

# Offer easy access to cash value



Your clients purchase life insurance with an accumulation focus for the valuable protection it provides and the supplemental income potential it offers. Like you, clients are busy, so when the time comes and they're ready to access the cash value they've built, they don't want to get caught up in details and paperwork. Our automated income platform<sup>1</sup> is built with a series of actions that once started take care of details so you and your clients don't have to.

Here's what we mean:

Automated event	What happens	What happens without automated event
1 Income begins.	Client completes one form to receive payments as frequently as monthly.	A new request is needed each time up to 12 times per year.
2 Death benefit switches from increasing to level.	An increasing death benefit helps build values during accumulation, then switching to a level death benefit when income starts helps maximize payments.	Client notifies the carrier when to change the option. Failure to time it correctly reduces the amount of income received.
3 Distributions switch from surrenders to loans. <sup>2</sup>	After cost basis has been removed using withdrawals, policy loans begin.	Client identifies when to switch. Failure to time it correctly results in withdrawal of taxable gain.
4 Income amount is re-calculated annually.	Ensures the current situation aligns with the original goal, i.e., income will last for the number of years desired.	If the policy underperforms projections, the client could be left short of meeting the goal.
5 Over-loan protection is activated. <sup>3,4</sup>	Policy is automatically converted to a paid-up status when qualifying conditions are met, thus preventing policy lapse.	Policy lapses due to over-loan and the client receives a Form 1099 for the taxable gain.

Automated distributions help clients turn accumulated values into a tax-free<sup>5</sup> income stream!

## Automation may be worth more than you think

Policy illustrations assume that the five actions outlined on the previous page take place as illustrated. You might assume that given the importance of these actions the insurer automatically takes care of them. The reality is few carriers automate these actions, leaving it to you and your client to ensure things happen how and when they should. In the following hypothetical story of Max, see what happens when reality differs from assumptions.

### Surprise tax leads to a mad Max

- Max needed life insurance protection for his family and also wanted an option to supplement his retirement income.
- His advisor prepared illustrations of a couple of policies. Max felt the one showing the greatest income would be the best choice, and at age 45, he purchased a policy from Fictional Life Insurance Company (Fictional Life).
- His illustration showed:
  - \$1,000 per month premium payment for 20 years
  - Monthly income (\$36,624 annually) starting at age 66 and going for 15 years, with partial surrenders happening first and then switching to policy loans

### All went well until age 72...

How distributions looked in Max’s scenario:

Age	Partial surrender (\$)	Annual loan (\$)	Taxable income (\$)
66	36,624	0	0
...	...	...	...
<b>72</b>	<b>36,624</b>	<b>0</b>	<b>16,368</b>
<b>73</b>	<b>12,208</b>	<b>24,416</b>	<b>12,208</b>
74	0	36,624	0
...	...	...	...
80	0	36,624	0

Cost basis was gone by July. Unfortunately for Max, Fictional Life doesn’t have an automated switch from surrenders to loans, so withdrawals continued to be made for the remainder of the year.

**Result:** \$16,368 of taxable gain withdrawn.

Max got a surprise when he received a Form 1099 for the previous year’s gain. By the time he got advice from his tax advisor and switched surrenders to loans, it was April.

**Result:** additional \$12,208 of taxable gain withdrawn.

### Fast forward a few years...

- Max is now age 81, and having received his final payment it’s time for the over-loan protection rider.
- Fictional Life doesn’t automatically start the rider. They mail a letter to notify Max it can be activated—for a fee.
- Although Max is still sharp-minded, he doesn’t recognize the impact of failing to initiate the rider—he ignores the letter and the policy lapses at age 90 with a loan of nearly \$473,000.

How Max’s policy ended:

Age	Death benefit (\$)	Taxable income (\$)
81	35,519	0
...	...	...
<b>90</b>	<b>0</b>	<b>472,844</b>

Max faces a “double-whammy” as the policy lapses with an outstanding loan leaving him with **no coverage** and a **\$165,495<sup>6</sup> tax bill**

## Choose a smart option for a better outcome

Max and his advisor assumed Fictional Life would handle the income administration, but its lack of automation resulted in tax liabilities for Max that took a big bite out of what he received. See the true worth of an automated income platform when you compare Max's final outcome with how it could have been with income automation such as Principal® features.

	Max's final outcome (\$)	Alternative with income automation (\$)
15-year income received	549,600	549,600
Less taxes paid		
For gain withdrawn at age 72/73	7,144 <sup>7</sup>	
For gain at policy lapse	+ 165,495 <sup>6</sup> = 172,639	0
<b>Net proceeds</b>	<b>376,961</b>	<b>549,600</b>

## Take service to another level with income reality check

How can Max's fate be avoided? When comparing products, look beyond illustrated values and use the income reality check to understand how assumed actions in a policy illustration are actually administered. Run the products you're considering through the check—it can help protect the client and you from unwelcome surprises.

Principal	Competitor	
<input checked="" type="checkbox"/>	<input type="checkbox"/>	Automatically continues income payments without additional requests?
<input checked="" type="checkbox"/>	<input type="checkbox"/>	Automatically changes death benefit from increasing to level when income starts?
<input checked="" type="checkbox"/>	<input type="checkbox"/>	Automatically switches from withdrawals to policy loans when cost basis is gone?
<input checked="" type="checkbox"/>	<input type="checkbox"/>	Automatically re-calculates income annually when maximum amount is requested?
<input checked="" type="checkbox"/>	<input type="checkbox"/>	Automatically initiates over-loan protection rider when triggering events occur?

**With Principal accumulation products,** you get a comprehensive platform that helps turn illustration assumptions into reality—automatically managing actions to help maximize income, prevent a surprise tax bill and offer convenience for you.



Let's connect.

Call the National Sales Desk today at 800-654-4278, or your Life RVP. Visit us at [advisors.principal.com](https://advisors.principal.com).



[principal.com](https://principal.com)

Guarantees are based on the claims-paying ability of the issuing insurance company

- <sup>1</sup> Automated distributions available on all cash-value products from Principal, except Principal Universal Life Provider Edge<sup>SM</sup>.
- <sup>2</sup> Policy loans and surrenders may reduce the face amount of the policy, and surrender charges may apply.
- <sup>3</sup> Rider availability varies by state.
- <sup>4</sup> This is a free rider until activated. There is a charge for this rider when it is used.
- <sup>5</sup> Distributions are generally tax-free if cost basis is withdrawn first, then loans are taken and the policy is in force until death.
- <sup>6</sup> Assumes 25% income tax rate.
- <sup>7</sup> Assumes 35% income tax rate.

For financial professional use only. Not for distribution to the public.

Insurance issued by Principal National Life Insurance Co. (except in NY) and Principal Life Insurance Co. Principal National and Principal Life are members of the Principal Financial Group®, Des Moines, IA 50392.

**Not FDIC or NCUA insured**

**May lose value • Not a deposit • No bank or credit union guarantee  
Not insured by any Federal government agency**

Principal, Principal and symbol design and Principal Financial Group are trademarks and service marks of Principal Financial Services, Inc., a member of the Principal Financial Group.