



Premium Deposit Account **FAQ**



**For National Life Insurance Company
and Life Insurance Company of the Southwest
Fixed Universal Life and Indexed Universal Life policies**

Products issued by

National Life Insurance Company® | Life Insurance Company of the Southwest®

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Not available in Maryland, Pennsylvania, Tennessee and Texas**



Do you have clients looking for a single premium option but who don't want a modified endowment contract?

The Premium Deposit Account can provide all that – at a discount!

What is the Premium Deposit Account (PDA)?

Available on National Life and Life of the Southwest Fixed Universal Life and Indexed Universal Life products.

A Premium Deposit Account (PDA) is an account designed for clients who want to make a single premium payment while avoiding classification as a modified endowment contract. *Please note that normal MEC rules still apply.*

Simple and efficient, the PDA earns a guaranteed* interest rate that is determined at the time of deposit. Policy premiums are automatically paid annually from this account. By “prepaying”, the client ultimately pays a discounted premium.

How does it work?

Available on new issue and in-force Fixed and Indexed Universal Life products. The client pays a one time deposit that is sufficient to pay premiums over a chosen duration. For example, if your client wanted to design a life insurance plan that requires a payment over 10 years, the one time payment would be the cumulative of the first premium due plus the 9 remaining premiums. The total cost of the nine remaining premiums would be discounted, based on the calculated interest earned by the PDA.

Advantages

- Discounted Premiums: Your client's one time payment is discounted by interest which can save thousands in premium payments
- Simple and Convenient: Premiums are automatically paid annually from the PDA, simplifying management of the policy and encouraging persistency and renewal flow
- Predictable and Efficient: Predetermining the duration of premium payments helps meet financial goals
- Avoids MEC: Helps to avoid a modified endowment contract, maintaining tax qualifications of life insurance
- Competitive Rate: Offers a competitive interest rate, guaranteed for the duration of the Premium Deposit Account term duration of the payment period scheduled

* Guarantees are dependent upon the claims-paying ability of the issuing company.

Due to regulatory restrictions, the Premium Deposit Account is not available to active members of the military except in the State of New York. It is not available in the states of Maryland, Pennsylvania, Tennessee or Texas.

The premium Deposit Account for Fixed Universal Life and Indexed Universal Life is offered through a Premium Deposit Account Rider, form number 20120(0512) NL and 20121(0512) LSW.

The premium payment period is restricted to 10 years in the state of California.

How It Works

Sample Calculation Using the Premium Deposit Account (PDA)

Annual Life Insurance Premium:	\$50,000.00
Payment Duration:	10 Years
Total Payments Without PDA:	\$500,000.00
Total Payment With PDA:	\$448,543.26
Total Savings:	\$51,456.74

With the Premium Deposit Account a one time payment is required of \$448,543 (\$50,000 will go towards the first premium payment with the remaining \$398,543 deposited into the Premium Deposit Account). This example was based on a 2.5% earned rate. Earned rates are subject to change for new Premium Deposit Account payments and will be guaranteed for the premium payment duration.

PDA Year	Premium Payment	Beg. of Year PDA Acct Value	Interest Rate	Interest Earned	Taxable Income
1	\$50,000	\$398,543	2.5%	\$9,964	-
2	\$50,000	\$358,507	2.5%	\$8,963	-
3	\$50,000	\$317,470	2.5%	\$7,937	-
4	\$50,000	\$275,406	2.5%	\$6,885	\$10,519
5	\$50,000	\$232,291	2.5%	\$5,807	\$10,227
6	\$50,000	\$188,099	2.5%	\$4,702	\$9,232
7	\$50,000	\$142,801	2.5%	\$3,570	\$8,213
8	\$50,000	\$96,371	2.5%	\$2,409	\$7,168
9	\$50,000	\$48,780	2.5%	\$1,220	\$6,098
10	\$50,000	\$0		-	-
Totals	\$500,000			\$51,457	\$51,457

Please note: The first life insurance premium of \$50,000 is paid and an additional \$398,543.28 is deposited into the Premium Deposit Account (PDA) which earns an assumed rate of 2.5%. After the initial premium, subsequent premiums are paid from the PDA. The credited interest rate is currently 2.5% for all states except CT, KS, NJ and NY where the current credited interest rate is 1.5%.

The deposit plus interest will generate enough funds to cover the life insurance premiums due over the 10 year payment schedule. Premium payments from the PDA will automatically be made annually on the contract anniversary. The client will receive confirmation of the premium payments made on their life insurance contract.

A Note about Taxable Income

The interest earned on the PDA is taxable. There are 3 factors that impact when interest becomes taxable:

- Interest earned
- Basis in the account
- PDA surrender value

The PDA surrender penalty is the lesser of 10% of the PDA balance or interest earned. **The PDA calculator will not reflect taxable income until the PDA surrender value actually exceeds the basis. There is no surrender penalty in CT, NJ and NY.**

What is the process for using the PDA?

1. Use the online Premium Deposit Account calculator to provide a preliminary quote. **Please note that the online calculator is for new quotes only without delayed premium payments. For all other quotes, please call the National Life Group Sales Desk at 800-906-3310.**
2. Complete the Premium Deposit Account Rider form 20119 as follows.
 1. At the top of the form fill in the:
 - exact amount to be placed in the PDA
Note: If you're not sure of the amount or if you are not submitting a new case with payments starting immediately, contact the National Life Group Sales Desk at 800-906-3310.
 - payment period in years
 - policy number (if policy issued)
 - insured's name (if policy issued)
 2. Items 1 through 3 on the form list options specifying what will happen to the fund under given circumstances. Indicate the recipient of the PDA proceeds.
 3. At the bottom of the form, indicate the:
 - city and state of execution
 - date the form was completed
 - depositor's signature
 - depositor's signature and printed name
 - depositor's address
 - owner's signature
 4. Indicate if the owner and depositor are the same person or not.
 5. Complete the form in full. The form must be submitted to the Home Office with the application and payment.

Important: Be sure all information is correct, as the form cannot be amended. If it is not completed correctly it will be necessary to obtain a new application. This includes the amount being deposited.

Additional Details

Product Info

The Premium Deposit Account may currently be used with any National Life & Life Insurance Company of the Southwest Fixed and Indexed Universal Life products.

- Maximum payment period – 20 years¹
- Minimum payment period – 5 years
- Minimum deposit – \$40,000
- Maximum deposit – \$1,000,000
- The Premium Deposit Account may not be used for payment of partial premiums.
- Minimum partial withdrawal amount – \$1,000
- Maximum partial withdrawal percentage – 10%²

Settlement Options

Once per policy year, a partial withdrawal of up to 10%² of the PDA balance will be allowed upon written request by the Owner or the Depositor.

The planned premium may be changed due to any payments of partial withdrawals.

Upon death of the Insured, the PDA balance will be paid to the Beneficiary or the Depositor as selected. The entire PDA rider will then be terminated.

Upon termination of the policy, the PDA balance will be paid to the Owner or the Depositor. The entire PDA Rider will then be terminated.

Upon termination of the policy, there will be a surrender penalty applied to the PDA balance equal to the lesser of:

1. 10% of the PDA balance, or
2. the current sum of interest earned on the PDA.

There is no surrender penalty in CT, NJ and NY.

Commissions

The Premium Deposit Account is non-commissionable. Normal product commissions will be paid on the premiums when they are withdrawn from the PDA to pay the amount due. No advance payment of commissions will be allowed.

¹ The Maximum Payment Period is 10 years in CA.

² Partial withdrawals above 10% are allowed in KS and NY. There is no limitation on the number of withdrawals made per year in KS and NY.