

# Life Insurance *Overview*



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## Introduction

With the wide variety of life insurance products available to consumers, choosing the policy that best fits your needs can be challenging. Before you begin exploring your options, it's important that you have a clear understanding of what life insurance is, how it works, and why you need it.

At its core, life insurance is a layer of financial protection for those who depend upon you when you are no longer there to provide for them. It is there to cover your final expenses—such as funeral and medical costs—and replace your income when you die.

Life insurance cannot replace you, nor can it take away the emotional turmoil your loved ones will experience when you are gone. What it can do is mitigate the financial hardships they may encounter in the weeks and months that follow. In essence, life insurance is security for your family during their time of need.

When choosing a life insurance policy, there are a few important questions you should ask yourself:

- What type of policy will best fit my individual situation?
- How much life insurance should I buy?
- Of the additional features available, how do I know which to select?
- What advantages/disadvantages come with each type of policy?

While this overview cannot address the specifics of your unique situation, it should provide you with the insight necessary to make informed decisions.

One very important thing to understand is that life insurance can offer much more than a death benefit. There are many things your policy—depending on the type of plan and any additional features you select—can help with while you're still alive. Such as:

- Accessible cash value, through withdrawals or policy loans
- Long-term care, chronic illness, or disability benefits
- Tax benefits
- Estate, asset, and business liquidity

These, along with other benefits will be covered in more detail throughout this overview.





## *How Much Life Insurance Do I Need?*

The answer to this question is different for everyone. The amount of life insurance you need will depend on your unique situation and financial goals. There are several factors to consider here. Most importantly, think about what your family will need in the weeks, months, and even years following your death. Aside from your final expenses, the benefits from your policy can provide the money they will need to:

- Stay on top of home, car, and personal loan payments
- Maintain current lifestyle
- Replace your income
- Help children with college tuition
- Handle any unforeseen financial emergencies
- Cover any additional living expenses and/or debt

Trying to decide how much life insurance you need can be overwhelming, but the answer is vital to the financial stability of your loved ones. It can also help determine the type of policy that will best suit your needs.

# Types of Life Insurance Policies

There are a variety of ways in which you can tailor a life insurance policy to fit your specific needs through different features, riders and other options. Even the insurance carrier you choose can have an impact on your policy and the benefits it provides. This is why many people seek the advice of a professional agent or financial planner when customizing their policy.

Overall, there are two basic categories of life insurance, and each can be customized in different ways. These two categories are term life insurance and permanent life insurance.

## Term Life Insurance

Term life insurance provides temporary coverage that lasts throughout the specified duration of the policy. Terms are typically set up for 10, 15, 20, or 30 years. If the policyholder dies during the specified term, the insurance carrier will pay death benefits to the beneficiaries. Inversely, coverage terminates if the policyholder outlives the term period. Many term life policies carry options to renew or convert to another type of policy.

Term life policies carry low initial premium rates, making them one of the least expensive life insurance policies on the marketplace. Term life policies do not build cash value.

Term life is the perhaps the simpler of the two categories and is typically best suited for those who need nothing more than the death benefit that comes with the policy, or someone in need of temporary coverage. That said, make sure you carefully weigh the advantages, disadvantages and different variations of term life insurance before deciding whether this is the right choice for you.

The most common variations of term life insurance are:

- Renewable Term Life Insurance
- Decreasing Term Life Insurance
- Level Term Life Insurance



# Types of Life Insurance Policies

## Renewable Term Life Insurance

This provides a level death benefit, but premiums typically increase if/when the policy is renewed. The policyholder may be required to undergo additional medical screenings for the renewal period. These are best suited for those who only need temporary life insurance coverage.

## Decreasing Term Life Insurance

This type of policy offers level premium rates, but the death benefit decreases in value over the course of the term period. This may be a good option if you're buying life insurance to safeguard your family from debt that will decrease over time, such as a home mortgage.

## Level Term Life Insurance

Like renewable term life, a level term life insurance policy also provides level death benefits. Premium rates also remain level during the term period but will increase each year after the policy is renewed. Most level term policies do not require any additional medical screening for the renewal period.

### Return of Premium Rider

Depending on when you purchase a term life policy, and how many years the term period is set to last, you might consider a return of premium rider. This is a policy add-on that allows you to "play the odds" that you will outlive the term period. Like other policies, this will provide for your family if you die during the period. However, the money paid into the policy will be repaid in full if you survive and keep the policy in effect for the entire term period.

Policies that include a return of premium rider are often more expensive than standard term life plans and that additional cost is not returned at the end of the term period. If the policy is cancelled early, you will likely lose some or all of the money that would otherwise receive from a return of premium rider.

# Permanent Insurance

Like the name suggests, permanent life insurance provides lifetime protection to the policyholder and will not expire as long as premiums are paid and the policy remains active. Sometimes referred to as "Cash Value Life Insurance," this is a very broad category of life insurance that is flexible enough to meet a variety of different needs and situations.

In addition to providing a death benefit, permanent life policies also build cash value on a tax-advantaged basis. The savings component allows the policyholder to take out loans or withdrawal funds from the cash value of the policy. While more expensive than term life policies, permanent life insurance offers far more coverage options and can also be used to help meet a variety of personal goals, such as your child's college tuition or setting up a retirement nest egg.

The most common types of permanent life insurance are:

- Whole Life Insurance
- Universal Life Insurance
- Indexed Universal Life Insurance

## Whole Life Insurance

A whole life policy provides the policyholder with guaranteed lifetime protection, assuming the premiums are paid, and policy remains in effect. They offer fixed premiums, level death benefits, and guaranteed cash values, along with several living benefits. As the only life insurance product available that guarantees both the death benefit and monthly premiums, whole life policies can offer the comfort of predictability to the policyholder. Additionally, a whole life policy may have annual dividends that can be used to lower your monthly premiums or increase death benefits or compound the cash value account.

## Universal Life Insurance

This also provides lifetime coverage but offers more options and flexibility than a whole life policy. Universal life insurance policies allow you raise or lower your premiums as needed, as long as the minimum requirements set by the contract are met. You also have the option to set a level or increasing death benefit when the policy is purchased. The cash value of a universal life policy grows based on current interest rates, typically with a minimum guarantee.

## Universal Indexed Life Insurance

This type of policy is very similar to universal life insurance in that it provides lifetime coverage and offers the flexible premiums and the option for either level or increasing death benefits. Where universal indexed life insurance (IUL) differs from universal is how the account builds cash value. A IUL policy grows in value based on stock market indices (S&P 500, Dow Jones, NASDAQ) and includes a guaranteed minimum interest rate to protect the existing value against poor market performance.





# Permanent Insurance

## Accelerated Death Benefits

An accelerated death, or “living benefits” rider allows the policyholder to receive a portion or all of their death benefits while still alive. Should you be diagnosed with a terminal illness, this can provide the money for treatments, care, and any other assistance you may need to remain as comfortable as possible. Some policies automatically include living/accelerated death benefits, while others may require the rider to be written into the contract. Situations that qualify for accelerated death benefits include:

- The diagnosis of a terminal illness with death expected to occur within a specified amount of time, typically two years or less.
- An extended or permanent stay at a nursing home, long-term care facility or hospice.
- Condition or illness that requires an organ transplant
- Certain home-health or assisted living care.

While most of the money received from accelerated death benefits is usually tax exempt, there are limitations that may require you to pay income tax on a portion of those benefits. Additionally, receiving accelerated death benefits could affect your eligibility for SSI and/or Medicare.

## Additional Options

Most permanent life insurance policies can be customized and enhanced to better fit your needs through different benefit options, riders, and policy add-ons. Below is a brief list of options you may want to consider. Keep in mind that availability, restrictions, and details involved with each may differ depending on your insurance carrier and other factors. Before making any decisions on policy additions, speak with your financial planner.

- Accidental Death Benefit Rider
- Automatic Premium Loan Rider
- Child Protection Rider
- Cost of Living Rider
- Critical Illness Rider
- Disability Income Rider
- Family Income Rider
- Guaranteed Insurability Rider
- Long-Term Care Rider
- Other Insured Rider
- Option to Purchase Additional Insurance
- Paid-Up Additions Rider
- Payor Benefit Rider
- Return of Premium Rider
- Spousal Rider
- Term Conversion Rider
- Term Insurance Rider
- Waiver of Premium Benefit Rider

# Life Insurance

## AT A GLANCE

### Term

- Less expensive than other policy types
- Potential for renewal, but this may require additional medical screenings
- Premiums remain level during term period, but may increase at renewal
- Good for short-term or disappearing needs
- Does not build cash value; no savings component
- Limited options/flexibility
- No living benefits
- May offer policy dividends

### Permanent

While the three main types of permanent life insurance each have their own advantages and disadvantages, they also share several features that should be taken into consideration when shopping for your policy.

- Guaranteed lifetime coverage
- Tax-advantaged cash value growth (savings element)
- More flexibility & options
- Accessible cash value via policy loans and/or withdrawals
- Policy enhancements, riders & add-ons
- Living benefits
- May offer policy dividends

### Whole

- Guaranteed level death benefits
- Guaranteed cash value
- Cash value growth is lower than other premium policies and may struggle to keep up with rising inflation rates
- Little-to-no premium flexibility

### Universal

- Ability to raise, lower premiums based on changing financial needs
- Option for level or increasing death benefits
- Cash value growth is based on current interest rates w/ a minimum guarantee
- Premiums may increase over time

### Universal Indexed

- Ability to raise, lower premiums based on changing financial needs
- Option for level or increasing death benefits
- Cash value growth based on equity markets means potential for higher earnings
- Cash value account is vulnerable to poor market performance, but protected by guaranteed minimum interest rates