

THE LIFE INSURANCE PLAYBOOK &

A Comprehensive Pre-Licensing
Master Guide



INSURERS MATRIX

STOCK COMPANIES

- **OWNERSHIP:** Owned by Stockholders

- **STATUS:** Nonparticipating (policyholders do not receive dividends)

- **DIVIDENDS:** Paid to stockholders

- **TAXATION:** Dividends are taxable as profit

- **CONTROL:** Elects Board of Directors (Stockholders)

MUTUAL COMPANIES

- **OWNERSHIP:** Owned by Policyholders

- **STATUS:** Participating

- **DIVIDENDS:** Paid to policyholders

- **TAXATION:** Dividends are tax-free (return of premium)

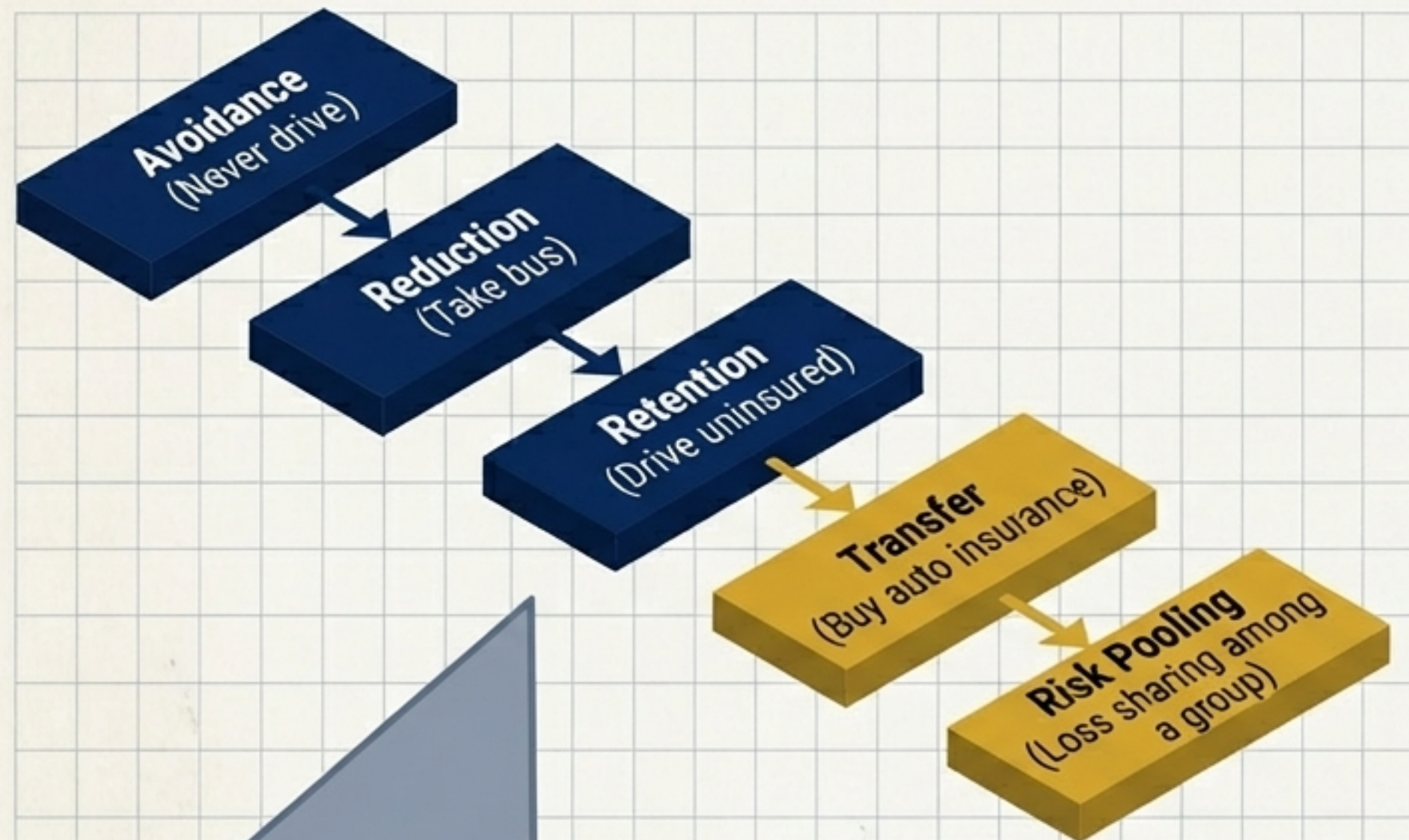
- **CONTROL:** Elects Board of Directors (Policyholders)

Mixed Insurer:
Operates as both participating and nonparticipating.

Fraternal Benefit Societies: Nonprofit religious, ethnic, or charitable organizations providing insurance solely to members (e.g., Knights of Columbus).

Guaranty Associations:
State-established safety nets protecting insureds if an insurer becomes insolvent.

TREATMENT OF RISK



ECONOMIC VALUE CALCULATION

- **Human Life Value** = Current Income x Years of Protection
- **Needs Based Value** = Annual Expenses x Years of Protection

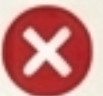
THE RISK MATRIX

A: Pure Risk



Only the potential for loss (injury, illness, death). **INSURABLE.**

B: Speculative Risk



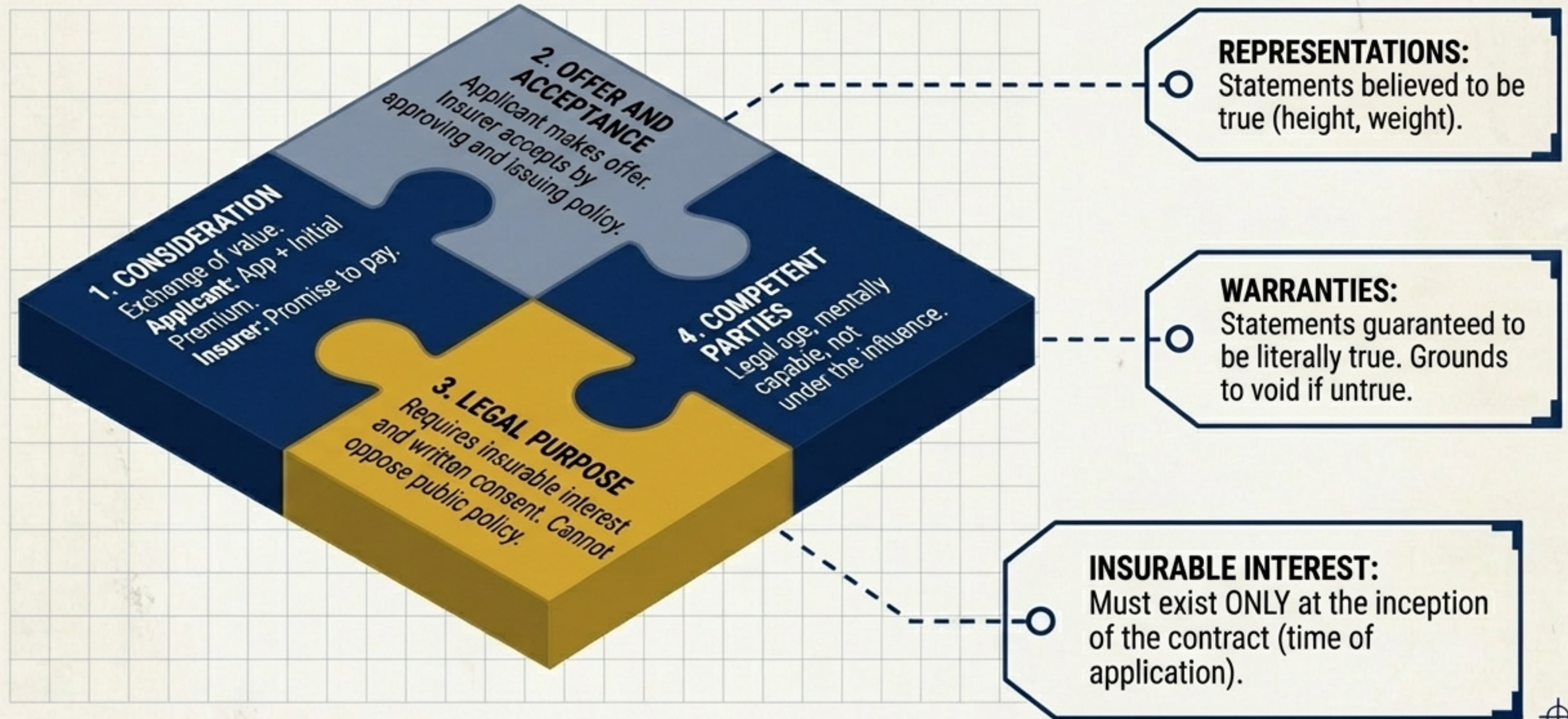
Chance for loss OR gain (gambling). **UNINSURABLE.**

INSURABLE RISK CHECKLIST

Loss must be:

- ☐ Due to chance
- ☐ Definite and measurable
- ☐ Predictable
- ☐ Not catastrophic
- ☐ Large exposure pool
- ☐ Randomly selected.

CONTRACT ELEMENTS



UNIQUE LEGAL FEATURES OF INSURANCE

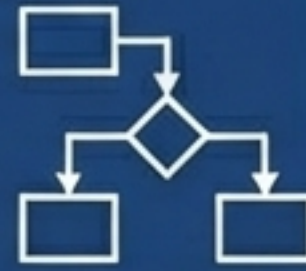


ALEATORY:

Unequal exchange of value.
Small premium paid vs.
large death benefit payout.



ADHESION:



CONDITIONAL:

Benefits depend on...
the occurrence of a
covered event.



UNILATERAL:

One-sided promise.
Only the insurer is legally
Authorized by insurer. Courts
favor insured in ambiguities.



UTMOST GOOD FAITH:

Complete honesty required...
no misrepresentation,
concealment, or fraud.

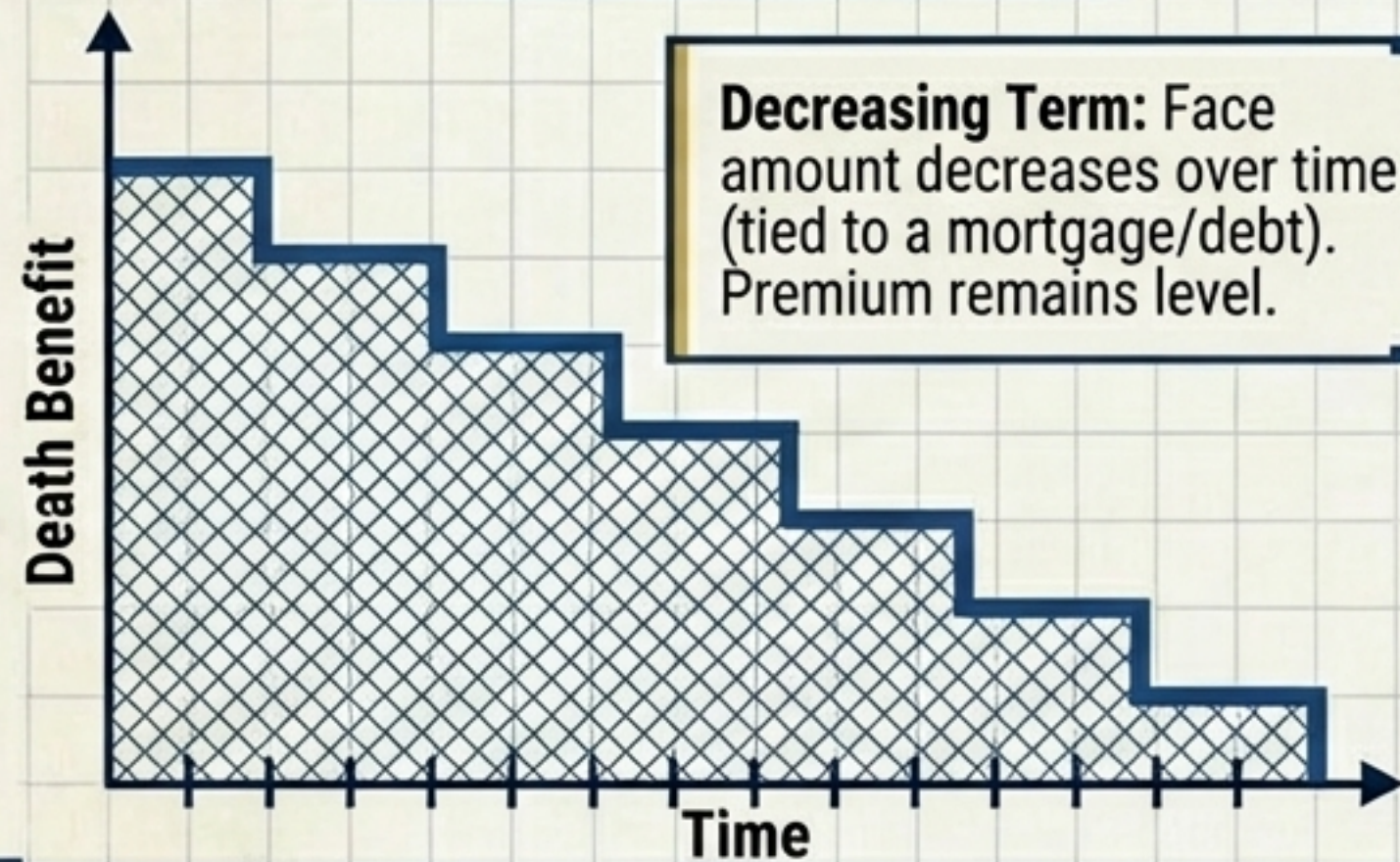
HAZARD WARNING: STOLI

Stranger-Originated Life Insurance (STOLI) is an illegal practice where an investor buys a policy on a consumer to profit from their death, violating insurable interest rules.

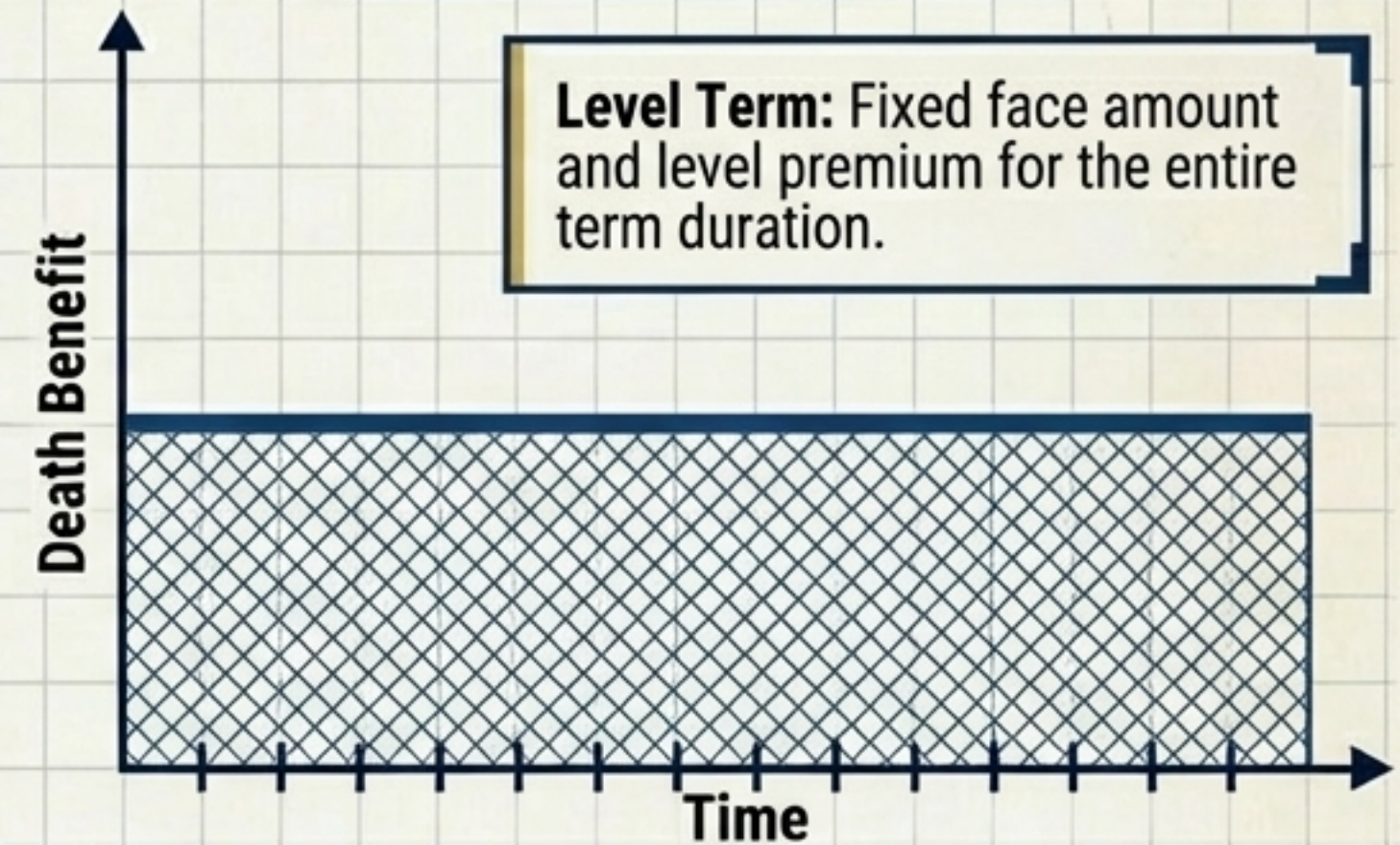
Term Life Metaphor: Renting a Home

(Temporary, price increases over time, no equity built).

The Term Staircase



The Term Bridge



Key Features:

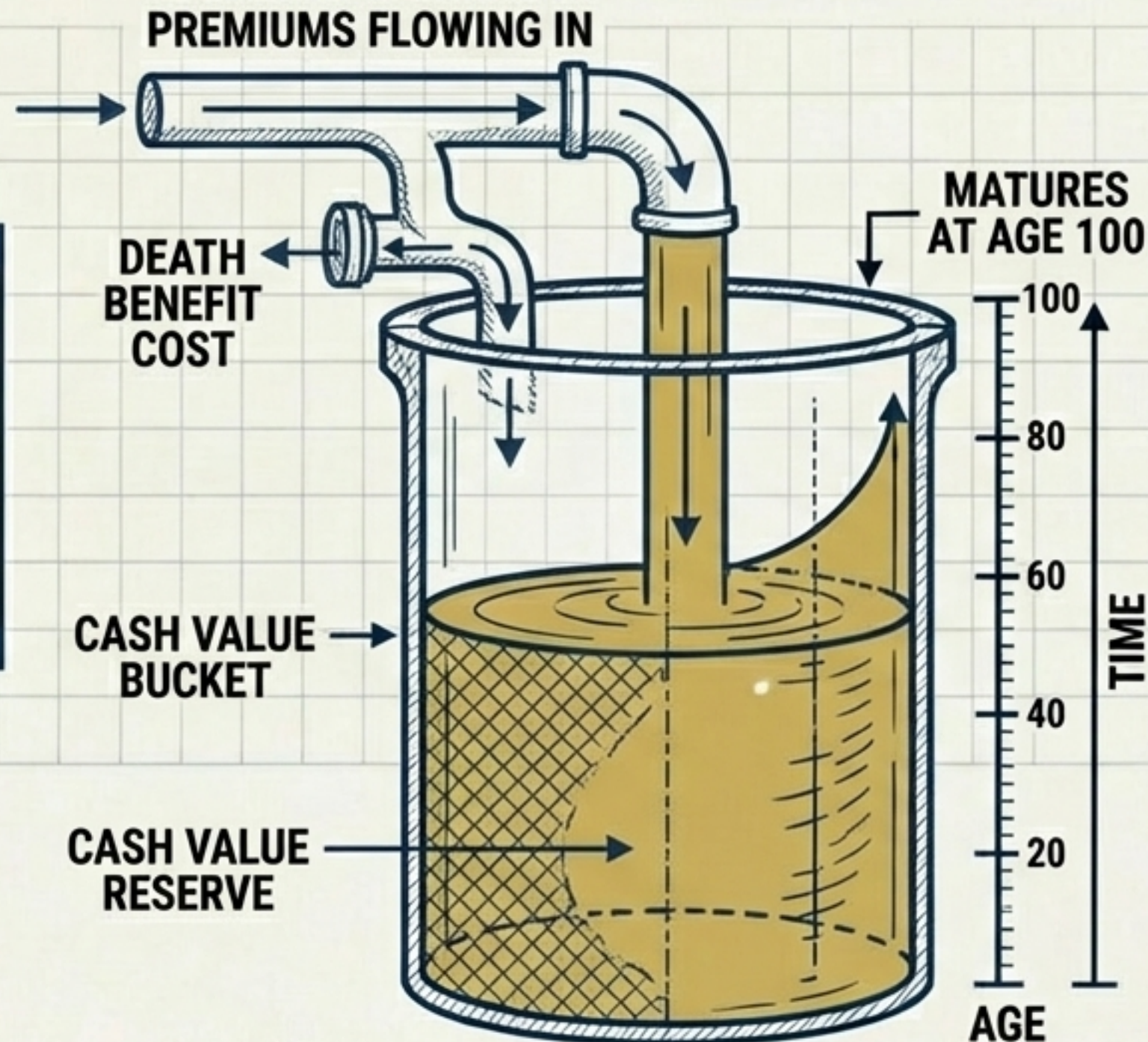
Renewable:
Right to continue coverage without proving insurability. Premium rises based on attained age.

Convertible:
Right to change to permanent whole life without proving insurability. Premium based on attained age.

Whole Life Metaphor: Owning a Home

(Building equity, permanent protection to age 100).

Core Definition:
Permanent protection lasting until death or age 100. Provides both a death benefit AND living benefits (cash value).



PAYMENT STRUCTURES

(How the bucket is filled):

- **Straight Life:** Fixed premiums paid until death or 100.
- **Limited Pay:** Premiums paid for a specific time (e.g., 20-Pay, Paid-Up at 65). Cash value grows faster.
- **Single Premium:** One lump sum payment. Immediate cash value.
- ✓ • **Modified:** Low premiums early, jumps to higher fixed premium later.
- ✓ • **Graded:** Premium increases yearly for a set period, then levels off.

The Master Policy Matrix

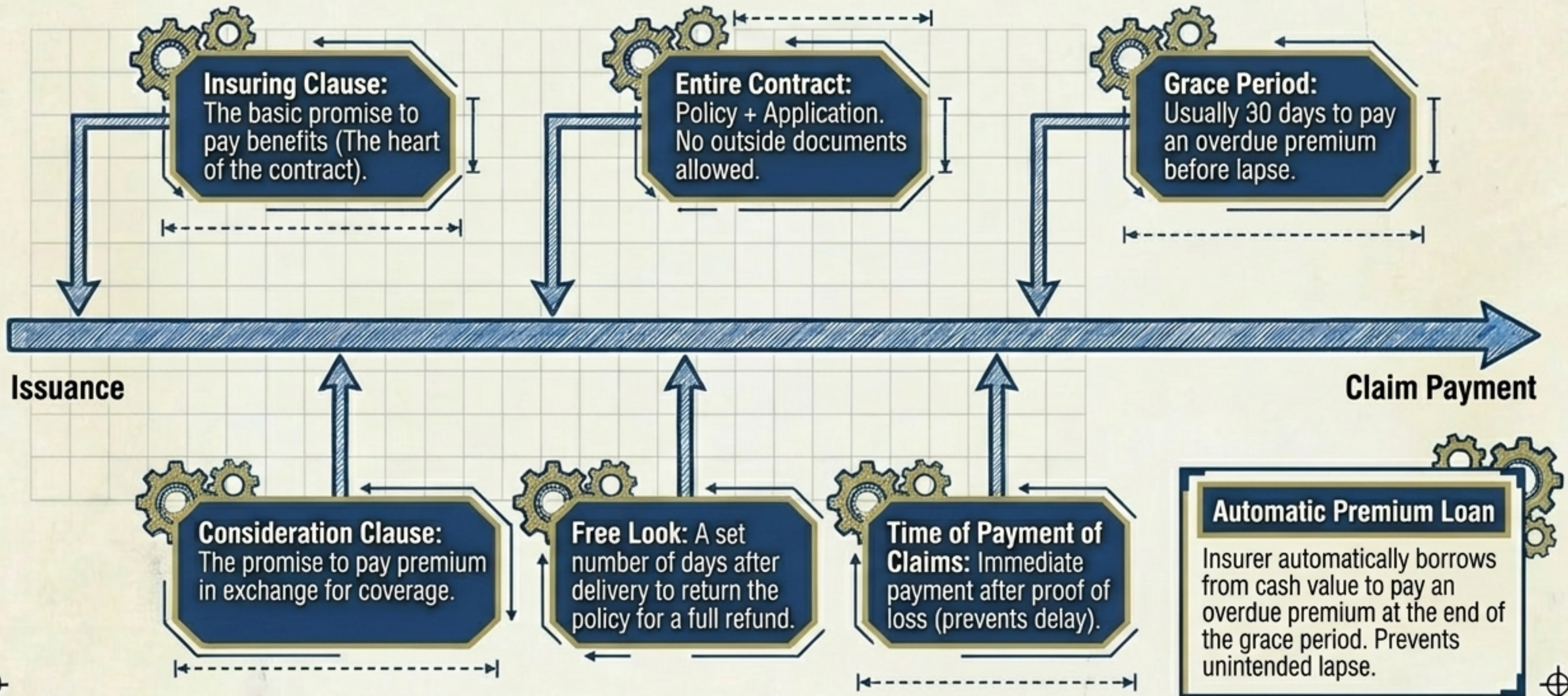
	Duration	Premium	Death Benefit	Cash Value
 Term	Temporary	Fixed	Level or Decreasing	None
 Whole Life	Permanent to 100	Fixed	Fixed	Guaranteed
 Universal Life	Flexible	Flexible / Target	Adjustable	Interest-driven (Min guaranteed)
 Variable Life	Permanent	Fixed	Fluctuating (Min guaranteed)	Market-driven (Separate Accounts)



MODIFIED ENDOWMENT CONTRACTS (MECs)

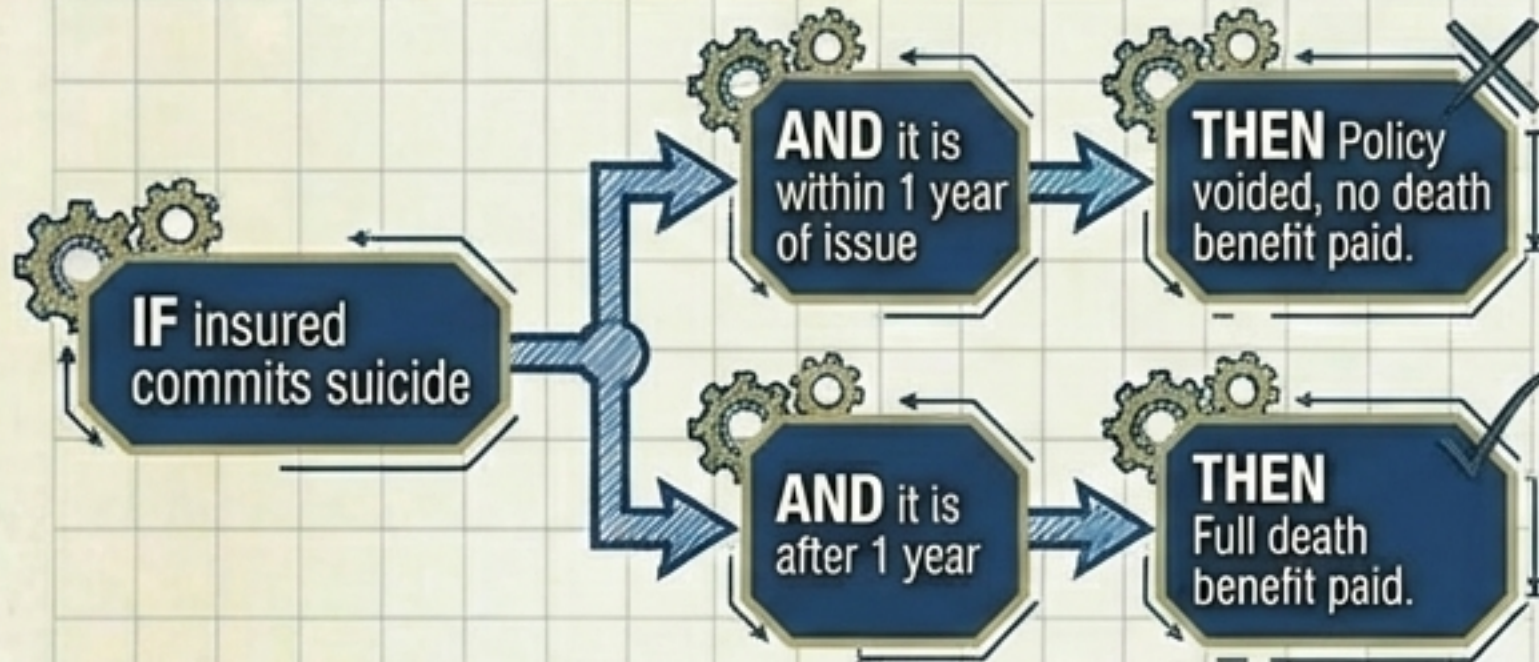
If a policy is overfunded and fails the 7-Pay Test (paying more in the first 7 years than allowed), it loses life insurance tax advantages. It becomes taxed as an investment (LIFO accounting, 10% penalty before age 59 1/2).

Standard Policy Provisions (The Operating Rules)

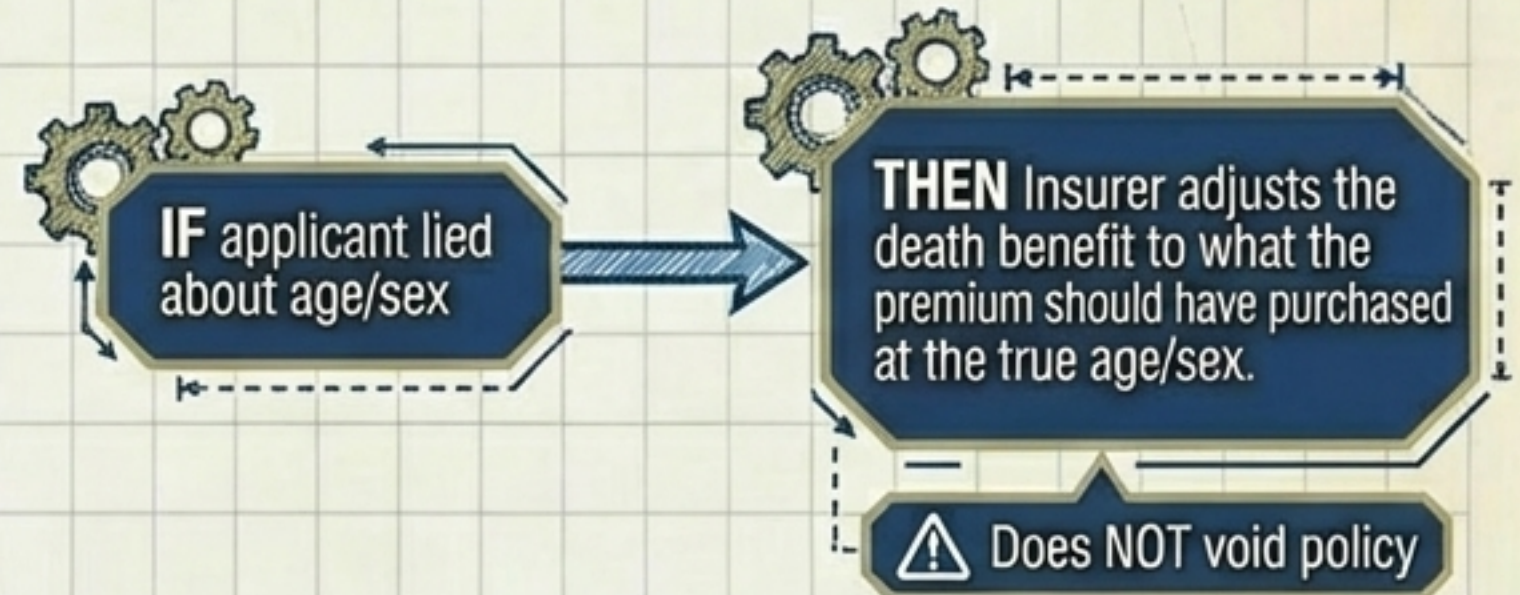


Provision Logic Trees

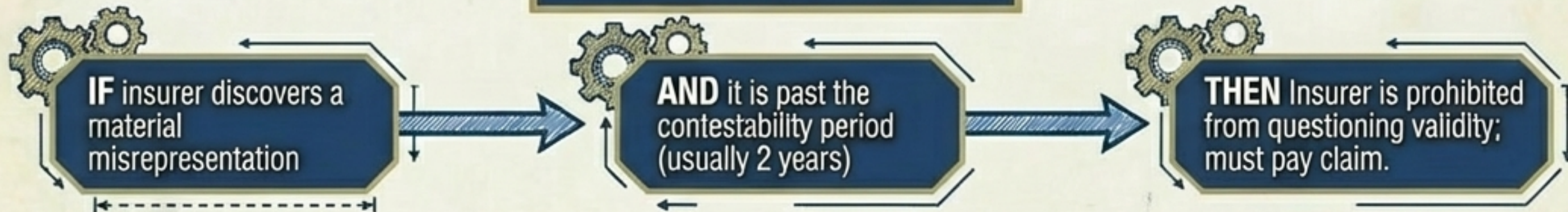
Suicide Clause



Misstatement of Age or Sex



Incontestable Clause



Policy Options Diagnostic

Cancel the Policy (Nonforfeiture)



Cash Surrender: Take the lump sum cash. Coverage ends immediately.

Reduced Paid-Up: Stop paying premiums. Face amount decreases, but policy is permanently paid up.

Extended Term: Use cash to buy term insurance for the exact same face amount, lasting for a set number of years.

Keep the Policy (Dividends)



Cash Option: Take the money.

Reduced Premium: Apply dividend to lower next year's premium.

Accumulate at Interest: Leave with insurer to grow
(Note: The interest earned IS taxable).

Paid-Up Additions: Buy mini single-payment whole life policies.

One-Year Term: Buy 1-year term protection.

Return of Overcharge,
Tax-Free

Living Benefit and Customization Riders

Living Benefit Riders

Waiver of Premium

Waives premiums during total/permanent disability (90 day - 6 mo waiting period).

Payor Rider

Waives premium on a juvenile policy if the adult paying dies or becomes disabled.

Accelerated Benefit

Withdraw portion of death benefit tax-free prior to death if terminally ill (1-2 years to live).

Base Policy

Death Benefit / Customization Riders

Accidental Death

Pays 2x or 3x face amount if death is purely accidental.

AD&D

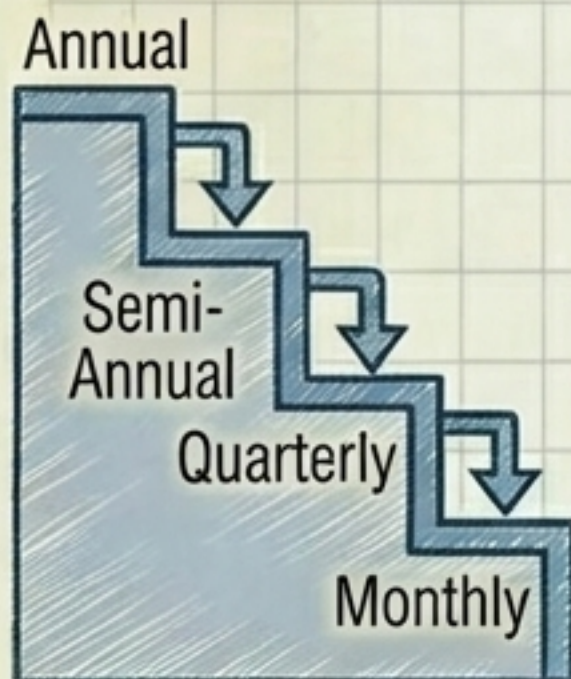
Pays Principal Sum for death or loss of 2 limbs; Pays Capital Sum (50%) for loss of 1 limb.

Guaranteed Insurability

Buy additional permanent coverage at specific future dates/events without proving insurability.

Financial Mechanics: Premium Calculation

Premium Mode (Frequency)



Rule: The higher the frequency of payments, the higher the overall total cost. Annual is cheapest.

Pushes Premium UP



Pushes Premium DOWN

Cost Comparison Indexes

- Surrender Cost Index:**
Assumes policy is surrendered for cash value at the end of period.
- Net Payment Cost Index:**
Assumes policy is kept for death benefit (does not factor cash value).

$$\text{Premium} = \text{Mortality} + \text{Expense} - \text{Interest}$$

Death Benefit Payout Options

DEATH BENEFIT POOL

ALTERNATIVE LIVING PAYOUT

VIATICAL SETTLEMENT:

Terminally ill insured (Viator) sells policy to a 3rd party (Viatical) for an upfront percentage of the death benefit.

LUMP SUM

Automatic default. Single tax-free payment.

INTEREST ONLY

Insurer holds principal, pays guaranteed interest to beneficiary periodically.

FIXED PERIOD

Principal + interest paid out over a specific, guaranteed number of years.

FIXED AMOUNT

Fixed dollar payout amounts until the principal is completely exhausted.

LIFE INCOME

Installments guaranteed for the recipient's entire life. Protects against outliving the money.

Beneficiary Designations & Distribution Clauses

Vertical Succession (Order of Payout)

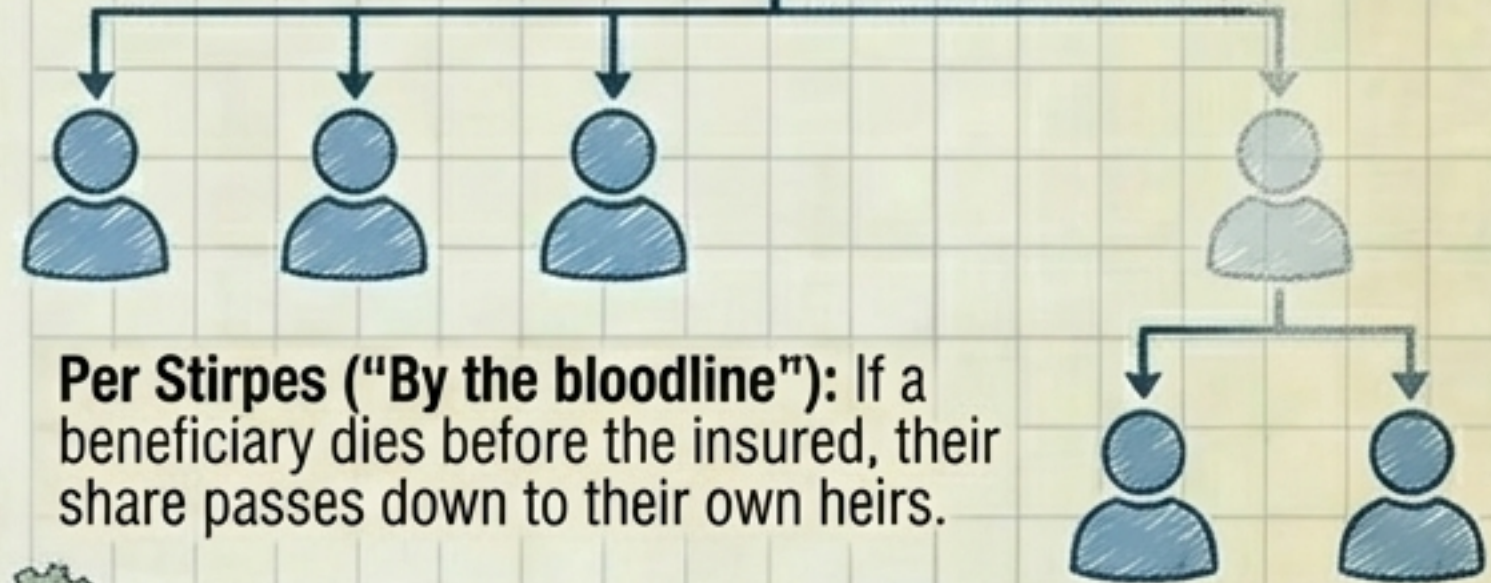
1. Primary: First in line.

2. Secondary (Contingent):
Receives if Primary dies first.

3. Tertiary: Third in line.
If none living, proceeds
go to Insured's Estate.

Distribution by Descent

Per Capita ("By the head"): Evenly divides benefit among living named beneficiaries.



Per Stirpes ("By the bloodline"): If a beneficiary dies before the insured, their share passes down to their own heirs.

Key Clauses

Revocable vs. Irrevocable

Irrevocable requires written consent of beneficiary to change or take loans.

Common Disaster / Uniform Simultaneous Death

If insured and primary die simultaneously, law assumes primary died first, passing funds to contingent.

The Tax Schematic

PREMIUMS

CASH VALUE

DEATH BENEFIT PROCEEDS



Generally not tax-deductible for individuals. **Exceptions:** Charitable donations, court-ordered alimony, employer-paid group life.



Grows tax-deferred. Surrenders are tax-free up to the cost basis (total premiums paid). Withdrawals exceeding premiums paid are taxable as ordinary income.

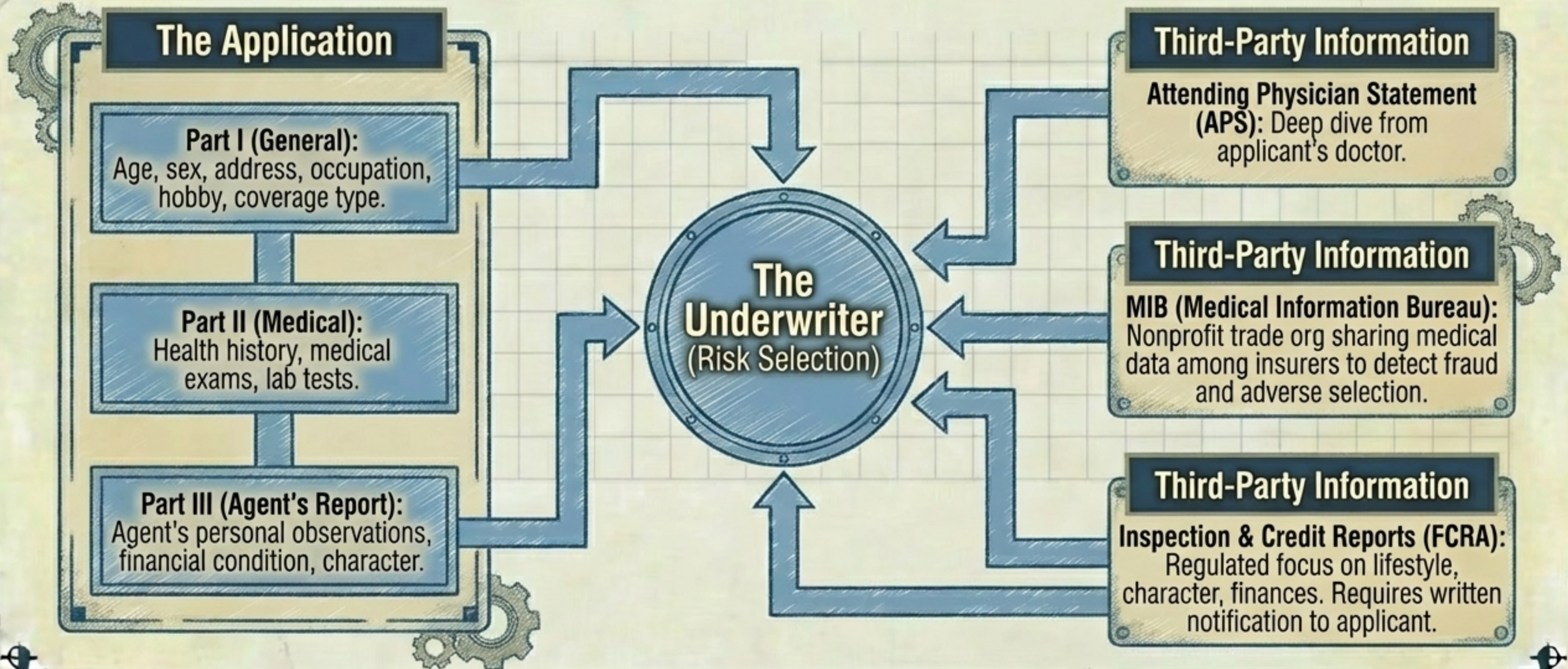


Tax-free if taken as a lump sum. **Installment Rule:** If taken as installments, the principal is tax-free, but the interest earned is taxable.

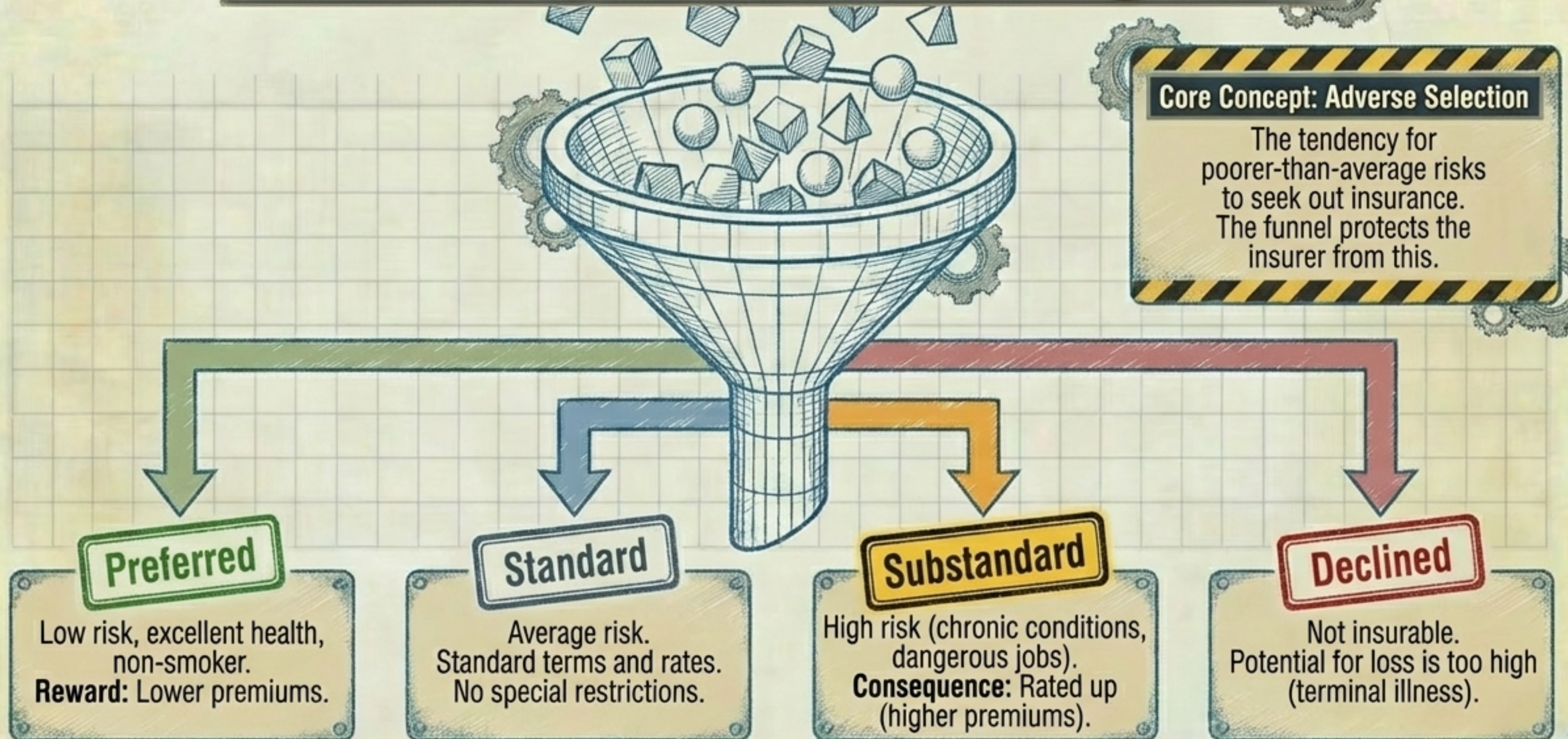
Section 1035 Exchange:

Tax-free transfer of an existing life policy to a new life policy.

UNDERWRITING RISK SELECTION PROCESS



Risk Classification: The Underwriting Funnel



THE AGENT'S RESPONSIBILITIES & PROCESS

The Agent's Fiduciary Duty

Role Definition:

The agent represents the Insurer (Principal), NOT the applicant.

The agent's knowledge is legally considered the insurer's knowledge.

Field Underwriting (Point of Sale)

- ✓ Ensure application is fully and accurately completed.
- ✓ Collect initial premium.
- ✓ Provide Privacy Notices (HIPAA / Patriot Act / FCRA).

Policy Delivery

- ✓ Deliver Buyer's Guide (explains policy types).
- ✓ Deliver Policy Summary (specifics of recommended product).
- ✓ Obtain a Statement of Good Health (required if no premium was paid at time of application).

Synthesis: The Policy Spectrum

High Cash Value Focus

Fixed + Cash Value

- Traditional Whole Life
- Limited Pay Life

Market-Driven + Cash Value

- Variable Life
- Variable Universal Life
(SEC regulated, separate accounts,
inflation hedges)

Fixed / Guaranteed

Flexible / Market-Driven

Fixed + Pure Death

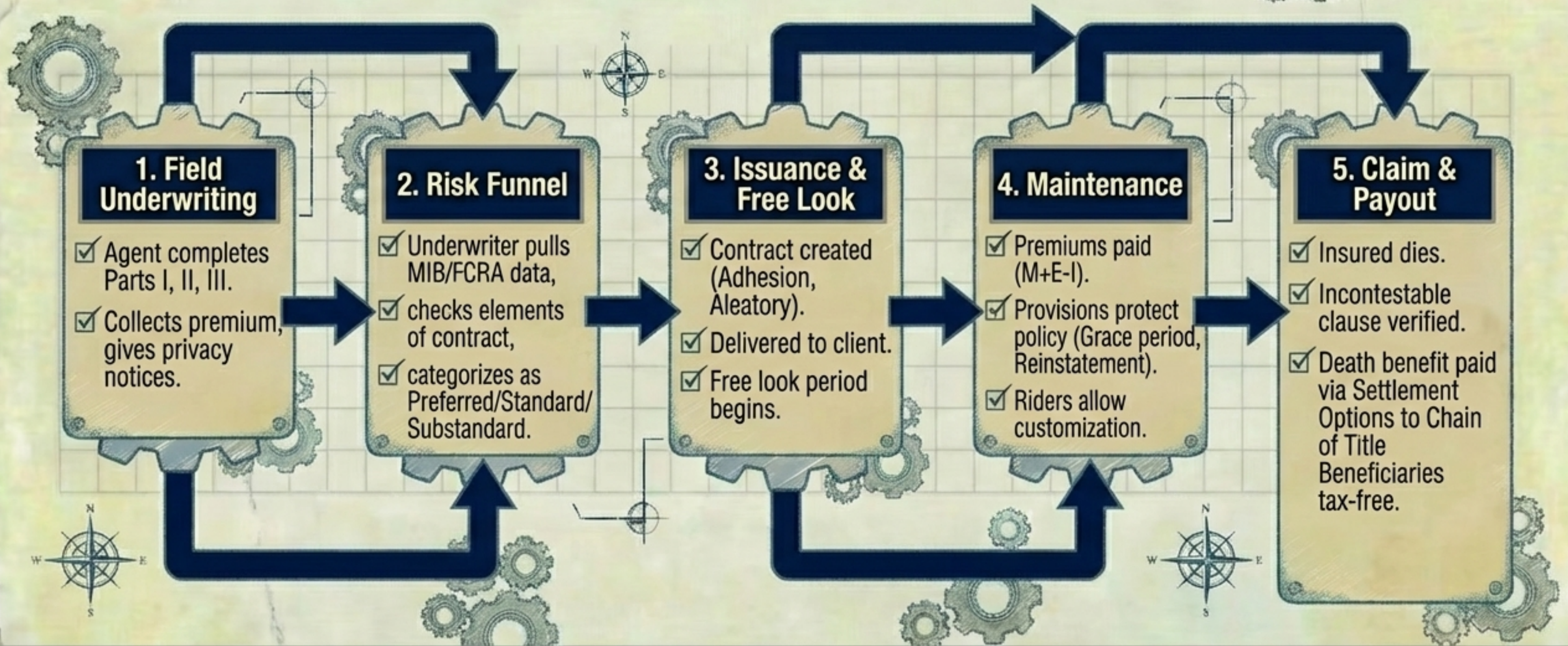
- Term Life (Level, Decreasing)

Flexible + Mixed

- Universal Life
- Adjustable Life
(Flexible premiums, adjustable face amounts)

Pure Death Benefit

The Lifecycle of a Policy



The Financial Blueprint is Complete.