



# LIFE INSURANCE GUIDE

Important Facts You Should Know Before  
Buying Life Insurance

[Life Insurance Is Financial Protection.](#)

Life Insurance comes in many different forms and what you choose for protection should be in line with your goals.



Presented by  
Nathan Frederico

# Life Insurance Guide

## Important Facts You Should Know Before Buying Life Insurance.

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# What Is Life Insurance?

People buy life insurance for many reasons: income replacement, mortgage protection, supplemental retirement income, liquidity for future tax liability and many others.



The important thing to remember about life insurance is this:

## **Life insurance is financial protection.**

Life insurance provides liquid resources your loved ones may need to pay immediate and continuing expenses in the event of a premature death. And if the opposite is true and you live a long life, the cash value in life insurance could be available to you as a source of additional retirement income.

Life insurance comes in many different forms and what you choose for protection should be in line with your goals. One of the beautiful features of life insurance is that it is adaptable. It can provide immediate protection and later evolve as needed. Choosing the right type of life insurance and selecting the correct policy for you and your goals is an important decision.

**Begin by listing and evaluating the current and future financial needs of those who depend on you.** A good idea is to familiarize yourself with the various

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policies and the direct and passive benefit they provide. How do they work and do they make sense for you?

# How Do You Get Started?

Start with this. **Ask yourself some basic life and financial questions:**

**Why do I need life insurance?** Most people buy life insurance to cover debt or because others are dependent on them. Life insurance provides tax free cash to your family in the event of your death. The money your beneficiaries receive can be an important financial resource to cover daily living expenses, pay the mortgage, pay off the car and other debts.

Life insurance proceeds can help fund school tuition and remove the burden of debt. The benefits a life insurance policy provides can reduce the stress caused by worry and financial concern. Many people see their needs change as they get older. Once the life policy might have been needed for mortgage protection and then later in retirement, it might be used to replace an income stream if a partner were to die. Those on fixed or limited income may find peace of mind knowing that a surviving spouse will not be faced with a financial burden after their death.

The purchase of life insurance is an important decision. There are many reasons why life insurance policies are purchased, but these reasons should be based on your specific financial planning needs and goals. Factors such as your marital status, number of dependents and cost for their support, future education needs, current and anticipated family income, and your current assets and debt obligations all play a role in determining the amount of life insurance that is right for you.

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## How much life insurance coverage do I need?

Everyone's needs and goals are different. A licensed and authorized life insurance agent can help you determine what level of protection is right for you and your family based on your financial responsibilities, sources of income, savings and goals. Many people prefer the *do it yourself* approach but common sense should dictate that working with an insurance professional will provide help and insight into the process.



**Working with an agent can help you determine how much coverage you need during the discovery process.** Evaluating income sources in relationship to financial responsibilities allows the agent to monetize the obligation should a premature death occur. Family needs, school expenses, medical care retirement savings, all are taken into consideration.

If you are a *do it yourself* person, the internet provides numerous calculators to help you make the right decision. A standard helpful formula uses 6-12 times annual gross income as a standard for how much life insurance to own. If the husband and wife are both bread winners, each should be insured.

**One key point to remember: your need for life insurance will vary and change with your age and responsibilities.** The amount of insurance you buy should depend on the standard of living you wish to assure for your dependents. You should consider the amount of assets and sources of continuing income available to your dependents when you pass away. You should choose an amount of life insurance necessary to meet the needs you are trying to satisfy.

A balance needs to be achieved in this process. To be over-insured can negatively affect your day-to-day budget and threaten your long range financial goals just as much as being under-insured can.

While each person must individually assess their responsibilities, needs, and financial situation, it is important to be careful to choose an amount of life

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insurance that reflects your specific circumstances without under-insuring or over-insuring.



### Here are some questions to ask yourself:

- How much of the family income do I provide?
- If I were to die, what would my family use for income.
- How would my income be replaced?
- Would my children have enough money for their education?
- Could my spouse replace my income?
- Does anyone else depend on me financially?
- How much debt do I have, how would it be repaid?
- How much do I owe on my mortgage?
- Do I have family members or charities I would want to leave money for?
- Will there be estate (death) taxes to pay after my death? What is the value of my estate? Does my will provide for Credit Shelter Trust?
- How much inflation should I plan for?

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# What Are the Different Types of Life Insurance?

Life insurance falls into two different categories, permanent and temporary. Both types provide protection, one is intended for long term benefits while the other is intended for temporary (or term) use. Another way to think about the different types is this, permanent is designed to insure you during a lifetime or as long as you pay premiums, and term is designed to provide protection for a specific time period.

**Or... permanent you buy, term you rent.**

Permanent life insurance can build up cash value over time, which grows tax deferred and can be used at some future date either by borrowing from the policy or converting it to supplemental retirement income. In the event your need for life insurance diminishes, permanent may have cash value available to you if you surrender the policy. With term insurance, your protection merely ends either at the end of the term or by stopping premium payments.

## Various Types of Life Insurance

| Type of Policy            | Premium                 | Face Amount             | Cash Value                            | Policy Loans |
|---------------------------|-------------------------|-------------------------|---------------------------------------|--------------|
| <b>Term</b>               | Low; but increase w/age | Renewable into old age  | None                                  | No           |
| <b>Whole</b>              | Level                   | Level; can't be changed | Yes; no ability to choose investments | Yes          |
| <b>Universal</b>          | Flexible                | Level; can vary         | Yes; no ability to choose investment  | Yes          |
| <b>Variable</b>           | Level                   | Level; Can't be changed | Yes; ability to choose investments    | Yes          |
| <b>Variable Universal</b> | Flexible                | Level; can vary         | Yes; ability to choose investments    | Yes          |

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**Term Insurance offers a myriad of policies all based on specific needs and goals of the insured.**

**Term policies** can also provide benefits other than death benefits, as an example some policies offer a return of premium benefit that will generally return all of the premiums paid at the end of a specified term if no death benefit was paid. The insurance company in return for accepting the insurance risk would only earn the use of the premiums and not the premiums themselves. Term life insurance can be for a specific time period such as 10 years (or longer). Some term policies offer guarantees that allow the renewal of the policy for an additional time period, premiums would be adjusted for the insured's age at that time. Think of term insurance as you would your car insurance, when the premium is due, you pay it, you have had nothing other than the protection.

**Permanent life insurance can assume many forms which can allow for the possibility of greater yield at the expense of lesser guarantees.**



**Whole Life** (also known as ordinary life) offers premiums, cash value and death benefit that are guaranteed for your whole life. Whole life premiums are guaranteed fixed over the life of the policy, a fixed death benefit, and cash value that grows at a fixed rate of return. Fully guaranteed.

Variations of paying premiums does exist, in some policies premiums are required to be paid for a set number of years. Under other policies, premiums are paid throughout the policyholder's lifetime

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**Variable Life** allows you to choose among a variety of investments offering different risks and rewards. Instead of your premiums being deposited in the general account of the insurance company, you can choose which investment might make sense for you. Options can include stocks, bonds, or investments that guarantee principal and interest.

Death benefits and accumulated value in the policy can vary depending on the performance of the invested assets AND the actual cost of the insurance benefit.

Variable life does carry risks along with financial rewards, expenses can include investment fees, insurance fees and general operating costs, all of which are charged back to the policy and subtracted prior to calculation of net returns. Many different options are offered in this category; it is important to fully understand the details of the policy.

**Universal Life** generally provides the greatest flexibility in designing a policy based on specific goals. Universal life provides flexibility in setting premium payments as well as death benefits.



Most Universal life contracts offer minimal guarantees and because of the flexibility, management of the policy over the years is essential.

Each year, your policy is assessed “cost” of insurance (COI) fees which are based on your age and the historical experience of the insurance company. The more death claims paid could mean a higher cost of insurance (COI). The opposite is also true, favorable mortality experience could mean lower policy expense.

**Indexed Universal Life** insurance plans are an evolution of traditional universal life insurance. Indexed universal plans provide a death benefit and a separate cash value that may increase over time.

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The evolution is how the funds in the policy are invested. Traditional universal life deposits the premium after insurance costs in the general account of the insurance company.

Indexed universal life allows funds to be invested in an outside source, such as the S&P 500 Stock Index. The funds are technically invested in futures, not the actual fund and returns will only be a portion of the actual returns. Downside market risk is avoided with this scenario.

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# The Advantages and Disadvantages of Different Types of Life Insurance

**Permanent life policies can accumulate cash value which can be used to pay future premiums, borrow for life needs and may be used in the future as supplemental retirement income.**

## **Cash value insurance advantages include:**

- lifetime protection in return for paid premiums
- a fixed premium cost in whole life
- flexibility with premiums in universal and variable life

Plus, if the need for insurance goes away, many policies can be surrendered for the accumulated cash value. The IRS also allows for the accumulated cash value to be transferred to an annuity (IRS 1035 exchange) without tax liability. It can then be used as retirement income.

## **Cash value insurance does have disadvantages.**

Failure to fully understand the disadvantages can negate the advantages of the policy. As an example, cash value insurance is a longer term policy. It is designed to be owned a substantial period of time. A decision to cancel or surrender early can be an expensive mistake.

Premiums for permanent cash value life insurance can be much higher than a policy which only provides a death benefit. That is why it is so important to select a policy designed for your specific needs and goals.



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**Term policies are generally purchased for a specific need, such as providing tax free funds to pay a mortgage.**

**Term Insurance benefits and advantages include a much lower premium than permanent insurance.**

Term insurance is generally much less expensive with regard to premium than any other type of life insurance.

**Disadvantages of term insurance could be the policy would only provide protection for a specified term or time period.**

Term policies do not build cash value and therefore are only intended for protection.

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# Purchasing a Life Insurance Policy

## Should you use the internet to buy life insurance or should you use the services of an agent?

In the age of the internet where everything is available at our finger tips, buying life insurance could also be included in our online shopping habits.

### Or should it?

Life insurance can be purchased almost anywhere, banks, stock brokers, direct from the company, internet, by phone from advertising and even by mail. Type into *Google* the word *life insurance* and see how many offers come pouring into you. Why use an agent?

**In simple terms, the cost of the insurance will be the same regardless of how you elect to buy.** Working with an agent should provide you with insight into different policies, different companies and an agent will ask you many more pertinent questions than a computer website will.

Agents are required to learn as much about your needs and goals as possible. By doing so, many more options of life insurance protection could be uncovered. Plus, working with an agent you should receive personalized service and insurance updates. Each department of insurance (your state of residence) keeps records of all licensed agents such as how long have they been an agent, are there any complaints, what companies does he or she represent. This is public information and fully available to you.



### How do you select an agent?

**Agents often belong to professional associations that grant professional credentials and designations such as Chartered Life Underwriter (CLU) and Life Underwriter Training Council Fellow (LUTCF).**

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When considering buying a policy, the agent (or company) will provide you with a policy illustration, their guess as to future performance (or policy guarantees).

### Here are important points regarding life insurance policy illustrations.

- A policy illustration is an estimate of future policy performance. Is it a legal document? Is a policy illustration a legal document, like a contract? A policy illustration is not part of the life insurance policy and is not a legal document. Legal obligations are spelled out in the policy contract. A policy illustration, however, can help you understand how a policy works.
- What is in a policy illustration? A policy illustration is meant to provide an example, based on certain assumptions, of how a policy's costs and benefits may develop over time.
- Illustrations take into consideration your age, marital status, current state of health, health rate variances, smoker, occupation and avocations.
- Actual costs and policy performance could be higher or lower than those in the illustration because they depend on the future financial results of the insurance company. If the policy has guarantees, the company will honor them regardless of actual results. Always ask which figures are guaranteed and which are not because a policy illustration can be complicated.

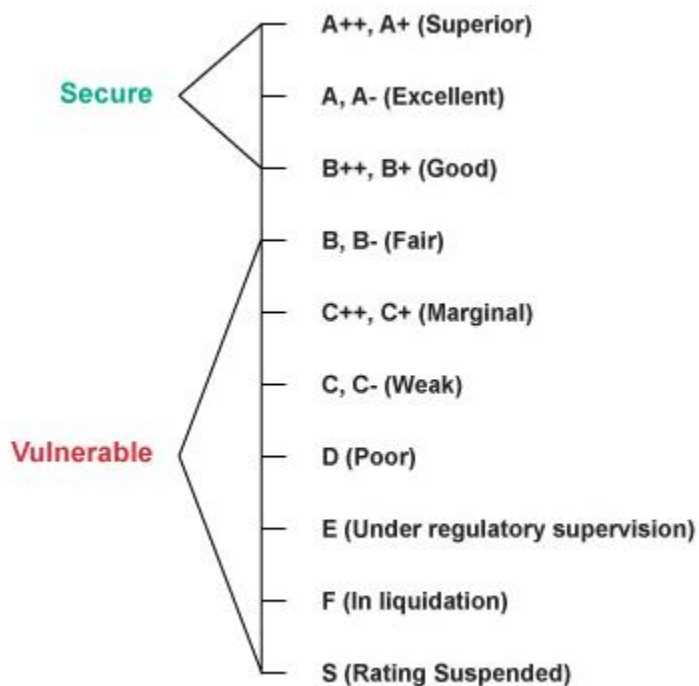
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# Selecting A Life Insurance Company

**What company should I select?** Insurance companies are the most regulated of all financial industries. Each state has full authority to examine and approve any company doing business in their state. In addition to state regulation, financial rating services also investigate and attach a financial rating to the insurance company. There are several rating services such as A.M. Best Company, Fitch Ratings, Moody's Investor Services and Weiss Ratings. These services evaluate the financial strength of companies.

The following illustration will give you a guideline to the financial strength of the insurance company regardless of which rating service you select.



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# Frequently Asked Questions

## About Life Insurance

**Disclaimer:** This information was developed to provide consumers with general information and guidance about insurance coverages and laws. It is not intended to provide a formal, definitive description or interpretation of Department of Insurance policy.

For specific information on any issue, regulated entities (insurance industry) and interested parties should contact their state Department of Insurance.



### 1. How do I know which life insurance company is safe?

Life insurance companies are highly regulated by each state department of insurance. Your Department of Insurance can provide you with the following information to assist you in deciding about purchasing coverage: whether or not the company is licensed, complaints filed, and years in business.

### 2. What will happen to my policy if the company fails?

Insurance companies licensed to write life insurance policies in your state are members of the State Guarantee Association. Each state guarantees the performance of companies authorized to conduct business in the state, however

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guarantees do vary. This link will help you look up your specific state of residence: <https://www.nolhga.com/policyholderinfo/main.cfm>

### **3. Is the policy a contract?**

Yes, an insurance policy issued by an insurance company is a written guaranteed contract. Provisions in the policy are legally defined and specified.

### **4. If I buy a policy, can I name or designate the beneficiary?**

Yes, as the owner of the policy you can name (and change anytime you wish) a beneficiary. However, many companies will only allow a beneficiary to have an insurance interest in the life of the insured at the time of application. In other words, the named beneficiary would suffer a financial loss should death of the insured occur.

### **5. If I quit paying the premiums, and drop the policy, can the insurance company sue me for breach of contract?**

No, life insurance policies are unilateral. You may quit or surrender a policy anytime you wish, but if you pay the premiums specified, the company must honor their contract.

### **6. If the policy pays a death claim to my beneficiary, do they have to pay federal income taxes?**

No, life insurance paid as proceeds from a death benefit claim are tax free.

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## **7. My policy has accumulated cash value but it is less than the premiums I have paid, why?**

Cash value (accumulated value) of a whole life insurance policy is the amount of money the policy will accumulate in the contract. The amount of cash value depends on the face amount of the policy, the length of time the policy has been in force, and the length of the policy's premium payment period.

The cash value will normally increase throughout the life of the policy, depending on your contract. Life insurance is a long-term plan - in most policies the cash value will eventually exceed the premium deposits. Many policies show no available cash value in the first year.

## **8. I just received my new policy, how much time do I have to review it and still get a refund?**

The “free look” period depends on your state of residence, but generally 30 days for the free look. Ask your agent or the company to determine your specific period.

## **9. I am applying for a life insurance policy and a medical exam is required, do I have to pay for it?**

No, you don't have to pay for the medical exam. The insurance company pays for the cost of the medical exam.

## **10. Are the premiums I pay for my life insurance tax deductible?**

No, life insurance premiums are not tax deductible, however, death benefits paid to a named beneficiary are tax free.

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## **11. I recently returned from vacation and realized I hadn't made my insurance payment, what happens?**

If you miss a premium payment, you usually have a 30- or 31-day grace period in which to make your payment without consequences. The policy will remain in effect during the grace period. If you die within the grace period, your beneficiary will receive the death benefit minus the overdue premium.

## **12. If I am hurt and unable to work, how will I pay my premiums? Can I buy additional insurance for that?**

Yes, most companies offer a "waiver of premium" feature. Should you become disabled and unable to work, the premiums will be made for you by the insurance company. Generally, there is a waiting period, such as 6 months.

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## Tips

**Take time to fully understand any policy you're considering and that you're comfortable with the company, agent, and product.**

Many states require the agent or company provide you with a buyer's guide to explain life insurance terms, benefits, and costs.



**Always answer questions on your life insurance application truthfully.** If you do not understand the questions, ask. Be sure your application has been filled out accurately and if an error is discovered, make sure your agent knows as soon as possible.

**When buying a policy ALWAYS make the check payable to the insurance company and never an agent or an agency.** It is a good idea to always ask for and obtain a receipt from the agent. Once the policy is issued, the company will notify you in writing and a policy should be in your possession within 60 days.

**If you are confused or fail to understand exactly what you have applied for or purchased, consult your state department of insurance.**

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## Additional Information Sources

American Council of Life Insurers

[www.acli.com](http://www.acli.com)

National Association of Insurance  
Commissioners Consumer  
Information

<https://eapps.naic.org/cis>

Life Insurance Marketing and  
Research Association

[www.limra.com](http://www.limra.com)



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We Show You How to Build a Guaranteed Foundation for Your Retirement.

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**Disclaimer:** This report is intended only as basic information about life insurance, it should not be used in any final decision about purchasing a specific policy.

Life insurance is a part of your long term financial planning and seeking professional and authorized agents, insurance professionals, insurance companies and brokers is essential. Never make any decision without fully understanding all aspects of your decision and how it may affect your goals and plans. Planning should include any tax liability as well as current and future use of your available assets. If you do not fully understand the process, seek a second opinion. Your state department of insurance is a solid source for information.

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