



PLAN FOR LIFE CALIFORNIA

Signature Guaranteed Universal Life Insurance





Why Consider Signature Guaranteed Universal Life (SGUL)?

- ▶ Guaranteed coverage if premiums are paid and loans are not taken.
- ▶ Premiums are less than traditional Universal Life policies because Signature GUL does not generate significant cash value.
- ▶ The owner can exercise the built-in Cash-Out Guarantee to surrender their policy and receive a partial return of premiums paid at year 15 or a full return of their premiums paid at years 20 or 25.¹
- ▶ Includes the Accelerated Benefit Riders² for Critical, Chronic, and Terminal Illness that can provide an unrestricted cash benefit in the event the insured is diagnosed with a qualifying illness.

Family Planning Ideas

College Education Funding

There are many ways to cover the cost of a college education.

Many point out that 529 Education plans are the way to go. If the money is used for qualified education purposes it can grow tax-free and be removed from the plan tax-free. However, if the money is not used for qualified college education costs, the growth of the money becomes taxable and subject to penalties when withdrawn. Typically the money is conservatively invested for lower growth and safety but is still subject to market downturns. The plan is not self-completing in the event a parent or grandparent funding the plan dies. 529 Plans have funding limits subject to annual gifts (five years at a time). Lastly, 529 plans only serve one purpose and that is college funding.



An advantage of life insurance not enjoyed by any other funding vehicle is that the plan is self-completing if anything happens to the individual funding the policy. Any other savings vehicle may suffer a shortfall if the individual funding the education plan dies before funding is completed. Signature GUL has unique features that can make this a match for saving for a college education. The death benefit is guaranteed if premiums are paid and no loans are taken so that if a premature death occurs the death benefit will be there to help cover the cost of college education needs. There is also a Guaranteed Cash-Out option that allows a partial return of premium after 15 years and a full return of premium after 20 and 25 years, up to the Cash-Out benefit maximum.¹ Depending upon the timing, the policy can be turned in for a return of premium and the premiums can be used to fund a college education.

Early Mortgage Payoff

Sam and Meredith, 38, had been discussing their future and how they would save for retirement in order to retire early in 22 years when they reached age 60. Sam was the primary provider while Meredith worked part time when the kids were in school to help with the finances. In addition to saving for early retirement, they had two important goals: providing permanent, affordable, life insurance protection for the family and paying off the mortgage before retirement. They met with their financial advisor who talked to them about their situation and then made recommendations as to how they could accomplish their goals.

Affordable, Permanent Protection for the Family

The advisor then showed them an illustration for a \$750,000 Signature Guaranteed Universal Life (Signature GUL) policy from American National. He told them this was a very cost-effective way to provide permanent protection for their family.

The monthly premiums were more affordable than other types of permanent life insurance leaving them with additional resources to save for college and retirement. If something were to happen to Sam, the policy ensured that the family would be able to have funds that could be used to send the children to college, allow Meredith to pay off the mortgage on the family home, and any remaining funds could go towards her retirement.

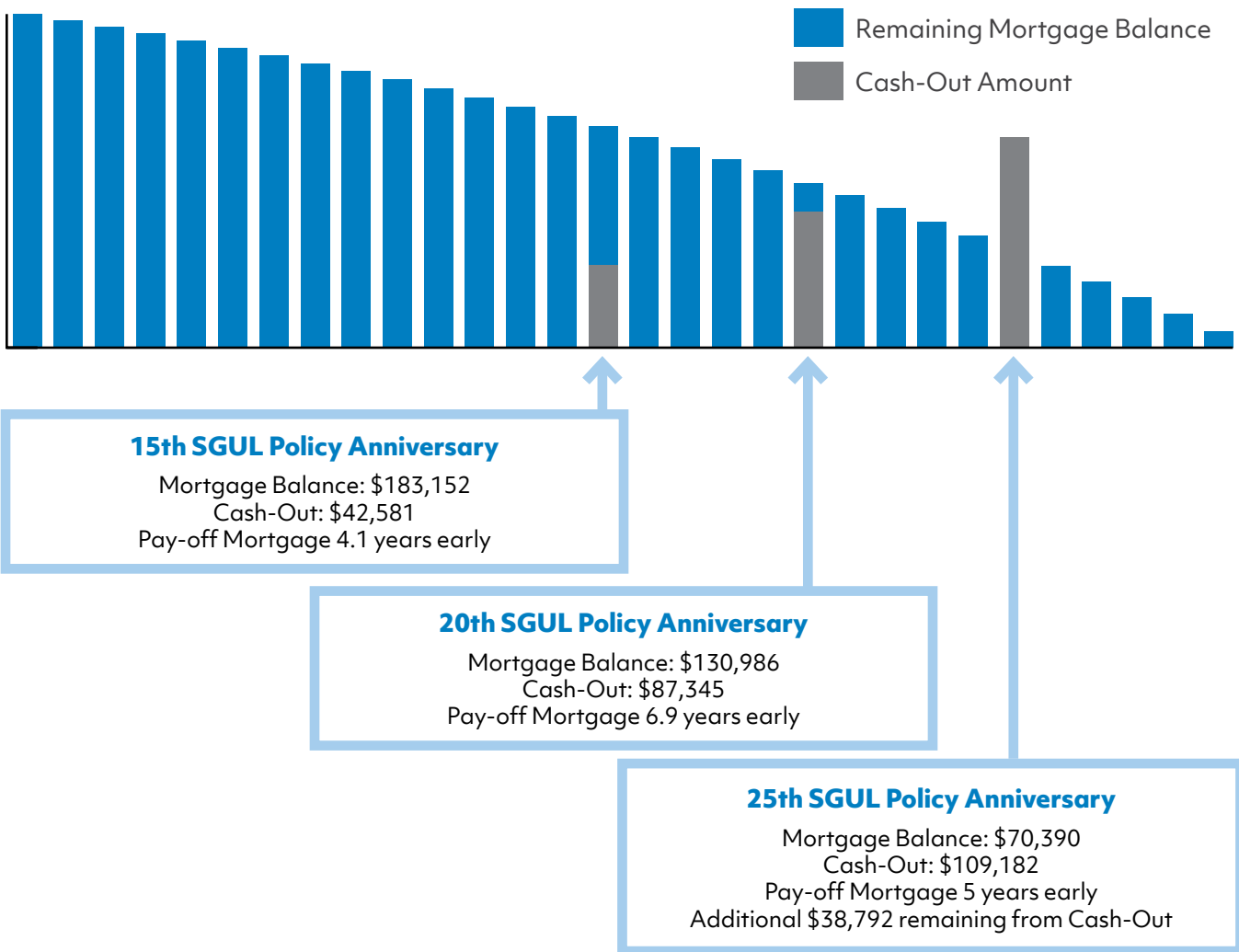
Paid Off Mortgage

The advisor then talked to Meredith and Sam about how the cash-out rider included on the Signature GUL policy could be used to help pay down or pay off their mortgage early, should they ever decide that the death benefit protection was no longer needed. The Cash-Out option would allow them to surrender the policy and receive a partial return of premiums paid on the 15th policy anniversary or a full return of premiums paid on the 20th or 25th policy anniversary, subject to a death benefit cap.¹

Meredith and Sam initially seemed hesitant at the idea of surrendering their permanent policy but their adviser reminded them that the Signature GUL would meet their current permanent protection needs while also providing additional options through the cash-out rider that could help if their needs changed over time.



Mortgage balance vs. Signature GUL Cash-Out Amounts



Policy and Mortgage Assumptions

Signature GUL Death Benefit: (38 Male, Preferred Non-Nicotine, Solve to 95)	\$ 750,000
Annual premium	\$ 4,367
Initial mortgage (assumes 30-year fixed rate mortgage @ 3.0%)	\$ 300,000

Life Insurance for Children from a Prior Marriage

As second marriages become more common, individuals may find themselves in situations where they would like to provide for both the children of their first marriage as well as the children and spouse of their second marriage. Often, children from the first marriage only receive a remainder interest in trusts set up for the benefit of the second marriage and have to wait until the surviving spouse dies to inherit. This can lead to the children from the first marriage monitoring how family from the second marriage spends money, potentially creating lawsuits against the second spouse and continuous friction between the survivors.

Solution

One solution to this problem is a Signature GUL policy in an irrevocable life insurance trust for the benefit of the children from the prior marriage. This way, children from the first marriage receive their inheritance at the time their parent dies without having to involve the family from the second marriage or wait until the spouse from the second marriage dies. In the event of death, the life insurance benefit can be administered in the trust to make sure it lasts or can be distributed directly to the children. This way, the children from the first marriage can be provided for and there is less potential conflict between the survivors from the first and second marriages.

Credit Shelter Trust Life Insurance

For many individuals who have some wealth, upon the death of the first spouse, a substantial part of the deceased partner's estate will flow into a Credit Shelter Trust created under the last will and testament of the deceased partner. In this way, the money passes free of estate tax to children or loved ones. Oftentimes when there is some wealth, not all of the money in the Credit Shelter Trust is needed for the surviving spouse to live on and the idea is to preserve the assets in the Credit Shelter Trust for the children in that there is no estate tax levied when the surviving spouse passes away and the trust assets pass to the next generation.

If the money is a safety net for the surviving spouse and all of the funds will not be needed, the Credit Shelter Trust is a place to leverage up the dollars passing to children or other loved ones using life insurance. For pennies on the dollar, a policy on the surviving spouse can be funded with trust assets that will result in a death benefit that can leverage what is available to the next generation while also providing estate liquidity in that the Credit Shelter Trust can purchase assets from the estate to provide estate liquidity at the second death. This then increases the bequest that parents can make to the next generation or to multiple generations.

Special Needs Trust Funding

Children with special needs and their parents must meet certain financial criteria in order to obtain federal and state aid. To qualify for federal benefits such as Medicaid, an individual must have a severe, medically determinable physical or mental impairment that is expected to last for at least one year or will result in death. Each state administers its own Medicaid program. One requirement is that a special needs child applying for Medicaid coverage may not have more than \$2,000 in countable assets. If the child has too many assets outright and available to them, they will no longer be able to obtain the care the government provides and the cost of such care is extremely high.



What Happens if the Parents are Gone?

Every parent with a special needs child fears the day they will no longer be here to take care of their child. Due to advances in medical treatment and technology, special needs children live much longer than in the past. Funding for the special needs child/adult must be done in such a way that it does not disqualify the special needs child/adult from the government provided care they require. Typically, the parents and grandparents contribute to the child's welfare.

One of the best ways to provide ongoing benefits for the special needs child is through funding a Special Needs Trust with life insurance. The Special Needs Trust is the owner and beneficiary of the policy on either or both of the parents as well as any grandparents that can fund a policy on their own lives. Once a parent passes away the proceeds in the trust can fund the ongoing care for the special needs child/adult so their care can go on after the parent(s) pass away. The trust provisions ensure that Federal and State Guidelines for assets ownership are not violated while at the same time providing for the special needs child.

Solution

The most cost-effective way to provide these benefits is through a permanent life insurance policy. The Signature GUL policy is a low-cost permanent policy with a guaranteed death benefit along with a Guaranteed Cash-Out option. If premiums are paid and no loans are taken, the policy death benefit is guaranteed and will be there when it is needed to fund the Special Needs Trust after the parents are gone. If money is required prior to the parent's death, or if the child pre-deceases the parent, the parent can choose to exercise the Cash-Out Rider on the specified anniversaries and receive a return of their premiums.

Irrevocable Life Insurance Trusts (ILIT)

Life insurance used for estate planning solves many estate issues by providing liquidity at death. The usefulness of life insurance is reduced when proceeds are taxable in a decedent’s estate.

Highly successful clients can give ownership of their life insurance policy away to keep it out of their taxable estate. Since giving the policy to children runs the risk of losing the policy to creditors, bankruptcy, or to a child’s divorce, it behooves the client to create an entity that is there to pay-out the death benefit according to the client’s wishes.

ILIT Advantages	ILIT Disadvantages	ILIT Tax Implications
<ul style="list-style-type: none"> • Proceeds not included in insured’s estate • Provides estate liquidity without taxation of proceeds • Avoids both federal and state death taxes • With use of Present Interest Gifts of \$15,000 per beneficiary and Lifetime Gift Tax Exemption of \$11,580,000 as of 2020, avoids gift tax 	<ul style="list-style-type: none"> • Client must give up direct control over policy and gifts of premium • Transfer must be complete and permanent • Client cannot change beneficiary or ownership of policy and cannot have any incident of ownership • Events can later change with divorce, financial situation, stability of children etc. yet policy cannot be changed since insured does not own policy 	<ul style="list-style-type: none"> • If trust is only funded with life insurance, no taxable income • If trust is funded with investment assets, trust pays tax • To the extent income is paid to beneficiaries, beneficiaries will pay tax • If the trust is treated as an intentionally defective grantor trust, income earned by the trust is taxed to Grantor yet the trust proceeds are kept out of the Grantor’s estate

An Irrevocable Life Insurance Trust can be used as a “Dynasty Trust” that can benefit not only children but grandchildren and great-grandchildren. Dynasty Trusts can survive 21 years beyond the death of the last beneficiary alive when the trust was written. If an insured had a grandchild age one when the trust is created, the Dynasty Trust could last over 100 years.

Tax savings occur at the death of the descendants, such as children and grandchildren. Since the Generation Skipping Tax (GST) exemption is assigned to the trust, the death benefit and trust assets are not taxed at the children or grandchildren’s death. There is also no federal estate tax on assets when the trust ends and no estate tax at the beneficiary’s deaths; this can save 70% of the estate through three generations. The GST Exemption is \$11,580,000 per person as of 2020.

If a client is projected to have a taxable estate, an ILIT can have a dramatic impact on the amount that goes to heirs.

Keep in mind if an existing policy is contributed to an Irrevocable Life Insurance Trust, there is a three-year wait before the policy proceeds pass outside of the insured’s estate. If the insured is healthy, it may be better to have the Trustee purchase a new policy for the trust so that the insured has no incidence of ownership and the death benefit passes outside the insured’s estate from day one.

Family Business Succession Planning

with Signature GUL



Loss if Something Happens to You – Estate Liquidity

If you are waiting until your death to transfer your business to the next generation, you will need some way of paying for the transaction whether there is estate tax or not. Failure to plan may result in the liquidation of the business in order to pay estate taxes and expenses. If an estate representative is forced to liquidate the business in order to pay estate taxes nine months after the date of death, the price they can obtain will be dramatically impacted not only by the speed with which the business must be liquidated but also because no planning was done to create a market for the business. The sale of the business becomes a fire sale which reflects in the price that can be obtained.

Proper life insurance planning can alleviate the need to sell the business and if the business is to be sold, a market can be created and a fair price obtained. If there is estate tax, life insurance can be used to pay the taxes and related expenses. Typically, an irrevocable life insurance trust is used to hold the policy and keep the death benefit out of the owner's estate. That way the beneficiaries can receive the proceeds estate and income tax-free.

If there is not an estate tax, there are still estate expenses for lawyers and accountants, burial expenses, and loss of revenue due to the owner no longer being a part of the company.

Buy-Sell Agreement

It may be hard to imagine ever losing a business you worked hard to create, but the fact is someday someone else will own your business. A properly designed buy-sell agreement and estate plan ensures your business passes as you wish. Even though your intent may be to simply leave the business to family members, care should be taken to ensure that non-participating family members who do not work in the business do not receive stock in the company but instead receive other property or a buyout. A buy-sell agreement can help alleviate family disputes that may arise while trying to readjust the business after something has happened to you. With the proper plan in place, the family will have the guidance they need during this critical transition period.

A stock redemption buy-sell where insurance is owned by the company allows the company to buy stock from the estate while a cross purchase buy-sell would have the children working in the business owning the insurance, and the children in the business purchasing the stock from the estate or from the children not in the business. A cross purchase buy-sell is more expensive as the cost of insurance must be grossed up for the income taxes the children must pay but the advantage is the children in the business receive a step-up in basis on their stock. The stock redemption plan has the insurance owned by the company and once the company purchases the deceased owner's stock the stock is retired and becomes treasury stock. The remaining owners then own all of the outstanding stock in the company with no step-up in basis.

Estate Equalization

As mentioned under the buy-sell agreement there may be times when family members that have not been involved in the business receive partial ownership of the business. When there are multiple family members with different levels of involvement in the business, it is often times difficult to determine how the assets of the family business should be divided. Life insurance can help ensure that once the owner dies, the business will have the cash flow to continue as planned. The proceeds of the life insurance can be used to purchase the non-involved family member's interest in the business, so that the family members that have been involved in the business can continue to run the family business as planned.

Key Person Insurance

So many family businesses have non-family members in very key roles without whom the business may suffer. It could be the key salesman who has all of the customer contacts, the individual who has all of the relationships with suppliers, the key financial person in the company or the individual who keeps all of the machinery running out in the shop. If that person dies suddenly, the business will suffer a financial hardship due to that employee's absence. A key person policy can help to ensure any loss is covered and additional funds are available to hire consultants temporarily until a new employee can be found and trained. It can also include a component that can provide a benefit to the deceased employee's family.

Signature Guaranteed UL

Product Summary (See Form 10801 for more information)	Signature GUL is an individual universal life insurance policy with a guaranteed death benefit feature. Assuming all premiums are paid as scheduled, that provides a guaranteed death benefit to a specified age (between ages 95 and 121), chosen at issue. This product also offers a Cash-Out Rider with three guaranteed periods that allow you to fully surrender your policy in exchange for a return of premiums paid.
Issue Ages	18–80 (non-nicotine) 18–75 (nicotine) Your “insurance age” is determined by your age as of your nearest birthday
Gender	Male/Female, Unisex is not available
Minimum Face Amount	\$25,000
Premium Modes	Annual, Semi-Annual, Quarterly, Monthly, Bi-Weekly
Minimum Guaranteed Interest Rate	1.5% credited to accumulation value
Guaranteed Coverage Period	For the first 10 years, the policy will not lapse as long as all premiums are paid as scheduled. Taking policy loans or withdrawals can cause the policy to lapse unless additional payments are made. After the 10-year guarantee period, the built-in No Lapse Guarantee Account (a reference-only account) keeps the guaranteed death benefit in place. As long as The No Lapse Guarantee Account value is positive, the policy will not lapse, even if the cash surrender value of the policy falls to zero. Your policy can still lapse due to loans and withdrawals but you can make additional premium payments to keep the policy in force.
Increases	Increases in the policy’s specified amount are not permitted
Decreases	Decreases are permitted but must be submitted in writing. Any decreases cannot make the outstanding Death Benefit less \$25,000.
Benefits & Riders (Additional Cost May Apply)	Guaranteed Cash-Out Rider Accelerated Benefit Riders Children’s Level Term Rider Disability Waiver of Stipulated Premium Rider
Surrender Charge Period	If you choose to surrender your policy in the first 10 policy years, surrender charges may apply

Policy Form Series: SGUL18, GCOR15 (Forms may vary by state).

1) Cash-Out Rider may not be available on all substandard rated policies and some may only qualify for the cash-out option in the 15th Policy anniversary. 2) The riders are offered at no additional premium. However, the accelerated payment will be less than the requested death benefit because it will be reduced by an actuarial discount and an administrative fee of up to \$500. The amount of the reduction is primarily dependent on American National's determination of the insured's life expectancy at the time of election. All riders are not available in all states.

ACCELERATED BENEFIT RIDER NOTICE

Policy Form Series: ABR14-TM; ABR14-CH; ABR14-CT. Chronic illness is not available on permanent policies with term riders in California. Both Chronic and Critical illness not available for issue after ages 65+. Have your agent refer to rider forms for a complete list of illnesses and definitions. The riders are subject to an administrative fee of up to \$500 and an actuarial discount that will be assessed when the benefit is elected. Outstanding policy loans will reduce the amount of the benefit payment. The accelerated death benefit is an unrestricted cash payment. The Chronic and Terminal illness riders are intended to receive favorable tax treatment under 101(g) of the IRS. Receipt of a benefit could be a taxable event. You should consult a tax advisor regarding the tax status of any benefit paid under these riders. Receipt of a benefit may affect your eligibility for Medicaid, supplemental security income, or other governmental benefits or entitlements. Before accelerating any benefit you should consult an advisor to determine the impact on your eligibility. Accelerated Benefit Riders are not replacements for Long Term Care Insurance. **This is a life insurance benefit that also gives you the option to accelerate some or all of the death benefit in the event that you meet the criteria for a qualifying event described in the policy. This policy or certificate does not provide long-term care insurance subject to California long-term care insurance law. The policy or certificate is not a California Partnership for Long-Term Care program policy. This policy or certificate is not a Medicare supplement policy.** Accelerated benefit riders ("ABR") and long-term care insurance ("LTCI") provide different types of benefits. An ABR allows the insured to access a portion of the life insurance policy's death benefit while living and may be used for any purpose. LTCI provides reimbursement for necessary care received due to the inability to perform activities of daily living or cognitive impairment. Coverage may include reimbursement for the cost of a nursing home, assisted living, home health care, homemaker services, adult day care, hospice services or respite care for the primary caretaker. The benefits may be conditioned on certain requirements or meeting an elimination period or limited by type of service, the number of days or a maximum dollar limit. Benefits under some ABRs and all LTCI are conditioned upon the insured not being able to perform two or more of the activities of daily living or being cognitively impaired. California: See form 10741-CM for a more detailed comparison of benefits provided by an ABR and LTCI.

Neither American National nor its representatives give legal or tax advice. Agents can only discuss general benefits of conversion and must refer clients to their tax advisor or attorney for tax or legal advice.

Not FDIC/NCUA insured | Not a deposit | Not insured by any federal government agency | No bank/CU guarantee | May lose value



AMERICAN NATIONAL INSURANCE COMPANY