North American Company's product lines are marketed in 48 states and the District of Columbia.**

**Independent rating agencies are an important source of information on an insurance company's ability to meet its obligations. Based on its financial strength and operating performance, North American continues to receive high ratings from the most well-respected ratings services, including:**

**A (Superior) from A.M. Best**

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 obligations to contractholders. (A is the third highest rating out of 15).

**AA (Very Strong) from Standard & Poor's Corporation (S&P)**

Standard & Poor's rate companies on the basis of capitalization, earnings, and asset risk. (North American's AA rating is the second highest rating out of eight total ratings, which range from AAA to CC).

North American does not give tax or legal advice. Please consult with your attorney or tax advisor. Premium Taxes: Accumulation Value will be reduced for premium taxes as required by the state of residence.

Please keep in mind that a surrender during the surrender period could result in a loss of principal.

MULTI-GENERATIONAL DISTRIBUTION OPTION  
AGENT GUIDE



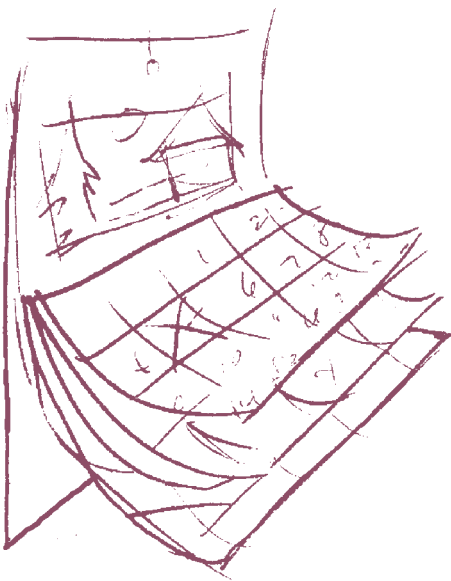
CREATING A FINANCIAL FUTURE

NORTH AMERICAN COMPANY FOR LIFE AND HEALTH INSURANCE

# MULTI-GENERATIONAL DISTRIBUTION OPTION

The **Multi-Generational Distribution Option** from North American Company for Life and Health Insurance is simply an extension of the Required Minimum Distribution (RMD) rules set forth by the Internal Revenue Service (IRS). This distribution option essentially allows the RMDs to continue to the client's beneficiaries at death. We will attempt to show you some of the basics and give you a feel for just how simple it can be.

For more information regarding this option, call your Managing General Agent or the North American Annuity Service Center at 866-322-7066.



## A NEW OPPORTUNITY

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With the changes in tax regulations concerning the distributions of **INDIVIDUAL RETIREMENT ACCOUNTS (IRAs)** and other qualified retirement savings vehicles, we are in the midst of some exciting times. The changes are significant for many reasons. First, almost everyone has a retirement account of some kind. This could affect every one of your current and future clients. Second, the rules allow for a fairly simple plan to set up an **ON-GOING LEGACY** for those retirement accounts where clients do not use or may not need the entire account. Last, and possibly most important, these rule changes allow you, the agent, a great chance to offer your service to the family's next generation. This means an endless opportunity for future clients.

## A FEW HIGHLIGHTS

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One change is that the calculations for **RMDs** are much **SIMPLER**. Starting in 2002 distributions must use a new approved table for the life expectancy factor (Please see the following table). Gone are the numerous options on how to calculate the RMD and the headache over which is most beneficial for your client. In all cases the use of the new table should allow for a smaller distribution and thus a smaller tax burden.

The only exception to this rule is when there is a spouse who is more than 10 years younger. In that case, and that case only, the account owner may use a joint expectancy table.

Another change is that beneficiary designations are no longer irrevocable. Now a retirement plan owner may change their beneficiary at any point during their lifetime, without negatively affecting their RMD amount. Before or after beginning RMDs, the beneficiary may change as their family's needs change.

The new changes are not only available for new accounts, but also for **ALL IN-FORCE QUALIFYING PLANS**. The new rules allow them a prolonged stream of income, and allow you, the agent, to implement the Multi-Generational Distribution Option, allowing the contract owners to ensure a growth and income legacy for their beneficiaries.

# OPTIONS WITH NORTH AMERICAN

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Upon the death of the IRA owner there are three basic options with North American. Each one is set up to fit your client's growth and income needs.

- **Purchase New North American Annuity:** One of many North American annuities may prove to be an excellent source for continued growth. These products will allow for an RMD to be taken out while still growing the remainder tax-deferred. Life expectancy payments will be made no less than annually.
- **Annuity Settlement Option:** A variety of annuitization options are available, including period certain, life with period certain and life only. The beneficiary would choose this at the time of death of the original owner. The period certain cannot exceed the beneficiary's life expectancy.
- **A Lump Sum Settlement:** This would be chosen by the beneficiary at the time of death of the original owner. It may be the right choice if all the funds are needed immediately. Keep in mind that the beneficiary may take out more, but is only **REQUIRED** to take the RMD.\* Taking the entire balance will not accomplish the stretching of the payout, and may result in significant tax liability.

\* Withdrawal options may vary by contract if more than the RMD is requested.

# SALES IDEAS FROM NORTH AMERICAN

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Beneficiaries "inheriting" a retirement account, currently with another organization, provide an excellent rollover opportunity. Most inherited accounts may be rolled to a different funding vehicle, but must retain the original owner's name in some fashion in order to track it as an inherited IRA. Clients with an inheritance may want a new annuity, but may not recognize a tax-free transfer as a possibility, and subject themselves to undue tax liability. It is important to remember that if you, the agent, do not present this as an option, they may never know it exists.

# THE NEXT STEP

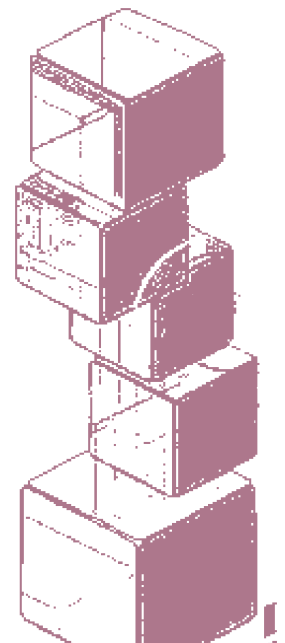
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The requirements for a Multi-Generational Distribution Option are not different from those used in setting up a retirement plan with North American. Below is a checklist that you may find useful in writing a piece of business that is part of a Multi-Generational Distribution Option:

1. Multi-Generational Distribution Option Client Brochure
2. State-Specific Application
3. Product-Specific Owner Applicant/Agent Statement

Other Forms (optional)

- a. *Beneficiary Form (if additional beneficiary is being named)*
- b. *Transfer Form (transfers only)*
- c. *State-Specific Replacement Form (transfers from insurance products only)*
- d. *EFT Form (for distributions to be made electronically)*



# SOME BASIC STRATEGIES

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Your primary concern should be with the current retirement plan owner. Their needs may be significantly different than those of their beneficiaries or even their spouses. You still need to be diligent in finding a solution that will best address their needs first and foremost, all while keeping an eye on the future. Here are some items to keep in mind while looking for a good fit.

- **CLIENTS MUST BE ABLE TO TAKE THEIR ANNUAL RMD WITHOUT A PENALTY.**

North American waives all surrender charges on RMD payouts (*based on current Company practice*).

- **THE PLAN MUST ALLOW FOR CONTINUED GROWTH.**

With the Multi-Generational Distribution Option, the account continues to grow tax-deferred while RMDs are distributed.

- **MULTIPLE SETTLEMENT OPTIONS AT THE PLAN OWNER'S DEATH.**

The named beneficiary(s) has the option of taking a lump sum or continuing the RMDs, thus inheriting the retirement account to utilize it according to their retirement objectives.

- **NO ADDITIONAL CHARGES AT THE PLAN OWNER'S DEATH.**

At death of the contract owner, correspondence will be sent to each named beneficiary stating the distribution options. The beneficiary may choose to enter into a new North American product with the opportunity to continue the Multi-Generational Distribution Option. The beneficiary would be directed to contact you, their North American representative, to complete this transaction.

## KEY QUESTIONS

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At the time that the contract is passed onto the next generation, the need for the money may change. The new inherited owner must still take RMDs, but is that the most important feature for them? Here are some key questions for you to consider for the next phase of a Multi-Generational Distribution Option:

1. **UPON DEATH, CAN THE PLAN BE TRANSFERRED TO A DIFFERENT INVESTMENT VEHICLE?**

Yes. Inherited owners, potentially with different objectives, may purchase a new contract with North American. This would be handled through you, the agent as a new contract sale (with commission). All contracts will be available to the inherited owner.

2. **IN THE CASE OF MULTIPLE BENEFICIARIES, CAN EACH BENEFICIARY TAKE RMDs BASED ON THEIR INDIVIDUAL LIFE EXPECTANCY?**

Yes. Each beneficiary will have his or her own account. This makes it easy for each beneficiary to decide which option is the most suitable.

3. **CAN THEY TAKE MORE THAN THE RMD IF NEEDED?**

Yes. Additional income is available if needed. However, withdrawal options do vary by plan. Please refer to the individual contract for details.

# HOW IT WORKS

UNIFORM RMD TABLE		BENEFICIARY LIFE EXPECTANCY TABLE			
AGE	LIFE EXP DIVISOR	AGE	LIFE EXP DIVISOR	AGE	LIFE EXP DIVISOR
70	27.4	0	82.4	58	27.0
71	26.5	1	81.6	59	26.1
72	25.6	2	80.6	60	25.2
73	24.7	3	79.7	61	24.4
74	23.8	4	78.7	62	23.5
75	22.9	5	77.7	63	22.7
76	22.0	6	76.7	64	21.8
77	21.2	7	75.8	65	21.0
78	20.3	8	74.8	66	20.2
79	19.5	9	73.8	67	19.4
80	18.7	10	72.8	68	18.6
81	17.9	11	71.8	69	17.8
82	17.1	12	70.8	70	17.0
83	16.3	13	69.9	71	16.3
84	15.5	14	68.9	72	15.5
85	14.8	15	67.9	73	14.8
86	14.1	16	66.9	74	14.1
87	13.4	17	66.0	75	13.4
88	12.7	18	65.0	76	12.7
89	12.0	19	64.0	77	12.1
90	11.4	20	63.0	78	11.4
91	10.8	21	62.1	79	10.8
92	10.2	22	61.1	80	10.2
93	9.6	23	60.1	81	9.7
94	9.1	24	59.1	82	9.1
95	8.6	25	58.2	83	8.6
96	8.1	26	57.2	84	8.1
97	7.6	27	56.2	85	7.6
98	7.1	28	55.3	86	7.1
99	6.7	29	54.3	87	6.7
100	6.3	30	53.3	88	6.3
101	5.9	31	52.4	89	5.9
102	5.5	32	51.4	90	5.5
103	5.2	33	50.4	91	5.2
104	4.9	34	49.4	92	4.9
105	4.5	35	48.5	93	4.6
106	4.2	36	47.5	94	4.3
107	3.9	37	46.5	95	4.1
108	3.7	38	45.6	96	3.8
109	3.4	39	44.6	97	3.6
110	3.1	40	43.6	98	3.4
111	2.9	41	42.7	99	3.1
112	2.6	42	41.7	100	2.9
113	2.4	43	40.7	101	2.7
114	2.1	44	39.8	102	2.5
115	1.9	45	38.8	103	2.3
		46	37.9	104	2.1
		47	37.0	105	1.9
		48	36.0	106	1.7
		49	35.1	107	1.5
		50	34.2	108	1.4
		51	33.3	109	1.2
		52	32.3	110	1.1
		53	31.4	111	1.0
		54	30.5	112	0.8
		55	29.6	113	0.7
		56	28.7	114	0.6
		57	27.9	115	0.5

Let's say that you are the owner of a retirement account in which your daughter is the primary beneficiary. When you reach age 70 ½ you elect to take only the Required Minimum Distribution (RMD) each year, in effect choosing to **"STRETCH OUT"** the retirement account. Your daughter, upon inheriting the account, would then be able to step in and resume taking the RMD. However, once the account passes from one generation to the next the life expectancy changes as well.

The distributions will then be made based on your daughter's life expectancy instead of yours. The significance is a substantially lower distribution allowing the account to be spread out over a longer period of time. This allows the retirement account balance to continue to earn deferred interest while the distributions are taken. If your daughter had been forced into a lump sum settlement, more than one-third could have possibly been consumed in taxes. Below is an example of how a payout might work under the Multi-Generational Distribution Option. In year one, we will assume the **HUSBAND** is 65 and has an IRA. His **WIFE** is age 56, their **DAUGHTER** is age 22 and their **GRANDSON** is age 2 at the time. Additionally, we will also assume that the husband will live to be age 73 and the wife will live to be age 72. Let's also assume that over the entire period the IRA is paying out, it will be earning a 6% interest rate. *\*\*These examples are hypothetical and before taxes. Actual results may be higher or lower.*

### HUSBAND

Year	Age	Beg. Accum. Value	RMD Life Exp	Interest	RMD WD	End Accum. Value
1	65	200,000		12,000		212,000
2	66	212,000	N/A	12,720	-	224,720
3	67	224,720	N/A	13,483	-	238,203
4	68	238,203	N/A	14,292	-	252,495
5	69	252,495	N/A	15,150	-	267,645
6	70	267,645	27.4	16,059	9,768	273,936
7	71	273,936	26.5	16,436	10,337	280,035
8	72	280,035	25.6	16,802	10,939	285,898
9	73	285,898	24.7	17,154	11,575	291,477

The husband leaves \$291,477 at his death to the wife. The wife inherits the IRA account and begins RMDs based upon her life expectancy at age 70 1/2 .

### WIFE

Year	Age	Beg. Accum. Value	RMD Life Exp	Interest	RMD WD	End Accum. Value
10	64	291,477		17,489		308,966
11	65	308,966	N/A	18,538	-	327,504
12	66	327,504	N/A	19,650	-	347,154
13	67	347,154	N/A	20,829	-	367,983
14	68	367,983	N/A	22,079	-	390,062
15	69	390,062	N/A	23,404	-	413,466
16	70	413,466	27.4	24,808	15,090	423,184
17	71	423,184	26.5	25,391	15,969	432,605
18	72	432,605	25.6	25,956	16,899	441,663

The wife leaves \$441,663 at her death to her daughter. She continues RMDs based on her life expectancy using the beneficiary life expectancy table following the year of her mother's death.

### DAUGHTER

Year	Age	Beg. Accum. Value	RMD Life Exp	Interest	RMD WD	End Accum. Value
19	40	441,663	43.6	26,500	10,130	458,033
20	41	458,033	42.6	27,482	10,752	474,763
21	42	474,763	41.6	28,486	11,413	491,836
22	43	491,836	40.6	29,510	12,114	509,232
23	44	509,232	39.6	30,554	12,859	526,927
24	45	526,927	38.6	31,616	13,651	544,891
25	46	544,891	37.6	32,693	14,492	563,093
26	47	563,093	36.6	33,786	15,385	581,494
27	48	581,494	35.6	34,890	16,334	600,049
28	49	600,049	34.6	36,003	17,342	618,710
29	50	618,710	33.6	37,123	18,414	637,418
30	51	637,418	32.6	38,245	19,553	656,111
35	56	729,127	27.6	43,748	26,418	746,457
40	61	808,238	22.6	48,494	35,763	820,970
45	66	854,610	17.6	51,277	48,557	857,329
50	71	834,905	12.6	50,094	66,262	818,737
55	76	694,483	7.6	41,669	91,379	644,772
60	81	340,304	2.6	20,418	130,886	229,836
61	82	229,836	1.6	13,790	143,648	99,979
62	83	99,979	0.6	5,999	105,977	-

Payments will continue to the daughter for the remainder of her life, or until the account balance is depleted. At her death, payments can continue to her named beneficiary based upon the above table. In summary, the husband's initial premium of \$200,000 totaled a payout of **\$2,267,458** "stretched" over multiple generations. This can be compared to the daughter electing to take a lump sum settlement at the wife's death, which would have resulted in a payout of \$532,240 (Accumulation Value at the wife's death including previous RMDs).

Now lets assume that the **DAUGHTER**, instead of inheriting the IRA, chooses to disclaim it. It would then pass on to the next in line, which for this illustration is the daughter's **SON, OR THE HUSBAND'S GRANDSON**. At the time of inheritance, the grandson is 20 and is the sole contingent beneficiary. Again we will assume the IRA is paying a 6% interest rate.\*\* *These examples are hypothetical and before taxes. Actual results may be higher or lower.*

### HUSBAND

Year	Age	Beg. Accum. Value	RMD Life Exp	Interest	RMD WD	End Accum. Value
1	65	200,000		12,000		212,000
2	66	212,000	N/A	12,720	-	224,720
3	67	224,720	N/A	13,483	-	238,203
4	68	238,203	N/A	14,292	-	252,495
5	69	252,495	N/A	15,150	-	267,645
6	70	267,645	27.4	16,059	9,768	273,936
7	71	273,936	26.5	16,436	10,337	280,035
8	72	280,035	25.6	16,802	10,939	285,898
9	73	285,898	24.7	17,154	11,575	291,477

The husband leaves \$291,477 at his death to his wife. She inherits the IRA account and begins RMDs based upon her life expectancy at age 70 1/2 .

### WIFE

Year	Age	Beg. Accum. Value	RMD Life Exp	Interest	RMD WD	End Accum. Value
10	64	291,477		17,489		308,966
11	65	308,966	N/A	18,538	-	327,504
12	66	327,504	N/A	19,650	-	347,154
13	67	347,154	N/A	20,829	-	367,983
14	68	367,983	N/A	22,079	-	390,062
15	69	390,062	N/A	23,404	-	413,466
16	70	413,466	27.4	24,808	15,090	423,184
17	71	423,184	26.5	25,391	15,969	432,605
18	72	432,605	25.6	25,956	16,899	441,663

The wife leaves \$441,663 at her death to her daughter. Her daughter disclaims the retirement account in which it passes to the wife's contingent beneficiary, her grandson. The grandson continues RMDs based on his life expectancy using the beneficiary life expectancy table following the year of his grandmother's death.

### GRANDSON

Year	Age	Beg. Accum. Value	RMD Life Exp	Interest	RMD WD	End Accum. Value
19	20	441,663	63.0	26,500	7,011	461,152
20	21	461,152	62.0	27,669	7,438	481,384
21	22	481,384	61.0	28,883	7,892	502,375
22	23	502,375	60.0	30,143	8,373	524,145
23	24	524,145	59.0	31,449	8,884	546,710
24	25	546,710	58.0	32,803	9,426	570,086
25	26	570,086	57.0	34,205	10,002	594,290
26	27	594,290	56.0	35,657	10,612	619,335
27	28	619,335	55.0	37,160	11,261	645,234
28	29	645,234	54.0	38,714	11,949	672,000
29	30	672,000	53.0	40,320	12,679	699,640
30	31	699,640	52.0	41,978	13,455	728,164
35	36	851,153	47.0	51,069	18,110	884,113
40	41	1,024,432	42.0	61,466	24,391	1,061,506
45	46	1,216,517	37.0	72,991	32,879	1,256,630
50	51	1,419,758	32.0	85,185	44,367	1,460,576
55	56	1,618,832	27.0	97,130	59,957	1,656,005
60	61	1,786,171	22.0	107,170	81,190	1,812,152
65	66	1,874,883	17.0	112,493	110,287	1,877,089
70	71	1,807,542	12.0	108,453	150,628	1,765,366
75	76	1,457,127	7.0	87,428	208,161	1,336,394
80	81	604,320	2.0	36,259	302,160	338,419
81	82	338,419	1.0	20,305	358,724	-

Payments will continue to the grandson. At the grandson's death, payments can continue to his named beneficiary based upon the above table. In this example, the husband's initial premium of \$200,000 totaled a payout of **\$5,100,160** "stretched" over multiple generations. This can be compared to the grandson electing to take a lump sum settlement at his grandmother's death, which would have resulted in a payout of \$532,240 (Accumulation Value at the wife's death including previous RMDs).

\*\* North American offers Multi-Generation Illustration Software which will allow you to customize this concept for your client's different scenarios. Please contact your Managing General Agent or the North American Marketing Department for a copy of this software.