A Guide to Life Insurance

The earliest known type of life insurance was the burial benefits that Greek and Roman religious societies provided for their members.

The first life-insurance company in North America was founded in 1759 in Philadelphia. It was named the Corporation for the Relief of Poor and Distressed Presbyterian Ministers and of the Poor and Distressed Widows and Children of Presbyterian Ministers.

Summary of Contents

Life insurance provides many valuable benefits. The basic protection of your home and family are the most common, but did you realize that life insurance can also be used to build a cash value for retirement or college and allow for favorable tax advantages? However, not all policies offer all of the same benefits and the difficulty lien in deciding which type of coverage will fit your needs.

This **Guide to Life Insurance** will provide basic information about life insurance, including:

*Definitions of Commonly Used Insurance Terms

*Term Insurance
- -Common types of term insurance
- -Uses of term insurance

*Permanent/Cash Value Insurance
- -Common types of permanent cash value life insurance
- -Uses of permanent/cash value life insurance

*Insurance Riders

As you review the **Guide to Life Insurance,** please remember that each insurance contract has its own features and provisions. This summary only provides an overview of the benefits made possible by life insurance.

If you have any questions about benefits provided by your current life insurance coverage, please call me at 810-600-2503

Definitions

The following 1s a list of terms that are commonly used when speaking about life insurance policies. If you have any questions about their meaning, please call me.

Beneficiary: The person named in the insurance policy who will receive the life insurance benefits upon the death of the insured.

Cash Value: A tax-deferred account that can be used for cash loans.

Coverage: The specified amount of money that is paid to the beneficiary upon the death of the insured.

Insurable interest: A person with an insurable interest would be someone who would suffer form hardship in the event of the death of the insured. For example, a person's business partner, spouse, or child would have an insurable interest.

Insured: The person whose life or health is insured under an Insurance policy.

Policy Owner: The person or business that owns an insurance policy. This could be the same person as the insured or it could be someone with an insurable interest in the life of the insured, such as a relative or business.

Premium: The money paid to an insurance company to purchase life insurance and to keep it from lapsing.

Tax Deferred: The growth of your cash value in a permanent life insurance policy is not taxed at the end of each year. It is taxed when you surrender or close the policy or withdrawal money at the end of the life of the policy.

Term Insurance

Term insurance is usually the least expensive type of coverage. It provides a death benefit for your family only if you should die during the “term”, or period of time, specified in your policy, the length of term can vary – from one year to twenty or more.

What are the different types of Term Insurance?

ART Annual Renewable Term – Traditionally known as “term insurance”, this type of insurance is renewable on an annual basis for one or more additional terms, even if your health has changed. Each time you renew your policy, the amount you pay for coverage will probably be higher for an equal amount of coverage.

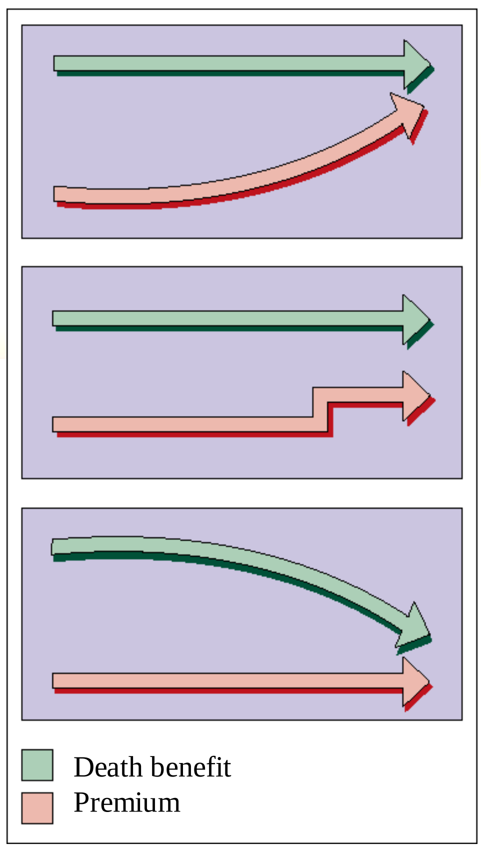
Decreasing Term – With this type of term insurance, the amount of the death benefit decreases over the term of coverage according to the stated method (for example, an amortization schedule) that is prescribed in the policy. The amount of coverage goes down because it is intended to protect or pay for something that you owe less on as time goes by (like your home). Shown in the graph below.

Level Term – Level term insurance provides a death benefit that does not change over the policy term. The period of coverage is longer than one year, usually written in 5-year increments – i.e. 5, 10, 15-year term policies. The amount of premium remains the same throughout the period of coverage. If you renew after the time period lapses, your premiums will probably increase. Shown in the graph below.

Annual renewable term

Level term

Decreasing term



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How can I Use Term Insurance?

Life insurance is most often used to *protect your family in the event of your death.* A college fund or pennies saved for a rainy day may not be enough to ensure that your family's lifestyle remains unchanged after the loss of a source of income. Life insurance protection can help them absorb future living costs.

One of the ways to protect your family is to purchase term insurance that will pay off the mortgage on your home if you were no longer there to make the payments. Guaranteeing a source of income for your family and guaranteeing your families ability to pay off your mortgage are two of the more traditional ways to use term insurance.

Some of the Uses You Might Not Have thought Of:

Settle Outstanding Debts or Expenses: Insurance is an economical way to pay off debts or expenses you may have accumulated during your lifetime. For pennies on the dollar you can pass your assets debt free to your heirs.

Create an Estate – Where time or other circumstances prevent a person from accumulating sufficient assets, life insurance can create an instant estate, leaving loved ones with the means to continue their standard of living.

Pay Estate Taxes – When your entire estate climbs in value to a certain point. The federal and possibly your state government will tax your estate. It is a tax on the ruight to pass property to your heirs. This tax can be up to 55% of your estate value. Life insurance is a cost effective way to offset this expensive event.

Charitable Gifts: Donations to charities, churches and other organizations can be very fulfilling. By using life insurance you can turn a smaller donation into a much larger gift in the even of your death.

Protect Your Children's Ability to Obtain Insurance – The main purpose of insuring your children is to make sure that they will be insurable during their adult lives, especially in the case of a serious illness or injury. Most children's term insurance provides options for the child to increase the coverage amount when they reach 18 or 21.

Fund a Business Transfer – Business Partners often agree to buy a deceased owners' share from him or her estate after death. Life insurance provides the ready cash to finance the transaction.

Protect Your Business from the Loss of a Key Employee – Employees with special skills are difficult to attract and retain. Their untimely death may cause a severe financial strain on your business.

Permanent/Cash Value Life Insurance

What Is Permanent/Cash Value Life Insurance?

Permanent life insurance provides coverage throughout the insured's lifetime (usually up to age 95), as long as all necessary renewal premiums are paid. All forms of permanent life insurance also include cash value that can provide an additional source of funds.

Some drawbacks of accessing the cash value earlier than age 59 ½ is that you may be subject to a 10% early withdrawal penalty imposed by the IRS. If your withdrawal does not qualify as a loan any monies withdrawn from permanent policies may adversely effect the death benefit or be subject to surrender charges.

What are the different types of Permanent Life Insurance?

Whole Life - Whole Life insurance covers you with a level premium rate that does not increase as you age. These premiums can be several times higher than you would pay initially for the same amount of term insurance, but they are smaller than the premiums you would later pay if you were to keep renewing a term policy as you age. A major benefit to Whole Life insurance is the cash value that it accumulates. Your insurance contract specifies a guaranteed minimum rate of growth although a higher rate of growth is possible.

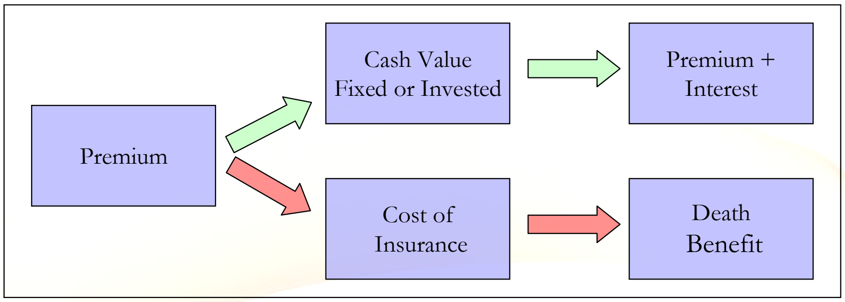
Universal Life – Universal life is similar to whole life but with added features. It provides a flexible premium insurance plan that combines the protection of term insurance with an accumulation feature. Although it is similar to Whole Life insurance and has the same safety feature of a guaranteed cash value growth, Universal Life is much more flexible. Premium payment is optional as long as the cash value of the policy is enough to cover policy costs. It is also easier to adjust the amount of coverage provided by the policy.

Variable Life and Variable Universal Life - These are special kinds of insurance where you pay a fixed premium but part of the premium is invested in an investment portfolio with choices such as a money market account, stock portfolio, bond portfolio, or some combination. This type of coverage is not guaranteed like UL or whole life. You choose the sub-accounts, like investment portfolios, are subject to market risk. If your investments do well the cash value and/or insurance value of your policy increase. If your investments do not do as well, however, your cash value will not grow and could be lost completely. You may have to make additional premium payments to keep the policy in force. Variable Insurance products are intended for the long-term. The policies are subject to fees and charges. Death benefit guarantees are subject to the claims-paying ability of the issuing life insurance company. Loans will reduce the policy's death benefit and cash surrender value, and have tax consequences if the policy lapses.

Investors should consider the investment objectives, risks, charges and expenses carefully before investing. Prospectuses for the contracts and the underlying investments options contain this and other information. Please read the prospectuses carefully before purchasing a policy.

Survivorship life: A form of whole life, variable life, universal life, or variable universal life insurance. It covers two individuals with one insurance policy that pays a death benefit after the death of the second insured.

Permanent Life Insurance Cash Flow Illustration



With permanent policies your premium dollars are divided into two portions. One portion pays for the cost of the insurance the other portion builds value for you to use if needed.

A few words on risk.

There are four ways to manage risk. 1. Accept it, do nothing, and wait for the consequences. 2.Transfer it as in insurance and have someone else bear the consequences for a fee. 3.Reduce it by changing your life style and choices. 4.Avoid it by not engaging in any of the activities or situations that would put you or your assets at risk. No one way will eliminate all your risk concerns, for some risks simply cannot be accepted, transferred, reduced or avoided no matter how much we want or try.

How can I Use Permanent Life Insurance?

Just like term insurance, permanent insurance has a protection feature that pays a death benefit so you can use permanent insurance for all of the reasons you would use term insurance. However, permanent life insurance enjoys tax-deferred growth, unlike the growth of money in a security or certificate of deposit that is taxed each year.

Some of the reasons you might want to use life insurance with a cash value:

Retirement Fund: Cash value life insurance policies provide you with a way of protecting your family in the event of your death while still accumulating funds for your retirement. The cash value of your policy can be withdrawn as a loan or annualized to be used for your retirement living expenses.

Pay for College: Cash value increases in a policy can be used to accumulate dollars for college for a child or grandchild. Life insurance can also be used to pay for a first car or get a child's future started on the right track.

Pay Off Mortgages with Cash Value: The cash value of a permanent life insurance policy can accumulate an amount of money you could use to pay off the principal of your home mortgage earlier that your original loan payoff date.

Source of Funds: If you need cash, many cash value policies give you the option of taking a loan on the accumulated cash value without having to surrender the policy. Policy loans can be a convenient source of funds since the cash value loan process is much easier than applying for a bank loan. However, there could be tax, benefit, or company imposed consequences if you surrender the policy or the cash balance before you pay back the loan.

What is an Insurance Rider?

A rider is a part of the insurance contract that expands or limits the benefits payable. It can add additional benefits to a new or existing insurance policy.

Examples of Riders:

Accidental Death Benefit: The accidental death benefit rider provides coverage if the insured dies as a result of an accident. The insurer will pay the beneficiary a specified amount of money in addition to the basic death benefit provided by the insurance policy.

Spouse or Children's Insurance Rider: These riders can be added to a life insurance policy to provide death benefits on the insured's spouse or children.

Disability Rider: Benefits are paid to cover financial losses that result from a sickness or injury rather than those that result from the insured death. There are two basic types of disability rider:

The insured does not collect renewal premium while the insured is disabled or the insurer provides a monthly income to the insured if he/she becomes disabled.

Living Benefits Rider: An insured may elect to receive all or part of the policies death benefit before their death date to pay medical or other expenses in the even t of a terminal illness.

Term Insurance Rider: A term insurance rider adds additional coverage to a permanent life insurance policy at a less expensive rate, giving you a combination of cash value insurance and a greater amount of coverage.

Guaranteed Insurability Benefit: This rider gives the policy owner the right to purchase additional insurance of the same type as the life insurance to which the rider is attached, even though the insured may no longer be in good health.

Nursing Care Rider: Also now as a “Living Care” rider. This coverage will pay for home care as well as all cases of nursing home care. The money needed to cover nursing care is subtracted from all the death benefit of the policy, much as a policy loan would be.

Money Back Rider: All of the premiums are refunded at the end of the policy period if the insured is still living.

Features at A Glance

	Specified Amount of Coverage	Specified Length of Coverage	Constant Premium	Flexible Premium	Cash Value	Guaranteed Rate of Return	Investment Rate of Return
Term	X	X	X				
Annual Renewable Term	X	X		X			
Decreasing Term		X	X				
Whole Life	X		X		X	X	
Universal Life	X			X	X	X	
Variable Life	X		X		X		X
Variable Universal Life	X			X	X		X