



Premium Deposit Account **FAQ**



**For National Life Whole Life and Term Policies
and LSW ProtectorLife**

Products issued by

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

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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 whole life and term products and LSW ProtectorLife whole life.

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 National Life whole life and term products and LSW ProtectorLife whole life, 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 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 or in the states of Pennsylvania, Tennessee, Illinois, Indiana, Texas and Kansas.

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). The account earns 2.5% as of 9/1/2012 and will be guaranteed for the duration of 10 years.

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 a guaranteed interest rate of 2.5%. After the initial premium, subsequent premiums are paid from the PDA.

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.**

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 form 1471 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.
 - date the fund is to begin premium payment
 - policy number (if policy issued)
 - insured's name (if policy issued)
 2. Items 2 through 5 on the form list options specifying what will happen to the fund under given circumstances. Indicate the depositor's choice for each option.
 3. At the bottom of the form, indicate the:
 - city and state of execution
 - date the form was completed
 - depositor's signature
 - depositor's social security number
 - depositor's address
 4. Complete the form in full. The form must be submitted to the Home Office with the application and payment.

Additional Details

Product Info

The Premium Deposit Account may currently be used with any National Life whole life or term policy or with LSW ProtectorLife.

- Maximum payment period – 20 years
- Minimum payment period – 5 years
- Minimum deposit – \$40,000 for NL Whole Life and Term; \$25,000 for LSW ProtectorLife
- Maximum deposit – \$1,000,000
- The Premium Deposit Account may not be used for payment of partial premiums.

Settlement Options

The Premium Deposit Account may only be surrendered upon death or if the policy associated with the PDA is surrendered (surrender value is the PDA balance). If the associated policy is surrendered, the PDA surrender penalty is the lesser of:

- 10% of the PDA balance
- or
- the interest earned

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.

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.