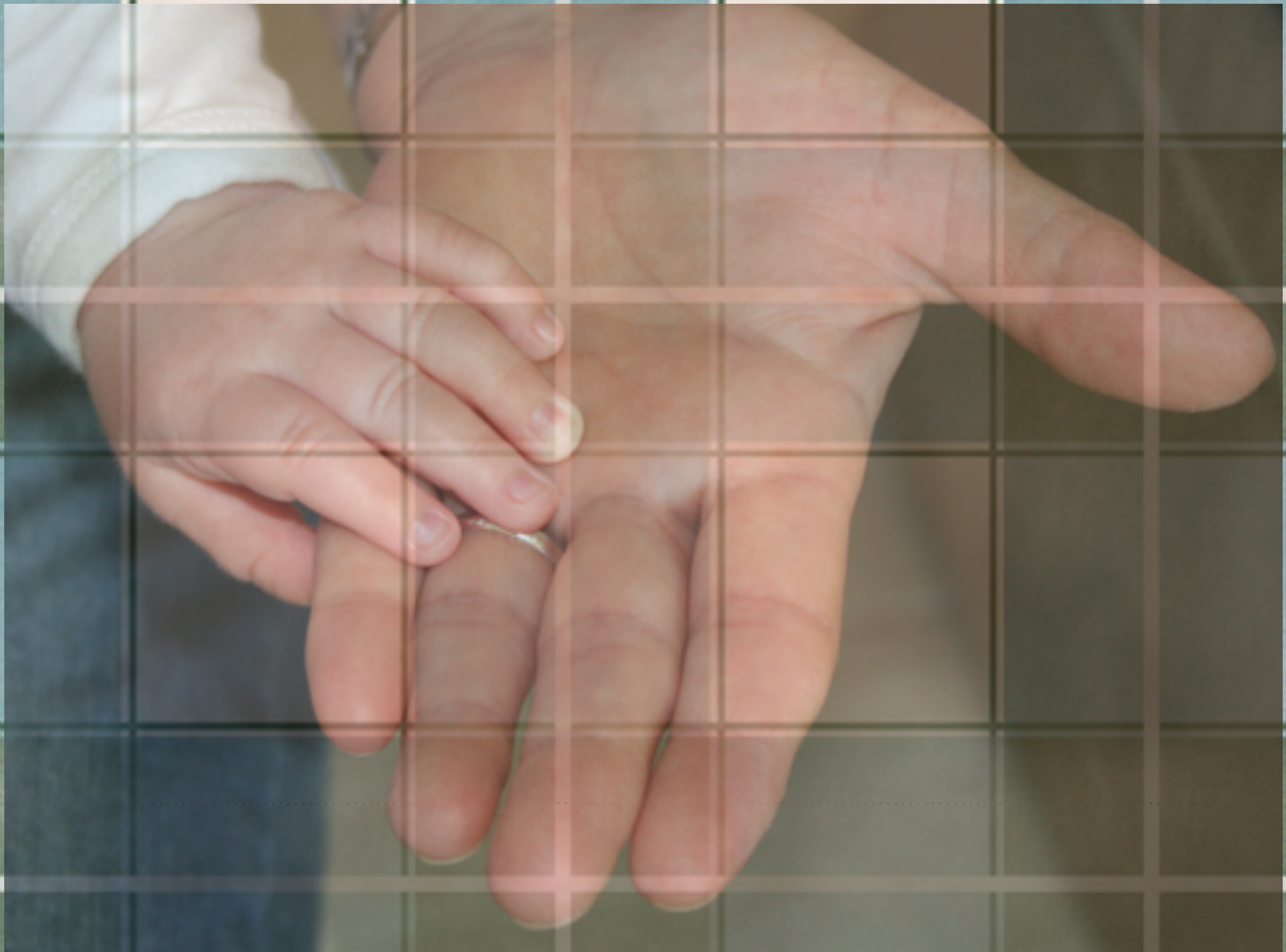
LIFE INSURANCE 101

STRATEGY GUIDE



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Life insurance is a necessity for your family's security. ***Having a good life insurance policy in force is the best way to ensure your family will be provided for.***

It's important for you to be prepared for your family's sake in the event of your untimely death.

This report will cover the following facts regarding life insurance:

- There are important reasons why you may need life insurance.
- You can *shop around* for the best life insurance companies.
- To calculate how much life insurance you think you'll need, see the section titled: "How Much Life Insurance You Should Obtain" for specifics on how to do it.
- Learn about the various types of insurance and when a particular type might best fit your needs.
- Your life insurance can be used to help you financially in the long run.
- In the event you're listed as a beneficiary and the person on the policy dies, you have a choice about how you receive your life insurance payouts.

WHY YOU MAY NEED LIFE INSURANCE

You might need life insurance for many reasons.

First, having a life insurance policy provides you with peace of mind that, if you die unexpectedly, there would be money to help your family get through those early months without you.

Another reason is to make real dollars available for your surviving spouse should they be left to take care of the family. Having life insurance will ensure your family will continue to live as well as possible after your death.

> “Fred has a pressing need for life insurance to ensure that Wilma and Pebbles could maintain their standard of living if he were no longer able to provide for them.”
> ***–David Woods***

SHOPPING FOR LIFE INSURANCE

To shop for life insurance, perform the following steps:

1. **Research.** Investigate 4 or 5 companies that sell life insurance to see their track records for financial ratings, customer reviews, insurance sales, and official complaints.

    - ***You can check the financial ratings of all insurance companies through the A. M. Best Company at www.ambest.com.*** In business for over 100 years, the A. M. Best Company sets the standard for insurance company ratings worldwide.

- Check with your State Board of Insurance for your state to see complaints that have been filed against the companies you're interested in. You can see how the companies handled the complaints and if the issues were resolved.

2. **Get quotes from several of your top company choices.** Once you've chosen several life insurance companies, obtain price quotes on the types of life insurance policies you're interested in. Different companies will charge you differently for the same amount of insurance, so it's wise to comparison shop. ***Your agent can help you compare policies.***

Doing your homework is an important part of purchasing life insurance. Take some time to look into a few life insurance companies and check out their customer reviews and financial strength figures.

> "Fun is like life insurance,
> the older you get, the more it costs."
> ***–Kin Hubbard***

HOW MUCH LIFE INSURANCE TO OBTAIN

How much life insurance do you need?

Several calculators online offer assistance in determining this information. Look at some of the following websites: Smart Money, Yahoo Finance and

Cash Money Life to explore various methods to calculate your life insurance needs.

Here's one simplified method that provides a conservative estimate of the amount of life insurance you need.

The following example assumes you've passed away and left a spouse who works and will be able to care for him/herself through working, once your 10-year-old child is raised to adulthood. This example also assumes your spouse will be 100% responsible for their own retirement, other than what you've already saved before your passing.

Calculating Total Funds Your Family Will Need In The Event Of Your Death

Calculate how many more years your spouse will need your salary to live on. For this example, you have one ten-year-old child. Thus, your spouse will need your current income for eight more years.

1. **Add in your salary.** In this scenario, let's assume your income is $40,000 yearly. Your spouse will, therefore, need $320,000 ($40,000 X 8 years) until your child goes to college.

2. **Add education costs.** Include an amount for your child's education. In this example, let's use $50,000, which brings the total needed to $370,000.

3. **Add your mortgage.** If you want your spouse to be able to pay off the mortgage after your death, then add in what you owe on it. For this

scenario, let's say you owe $60,000. The total you need so far is $430,000.

4. **Add funeral costs.** Add in $6,000 for your funeral costs. Now, you're up to $436,000 in funds your spouse will need.

You may still have other assets to figure and subtract from this amount to determine the amount of life insurance needed.

Figuring Your Total Assets To Reduce Overall Life Insurance Needs

In the event of your untimely death, your spouse will also have some assets.

1. **Subtract Social Security payments.** For example, your spouse might receive Social Security Survivor Benefits for your child for the next 8 years. Let's assume they will receive $12,000 per year in benefits. Take that amount times the 8 years your spouse will need to provide support for your child, which comes to $96,000. Subtract that amount from the above total of $436,000, which leaves $340,000.

2. **Subtract savings.** Next, subtract from the balance how much you've already saved for retirement or other reasons. Let's say you've banked $30,000 for your 6 months emergency living fund and another $70,000 toward retirement, totaling $100,000. Now you've arrived at the total balance needed for life insurance: $240,000.

You have a lot of leeway in computing your life insurance figure if your spouse currently works full-time. If your partner is employed, you can probably assume they'll continue working after your death. Maybe they wouldn't need your entire annual salary while the kids were growing up. In this case, you can simply reduce the yearly amount calculated.

Keep in mind that as you age, your life insurance needs will change. Why? As your children get older, you'll likely accumulate more money and retirement funds savings. Plus, less money is required to help your surviving spouse raise kids that are ages 13 and 15 years, than say, 2 and 5 years of age.

On the other hand, you may acquire a mortgage or other important debts that you didn't have when the kids were younger. The health of your family members can also change and require a higher amount of life insurance. Also, if you leave behind large medical bills for your final expenses, these will also need to be paid by your family.

So the scenario we used in the example really helps you figure the basic minimum you would need to protect your family.

Your insurance agent can help you come up with a figure that makes you feel secure and fits into your budget and financial plan.

As many insurance agents say, after having delivered many beneficiary checks to the widows of their clients: "I never met a widow who thought she got too much." Unfortunately, though, too many of us die without adequately protecting our loved ones.

> "I'd want to be sure that I've got adequate insurance
> for the sake of my loved ones."
> ***–Sheryl Garrett***

TYPES OF LIFE INSURANCE

Because people have different needs and different life situations, there are different types of life insurance to fit those needs. The majority of life insurance policies are: term life, whole life, universal life, variable life, and survivorship life insurance. To determine which type would be best for you, read on.

Term Life Insurance

Term life insurance is the most basic and low-cost choice for life insurance. You simply pay a particular amount for a specific number of years. Normally, you can obtain term life insurance for 10, 15, 25, or 30 year terms.

1. **The simple terms.** Should you die while the policy is in force, whomever you designated as your beneficiary would receive the proceeds. However, if you come to the end of your term while living, you've completed that insurance policy and must purchase and begin paying another term of life insurance.

    - Bear in mind that your premiums will increase along with your age. To clarify, ***the older you get, the more your insurance premiums will cost.***

2. **Guaranteed Renewal Term Life.** On the other hand, you might inquire as to whether a term life insurance policy you're considering has "guaranteed renewal." Guaranteed renewal means that near the end of the term, you can go ahead and extend the policy with no worry of having to get a medical exam.

- Although this feature may not be all that important while you're young, it is advisable to purchase term life insurance that has guaranteed renewal.

- With guaranteed renewal, even if you become critically ill, you can still renew your policy without having a new medical exam to qualify for new insurance.

3. **Convertible Term Life.** Another aspect of term life insurance to be aware of is policy "convertibility." Many term life insurance policies allow you to "convert" the policy into a policy that has cash value, also without a physical exam.

    - Having a cash value life insurance policy can come in handy if you should ever need to borrow money against the policy.

4. **Return of Premium Term Life.** You might like to choose a term life policy that pays you back if you do not die during the term. With this type, if you pay the entire life insurance term and survive, you can have returned to you, tax-free, all the money you paid in for the policy over the years.

    - ***Rates for return of premium policies will cost you about 1-1/2 times what a "regular" term life insurance policy will.*** However, if you survive the term, all your money comes back to you. It's something to consider.

Reasons to Get Term Life Insurance

In the event that you're already stretching your dollars, ***term life insurance tends to be the least expensive.*** Plus, it's the simplest form of insurance, which makes it no-fuss. Finally, you have some choices to make within the range of term life insurance vehicles, which allows you to tailor the policy to your needs (length of the term, convertibility, and return of premiums).

Whole Life Insurance

Whole life insurance has a savings aspect to it that term life insurance doesn't. With whole life insurance, the premiums you pay stay the same year after year and the policy builds cash value over time.

1. **How it builds cash value.** Each month that you pay your monthly whole life insurance premium, part of your premium covers the actual cost of insuring your risk and the other part goes into an investment vehicle. Depending on the policy, the investment portion might go toward stocks, bonds, or a money market.

2. **Insurance plus tax-free growth.** Whole life insurance policies provide a vehicle to invest dollars regularly while the cash value grows tax-free.

    - However, if you simply want to make an investment, doing so as a part of a whole life insurance policy usually isn't the most cost-effective type of investment.

    - A popular choice is buying term life insurance for insurance and separate investments for growing your money.

    - Your tax accountant, financial planner, or insurance agent will be able to help you choose which type of vehicle is best for your situation.

3. **You can borrow your cash value.** With whole life, you have the choice to borrow against the cash value of the investment component, which may come in handy if you need funds for a major purchase like a home.

Reasons to Get Whole Life Insurance

In theory, if you want term life insurance plus a small investment to build over time without thinking about it, consider purchasing whole life insurance.

Plus, ***whole life insurance provides you with the possibility of borrowing against the accumulated value, in the event you need funds in an emergency.*** Whole life might be the right choice for your life insurance if these issues are important.

Universal Life

Universal life insurance has some similarities to whole life insurance. Both types of these insurances provide life insurance plus an investment vehicle that you regularly pay into.

However, universal life gives you a wider choice in your premiums and investment options, but the actual death benefit may also change according to the performance of the investments. It may go up or down.

Other items unique to universal life insurance policies are:

1. **Using your cash value.** Like whole life, you can borrow against the cash value of your universal life insurance policy. However, unlike whole life,

you can also use the cash that has built over time to pay your monthly premium. But if you use your cash value to pay your premiums for the policy, the investment value will reduce accordingly as you use it.

2. **Variable rates on your investment portion.** The investment funds that build up over time do so at a variable rate that can change from month to month.

3. **The investment passes on to your beneficiary tax-free.** An important aspect of universal life insurance policies is that, if left untouched, the investment portion of your premium dollars passes on, tax-free, to your beneficiaries upon your death.

Reasons to Get Universal Life Insurance

If you want the most flexibility that you can get from your life insurance policy, term life plus investment value plus the ability to pay your premiums with accumulated premium dollars, then universal life insurance is the choice for you.

Variable Life Insurance

Most of your premium dollars for variable life insurance are applied toward the investment component of the insurance. This type of policy focuses largely on the investment aspect.

1. **Large choice of investments.** You can select the type of investments you want to make with this type of insurance – money market, stocks, bonds, and mutual funds, to name a few. This type of life insurance behaves more like an investment account, with fund managers to

manage your investments so they will hopefully build the cash you seek.

2. **If your investments perform well, your death benefit will be paid off at a hefty rate.** Alas, if the investment funds aren't good performers, the amount paid to your beneficiary will be lessened.

3. **Variable death benefit.** So, although a guaranteed amount will be paid out at the time of your death, with variable life insurance, that benefit amount will vary.

4. **You can also take out a loan against your variable life insurance.** The amount you're able to borrow largely depends on the type of investments you have at the time of your loan application.

Reasons to Get Variable Life Insurance

For those who are well versed in watching the stock market, a variable life insurance policy may be just the vehicle to provide you with a guaranteed payout to your beneficiary with the chance of earning a lot of extra tax-deferred or tax-free dollars. You have the opportunity to make some real cash on a variable life insurance policy.

Survivorship Life Insurance

If you anticipate accumulating over 1.3 million dollars in your lifetime (more likely than you may think), having a survivorship life insurance policy to cover both you and your spouse will prevent your heirs from having to pay estate taxes upwards of 55% of the money they inherit from you.

Survivorship life insurance, or a "second-to-die life insurance policy," pays out whenever the 2nd (last-surviving) spouse dies.

Here's how survivorship life insurance works:

1. As a couple, you and your spouse set up a life insurance trust to buy a life insurance policy that will pay your beneficiaries after both of you die. Consulting an estate tax attorney will give you the answers you need to set up a trust to take the best advantage of this type of insurance.

2. Your heirs can then use the policy proceeds to make up for the loss of money due to payment of estate taxes.

3. Because the policy proceeds aren't paid out until you and your spouse both die, the price of survivorship life insurance policies tend to be less than other policies.

4. A benefit of survivorship life insurance policies is that it doesn't matter who dies first. As long as both of your wills each leave all the assets to the other person, you're all set. Then, upon the death of the last surviving spouse, the trust that's been paying the policy will pay your beneficiary to offset estate tax costs.

Reasons to Get Survivorship Life Insurance

If you plan to accumulate over 1 million dollars, it makes excellent sense to get a survivorship life insurance policy. Such policies prevent your heirs from losing up to half of your estate to the federal government.

Also, if you plan to leave money for charitable purposes, this type of insurance ensures there will be enough of your money left to do so through the trust you established.

A third reason to get survivorship life insurance is if you have a special needs child that will survive you who will need to be taken care of. The trust you establish for this type of insurance will be used as the vehicle for guaranteed dollars to be used to take care of your surviving special needs heir.

Reviewing the various types of life insurance is helpful in determining which type will best meet your family's needs. Once you find an insurance professional to assist and clarify the differences, you'll be on your way to protect your family in the event of your untimely death.

> "It's not an insurance product, but a safety-net package."
> ***–Joe Thompson***

USING YOUR LIFE INSURANCE AS A FINANCIAL TOOL

In some cases, you might be able to use your life insurance policy as a tool to help you financially over the years of the insurance term.

1. **Whole life.** As discussed earlier, a whole life policy provides you with a small cash value investment that can be borrowed against.

2. **Universal life.** The same goes with a universal life insurance policy. Plus, with a universal policy, you can access your cash value to pay your future premiums while leaving your current income untouched, which comes in handy during times of financial struggle.

3. **Variable Life.** And with a variable life insurance policy, you have several options related to investing and earning cash on your insurance policy premiums. Life insurance doesn't have to be just plain old term insurance anymore.

4. **Tax benefits.** ***Most likely, your life insurance policy proceeds will be tax-free.*** Unless you accumulate upwards of 1.3 million dollars, your money will not be taxed.

    - As discussed previously, if your estate totals over 1.3 million dollars, your heirs will have to pay estate taxes. If that's the case, you might want to take out a survivorship life insurance policy using a trust to protect your heirs from having to pay those estate taxes.

5. **Business uses.** Businesses often use life insurance as necessary financial vehicles to protect their business. If someone integral to the business dies, the business could be in jeopardy until they find someone to take his place. Life insurance helps get them through the crisis. This is just one business use. There are many more.

    - For example, a partnership with several partners may want to buy out a partner's share of the business if he passes on. Many times, a partner's spouse has no interest in the business, nor can they provide expertise, so a contract is worked out ahead of time to pay the spouse cash. Life insurance provides tax-free funds to fund that contract.

The type of life insurance policy you choose determines how you might use your policy to help you financially throughout the years.

Depending on whether you want a policy that has cash value that you can borrow against or an "investment"-type policy where you control how the monies are invested, your life insurance might financially get you out of a jam someday.

> "Batman doesn't have anyone who depends on him financially and therefore probably doesn't need life insurance."
> ***–David Woods***

RECEIVING A LIFE INSURANCE PAY-OUT: YOUR CHOICES

In the event you're listed as a beneficiary, you'll be paid the insured amount of the decedent's policy.

However, in order to receive the pay-out, you must first file a claim, using a certified copy of the death certificate of the person who died and listed you as beneficiary.

You'll also need the policy information on the insurance and the insurance agent's name and phone number so you can contact him to begin the claim process.

It's integral that every person who is covered by a life insurance policy provide a copy of the policy with the agent's name and contact information

to all their beneficiaries. This should be done so that, in the event of your death, your beneficiaries have everything they need from you (except for the certified copy of your death certificate) to begin the life insurance claim process.

That being said, there are several ways you might expect to receive the proceeds of a life insurance policy.

Lump Sum Payment

Just as it says, taking a lump sum payment means you'll receive the face value of the life insurance policy in one lump sum payment.

Pros

You'll receive a large sum of money at once. You can pay off your mortgage, buy a new car, invest the total amount, or do whatever else you want with the money when you receive a lump sum payment.

Cons

Some people, when given a large amount of money, start spending impulsively and don't stop until most or all of the money is gone. If you're a person who's impulsive or loves to shop and spend money, taking a life insurance pay-out in one lump sum might not be the best choice for you.

Annuity Payments

An annuity payment life insurance pay-out means that you'll get the funds, divided, over a period of time. Perhaps you'll receive monthly or even yearly payments over a specified number of years until the total pay-out has been paid.

Pros

You'll continue to receive income from the life insurance policy over the length of time that you choose at a rate specified by the insurance company. Annuity payments are stable, steady income for you, which is another pro of this type of pay-out.

Cons

You won't receive excessively large sums of money all at once with the annuity payment option. So if you were looking for a big lump sum, annuity payments would not work for you.

Annuity Payment Options

Annuity pay-outs for a life insurance policy take many forms. Here are the most common options.

Monthly Income Payments for Life

You can choose to receive a specified amount monthly for the rest of your life. The insurance company will take into account your age and other factors to determine what your monthly income payments will be. In the event that you die before all the money is paid out to you, the insurance company gets to keep the balance of the money.

Period Certain Payments

Period certain payments for life insurance payouts means that you'll be guaranteed to receive a portion of the pay-out every year over a specified period, say 10 or 15 years. If you die before you receive the total pay-out, a beneficiary you designate will receive the balance of the dollars over the period specified until the pay-out amount has been completely paid out.

Interest Only Payments

With interest only pay-outs, you choose to receive only payments of interest that accrued on the principle insurance value over time.

If you don't need extra money at the time of the person's death, choosing this way to receive the money provides you with time to think about how/when you want to receive the "settlement principle" or balance of the pay-out you're entitled do.

Joint and Last Survivor Income Payments

In this method of receiving a life insurance pay-out, the beneficiary elects to receive a guaranteed yearly amount of income for his spouse and/or children for as long as they live. Pay-outs are guaranteed to continue until the last named beneficiary dies.

Specified Amount Payments

The specified amount choice for annuity life insurance payments allows you to decide how much money you want to receive over what period of time.

For example, if the life insurance pay-out is $250,000, you might elect to take $25,000 per year for 10 years. If you die before you received the total pay-out, your own beneficiary would receive the balance of the funds.

In the event you're a beneficiary for a life insurance policy, it's wise to have at least a general idea of the different ways you could receive pay-out(s). Understanding the differences among life insurance policy payment methods will help you better plan for your own future as the beneficiary.

SUMMARY

Obtaining life insurance is one of the smartest and most loving things you can do for your family.

Determine how much life insurance you need, then familiarize yourself with the various types of life insurance and their pros and cons. Finally, know the choices you'll have in taking a life insurance pay-out, should you ever be listed as someone's beneficiary.

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