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Life Insurance Basics

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Life insurance is an agreement between you (the insured) and an insurer. Under the terms of a life insurance policy, the insurer promises to pay a certain sum to a person you choose (your beneficiary) upon your death, in exchange for your premium payments. Proper life insurance coverage should provide you with peace of mind, since you know that those you care about will be financially protected after you die.

The many uses of life insurance

One of the most common reasons for buying life insurance is to replace the loss of income that would occur in the event of your death. When you die and your paychecks stop, your family may be left with limited resources. Proceeds from a life insurance policy make cash available to support your family almost immediately upon your death. Life insurance is also commonly used to pay any debts that you may leave behind. Life insurance can be used to pay off mortgages, car loans, and credit card debts, leaving other remaining assets intact for your family. Life insurance proceeds can also be used to pay for final expenses and estate taxes. Finally, life insurance can create an estate for your heirs.



How much life insurance do you need?

Your life insurance needs will depend on a number of factors, including whether you're married, the size of your family, the nature of your financial obligations, your career stage, and your goals. For example, when you're young, you may not have a great need for life insurance. However, as you take on more responsibilities and your family grows, your need for life insurance increases.

There are plenty of tools to help you determine how much coverage you should have. Your best resource may be a financial professional. At the most basic level, the amount of life insurance coverage that you need corresponds directly to your answers to these questions:

- What immediate financial expenses (e.g., debt repayment, funeral expenses) would your family face upon your death?

- How much of your salary is devoted to current expenses and future needs?
- How long would your dependents need support if you were to die tomorrow?
- How much money would you want to leave for special situations upon your death, such as funding your children's education, gifts to charities, or an inheritance for your children?

Since your needs will change over time, you'll need to continually re-evaluate your need for coverage.

How much life insurance can you afford?

How do you balance the cost of insurance coverage with the amount of coverage that your family needs? Just as several variables determine the amount of coverage that you need, many factors determine the cost of coverage. The type of policy that you choose, the amount of coverage, your age, and your health all play a part. The amount of coverage you can afford is tied to your current and expected future financial situation, as well. A financial professional or insurance agent can be invaluable in helping you select the right insurance plan.

Proper life insurance coverage should provide you with peace of mind, since you know that those you care about will be financially protected after you die.

What's in a life insurance contract?

A life insurance contract is made up of legal provisions, your application (which identifies who you are and your medical declarations), and a policy specifications page that describes the policy you have selected, including any options and riders that you have purchased in return for an additional premium.

Provisions describe the conditions, rights, and obligations of the parties to the contract (e.g., the grace period for payment of premiums, suicide and incontestability clauses).

The policy specifications page describes the amount to be paid upon your death and the amount of premiums required to keep the policy in effect. Also stated are any riders and options added to the standard policy. Some riders include the waiver of premium rider, which allows you to skip premium payments during periods of disability; the guaranteed insurability rider,

which permits you to raise the amount of your insurance without a further medical exam; and accidental death benefits.

The insurer may add an endorsement to the policy at the time of issue to amend a provision of the standard contract.

Types of life insurance policies

The two basic types of life insurance are term life and permanent (cash value) life. Term policies provide life insurance protection for a specific period of time (subject to the claims-paying ability of the insurer). If you die during the coverage period, your beneficiary receives the policy death benefit. If you live to the end of the term, the policy simply terminates, unless it automatically renews for a new period. Term policies are available for periods of 1 to 30 years or more and may, in some cases, be renewed until you reach age 95. Premium payments may be increasing, as with annually renewable 1-year (period) term, or level (equal) for up to 30-year term periods.



Permanent insurance policies provide protection for your entire life, provided you pay the premium to keep the policy in force (subject to the claims-paying ability of the insurer). Premium payments are greater than necessary to provide the life insurance benefit in the early years of the policy, so that a reserve can be accumulated to make up the shortfall in premiums necessary to provide the insurance in the later years. Should the policyowner discontinue the policy, this reserve, known as the cash value, is returned to the policyowner, subject to applicable surrender or early withdrawal charges. Permanent life insurance can be further broken down into the following basic categories:

- **Whole life:** You generally make level (equal) premium payments for life. The death benefit and minimum cash value are predetermined and guaranteed. The policyowner's only action after purchase of the policy is to pay the fixed premium.
- **Universal life:** You may pay premiums at any time, in any amount (subject to certain limits), as long as policy expenses and the cost of insurance coverage are met. The amount of insurance coverage can be changed, and the cash value will grow at a declared interest rate, which may vary over time.
- **Variable life:** As with whole life, you pay a level premium for life. However, the death benefit and cash value fluctuate depending on the perform-

ance of investments in what are known as subaccounts. A subaccount is a pool of investor funds professionally managed to pursue a stated investment objective. The policyowner selects the subaccounts in which the cash value should be invested.

- **Universal variable life:** A combination of universal and variable life. You may pay premiums at any time, in any amount (subject to limits), as long as policy expenses and the cost of insurance coverage are met. The amount of insurance coverage can be changed, and the cash value goes up or down based on the performance of investments in the subaccounts.

Choosing and changing your beneficiaries

You must name a primary beneficiary (this can be your estate, although this may subject the death benefit to probate) to receive the proceeds of your insurance policy. Your beneficiary may be a person, corporation, or other legal entity. You may name multiple beneficiaries and specify what percentage of the net death benefit each is to receive. If you name your minor child as a beneficiary, be sure to designate an adult as the child's guardian in your will.



Generally, you can change your beneficiary at any time. Changing your beneficiary usually requires nothing more than signing a new designation form and sending it to your insurance company. If you have named someone as an irrevocable (permanent) beneficiary, however, you will need that person's permission to adjust any of the policy's provisions.

Where can you buy life insurance?

You can often get insurance coverage from your employer (i.e., through a group life insurance plan offered by your employer) or through an association to which you belong (which may also offer group life insurance). You can also buy insurance through a licensed life insurance agent or broker, or directly from an insurance company.

Any policy that you buy is only as good as the company that issues it, so investigate the company offering you the insurance. Ratings services, such as A. M. Best, Moody's, and Standard & Poor's, evaluate an insurer's financial strength. The company offering you coverage should provide you with this information.

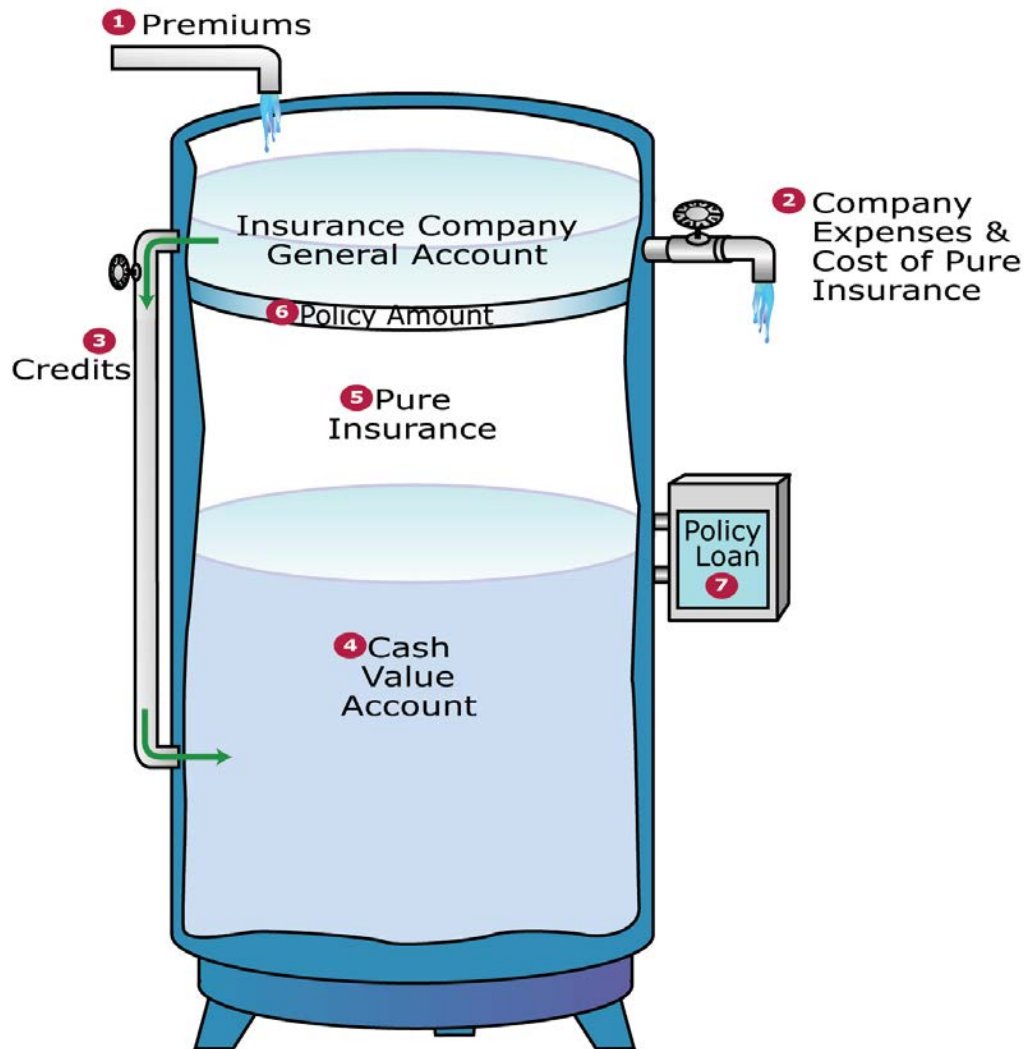
Comparison of Types of Life Insurance

	Term	Whole Life	Universal Life	Variable Life	Variable Universal Life
Premium	Premiums start low, increase at each renewal	Level	Flexible	Level	Flexible
Coverage	Usually renewable until at least age 70; for some policies, up to age 95	For life	For life	For life	For life
Death benefit	Guaranteed	Guaranteed	May be guaranteed, depending on policy	Guaranteed	May be guaranteed, depending on policy
		May increase with dividends*	Can be increased or decreased	Varies relative to cash value investment returns	Can be increased or decreased; varies relative to cash value investment returns
Cash value	None	Guaranteed	Guaranteed minimum interest rate	Not guaranteed	Not guaranteed
		May increase with dividends*	Varies based on interest rates	Fluctuates with underlying investment performance	Fluctuates with underlying investment performance
Policy loans allowed?	Not applicable	Yes	Yes	Yes	Yes
		May be able to borrow up to 100% of total cash surrender value less annual loan interest rate	Same as whole life, but usually available at lower net interest rate (i.e., pay the interest rate and get a credit back to the policy)	Same as whole life, but usually available at lower net interest rate (i.e., pay the interest rate and get a credit back to the policy)	Same as whole life, but usually available at lower net interest rate (i.e., pay the interest rate and get a credit back to the policy)
Cash withdrawals allowed?	Not applicable	No	Yes	No	Yes
Cash value account growth	No cash value account	Insurance company determines guaranteed cash value and declares dividends based on performance of its general investment portfolio*	Insurance company determines cash value interest crediting rates based on current interest rate returns to the company	Cash value account growth depends upon the investment performance of the subaccounts you choose	Cash value account growth depends upon the investment performance of the subaccounts you choose

*Dividends are not guaranteed.

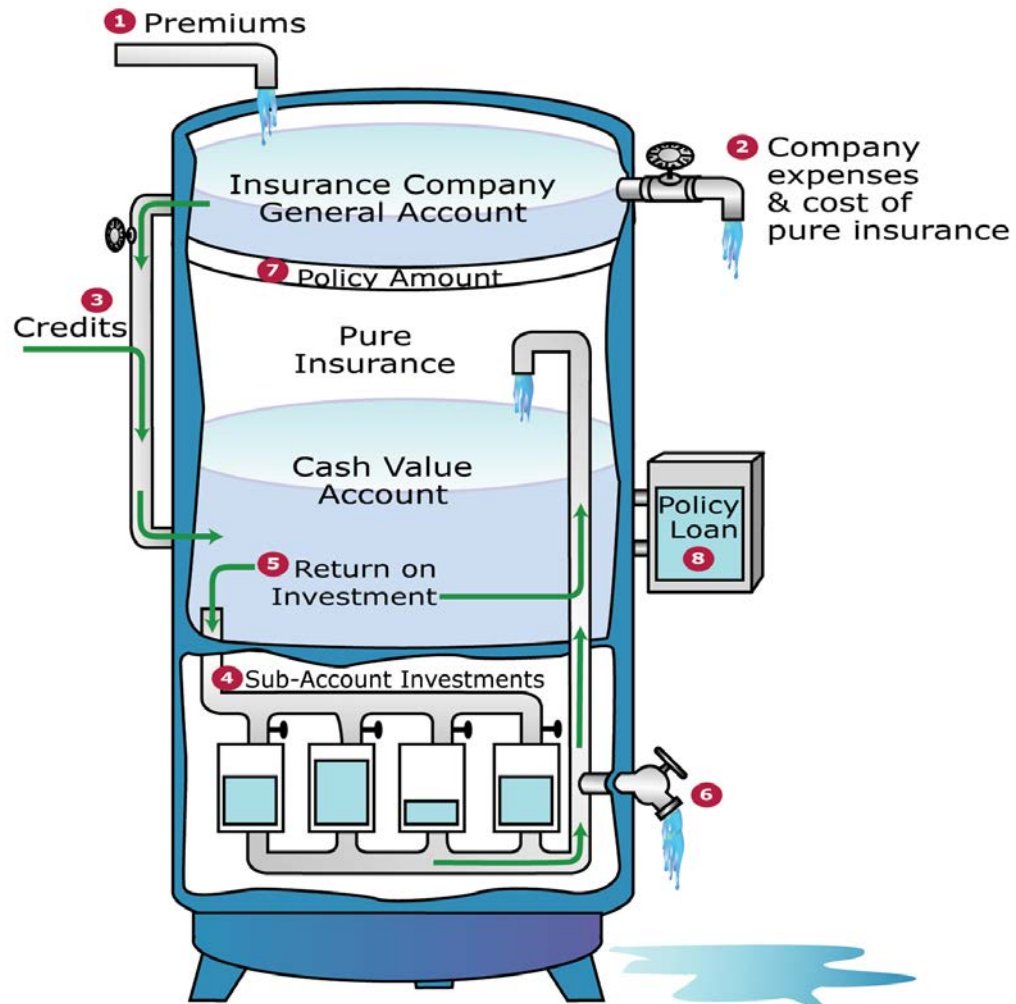
Note: Any guarantees associated with payment of death benefits, income options, or rates of return are subject to the claims-paying ability of the insurer. Policy loans and withdrawals will reduce the policy's cash value and death benefit and may cause the policy to lapse. Withdrawals may be subject to surrender charges and income tax, and a 10% penalty may apply to withdrawals from a modified endowment contract if made under age 59½.

How Traditional Whole Life Insurance Works



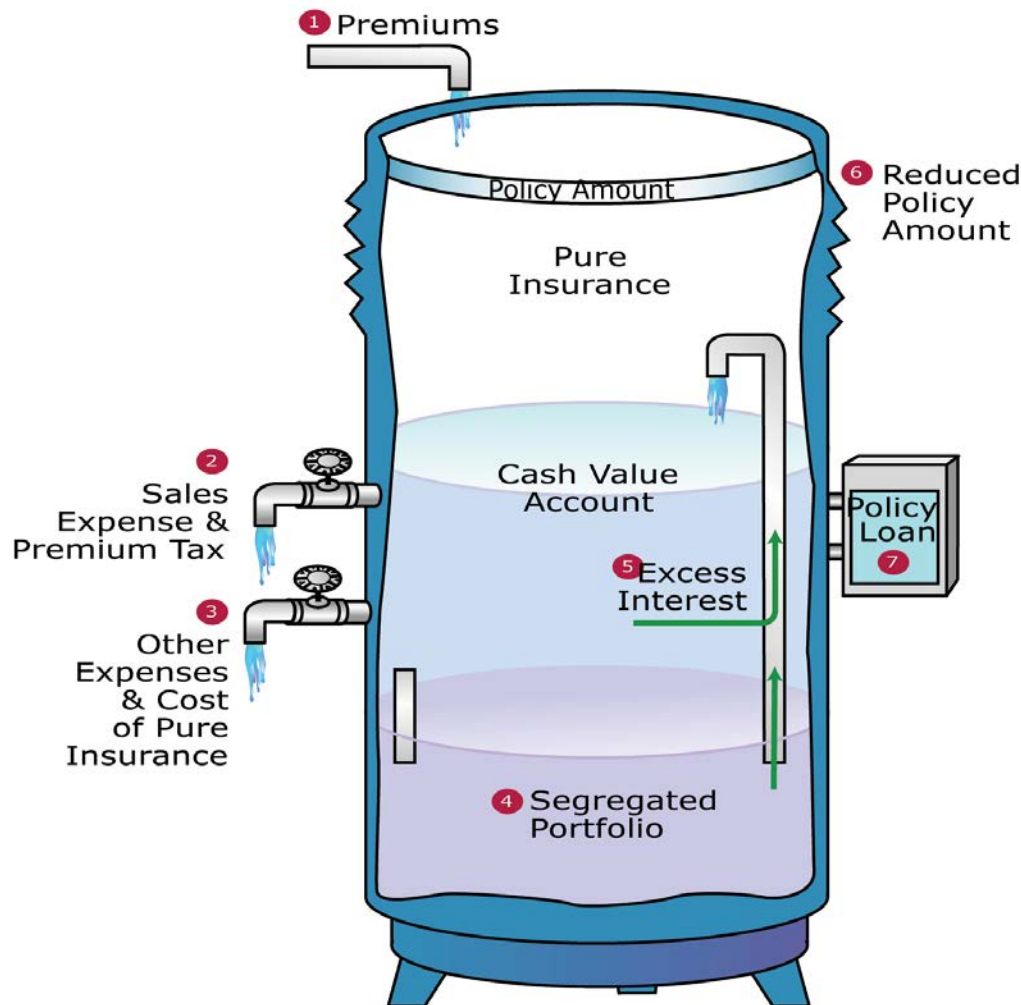
1. The premium you "pour in" is fixed for the life of the policy. As you age, the cost of insuring your life increases. However, your premium stays the same, because the company projects this expense in advance and factors it into the premium at the onset.
2. As you pay your premium, the insurance company deducts all of its expenses, premium taxes, and the cost of pure insurance (net amount of risk coverage), or mortality cost.
3. The remainder of your premium represents a portion of the insurance company's investment portfolio. Your cash value account is credited with a fixed amount (predetermined by your contract) at the end of each premium period.
4. Like water in a tank, the level of your cash value rises over time.
5. As the cash value increases, the amount of risk coverage (or pure insurance) in the policy decreases.
6. When you die, your beneficiary receives the "full tank" of the policy amount, which is the sum of the cash value and the pure insurance.
7. You may take a policy loan in an amount not to exceed the policy's cash surrender value less the annual loan interest. Repayment replenishes your cash value; any loan balance outstanding (plus interest due) at the time of your death would be deducted from the policy amount.

How Variable Life Insurance Works



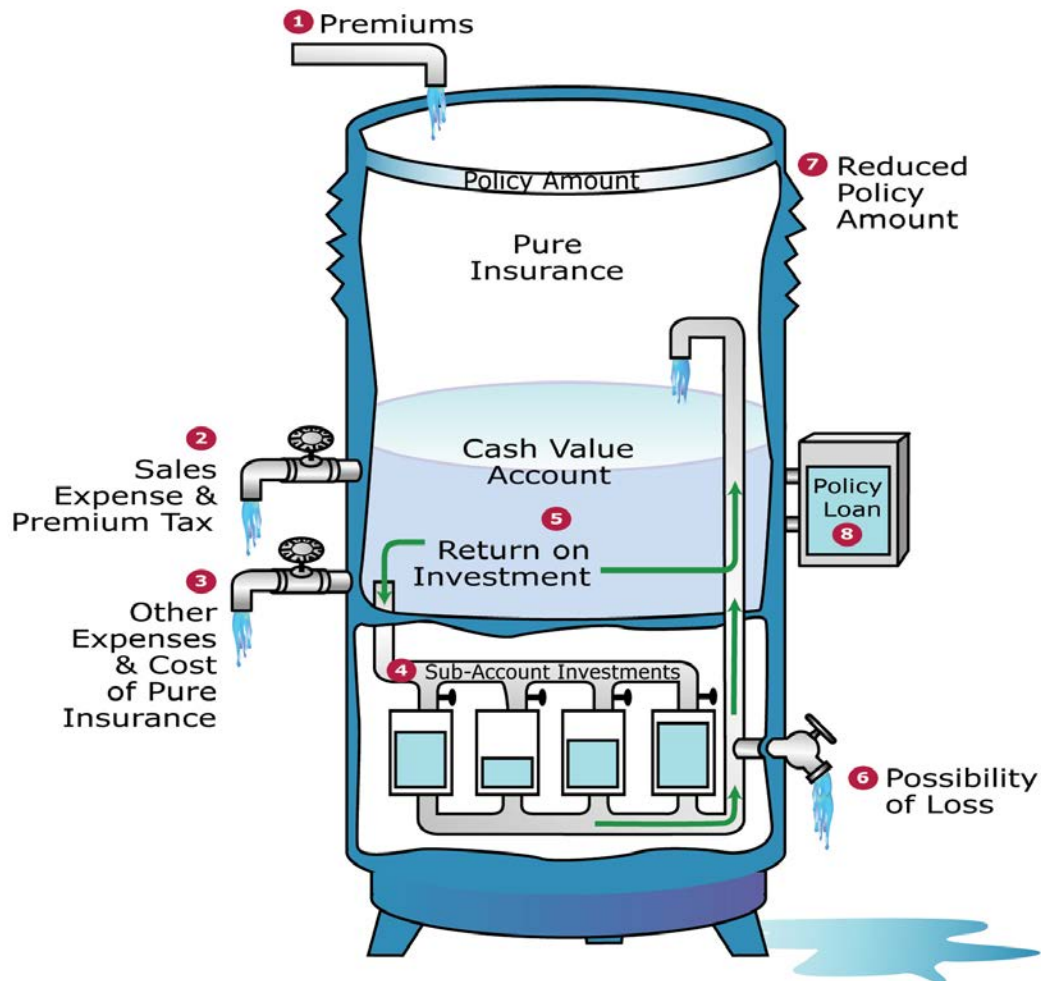
1. The premium you "pour in" is fixed for the life of the policy. As you age, the cost of insuring your life increases. However, your premium stays the same, because the company projects this expense in advance and factors it into the premium at the onset.
2. As you pay your premium, the insurance company deducts all of its expenses, premium taxes, and the cost of pure insurance (net amount of risk coverage), or mortality cost.
3. The remainder of your premium is credited to your cash value account.
4. You choose the subaccounts in which your cash value is invested. These accounts are securities-based, though many policies offer a fixed account option.
5. Significant growth in your subaccount investments can "pump up" your cash value.
6. With the potential for rapid growth comes the possibility of loss. If your investment choices perform poorly, much of your cash value could go "down the drain."
7. However, as long as you pay your premium, your policy amount will be guaranteed for the minimum amount (stated in your policy), regardless of the investment performance of your cash value account.
8. You may take policy loans in an amount not to exceed the policy's cash surrender value less the annual loan interest. Repayment replenishes your cash value; any loan balance outstanding (plus interest due) at your death is deducted from the policy amount paid to your beneficiary.

How Universal Life Insurance Works



1. You decide (up to limits regulated by federal tax law) when and how much premium payment to "pour in." The minimum premium is based on insurance company expenses, premium taxes, and the cost of pure insurance for your policy.
2. As you pay your premium, the insurance company deducts its sales expenses and premium taxes.
3. The remainder of your premium is credited to your cash value account. Each month, the company charges this account for its other expenses and the cost of pure insurance (net amount of risk coverage), or mortality cost.
4. Your cash value earns interest at a rate that fluctuates based on the rates earned by a segregated portfolio within the insurance company's general account. A minimum (guaranteed) interest rate will be stated in your policy.
5. If the company's portfolio earns more than the guaranteed interest rate, the company credits the excess interest to your policy.
6. If your remaining cash value is not sufficient to cover expenses and the cost of pure insurance, and you do not pour in more premium, the policy amount may then have to be reduced, or your policy will lapse. This would be similar to crushing the container at the top.
7. You may take a policy loan in an amount not to exceed the policy's cash surrender value less the annual loan interest. Repayment replenishes your cash value; any loan balance outstanding (plus interest due) at your death is deducted from the policy amount paid to your beneficiary.

How Variable Universal Life Insurance Works



1. You decide (up to limits regulated by federal tax law) when and how much premium payment to "pour in." The minimum premium is based on insurance company sales expenses, premium taxes, and the cost of pure insurance for your policy.
2. As you pay your premium, the insurance company deducts its sales expenses and premium taxes.
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