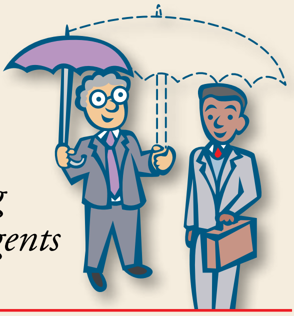
LIGHTBULB PRESS®

GUIDE TO UNDERSTANDING LIFE INSURANCE

- *Term vs. Permanent*

- *Risk and Premiums*
- *Customizing*
- *Calculating Need*

- *Working With Agents*



VIRGINIA B. MORRIS

HERON
WEALTH

GUIDE TO UNDERSTANDING LIFE INSURANCE

CONTENTS

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Insuring the Future

A complete financial plan includes insuring your life.

When you think of financial planning, you probably think about saving for goals like retirement, buying a house, paying for education, and otherwise achieving the future you want for your loved ones. There is another possibility to consider in your financial plan, however: What happens if you're no longer around to provide the income necessary to meet these goals?

If your family depends on your financial contributions for their security, without you there to support them, their goals might be at risk. For example, if you have young children, you may be saving for their college educations. Without you, they might have a hard time meeting that goal. Your spouse may depend on your income to help pay the mortgage and meet everyday living expenses. You may have other family members or loved ones, such as elderly parents or an unmarried partner, who would be forced into a lower standard of living without you.

Life insurance is a way you can provide for the people you care about so that they can still have the lives you want them to have, even if you can't be there.

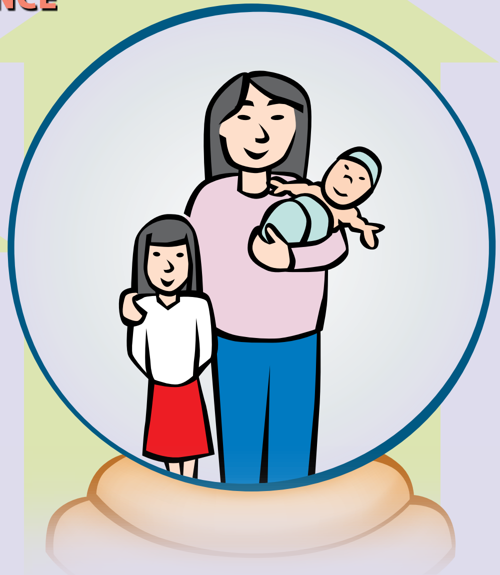
WHAT LIFE INSURANCE DOES

Life insurance can cover final expenses, or costs associated with your death—for example, funeral and burial arrangements, any potential legal expenses involved in settling your estate, and your debts. But life insurance can do much more. You can use life insurance to replace the income you would have provided if you'd lived as long as expected. That would mean the people who depend on you are protected from the financial hardship that could come from losing you. They can use that income replacement to pay for their living expenses, maintain their standard of living, and save for their goals.

YOUR LIFE, YOUR INSURANCE

As your life goes through different stages, your life insurance needs will change. Everyone's experience is different, but here are some of the key concerns you might face.

Young couple, new homeowners
Buying a home together is exciting. But it's also a major financial commitment that may depend on two incomes. If one of you were to die unexpectedly, you want to be sure that the surviving spouse is able to keep the home you love. If both of you have life insurance, you're protecting each other and your investment.



Young working parent
Since your kids depend on you to support them, if you were to die, their financial security might be at risk. Even if your spouse or relatives will be there to raise your children, they may not have the financial resources to provide the things for your children that you wanted them to have. Life insurance can help you make sure that whoever raises your children after you're gone can maintain the standard of living you want for them.

Life insurance can also help you while you're alive. For example, some policies have an **account value**, which you may borrow against—though you'll probably be charged interest, and the death benefit will be reduced by the loan amount plus the interest. If you own your own business, life insurance can secure your company's finances, and you can offer it as a benefit to attract employees.

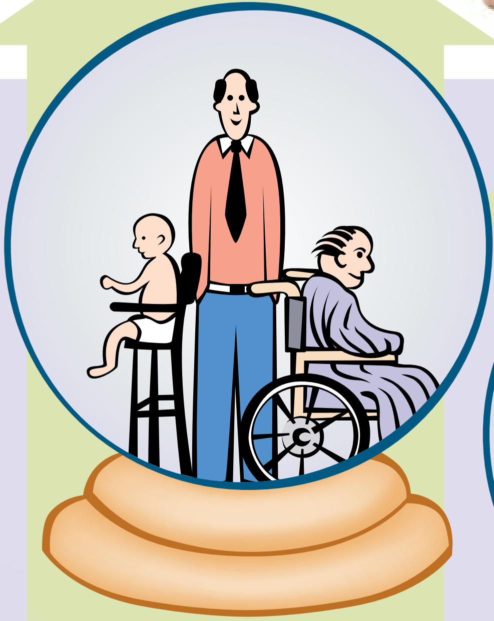
As part of an estate plan, life insurance can also play a big role. Some people use life insurance benefits to equalize an inheritance—for example, leaving a valuable asset to one child and a life insurance benefit of equal value to another. Your heirs can use life insurance to pay estate taxes that might be due when you die rather than having to sell off assets.

Not everyone needs to address all of these risks with life insurance, though. The amount of life insurance you actually need depends on your particular goals, life situation, and finances. For example, you'll need more life insurance if you're supporting young children than you would if your children were already old enough to support themselves. So as you get older and your situation changes, you'll want to review your life insurance periodically, to make sure your financial plans keep step with your life.

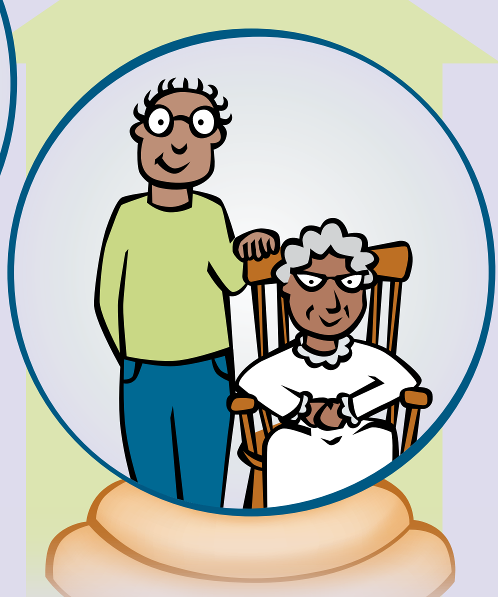
NOT THE BREADWINNER?

Don't make the mistake of thinking that simply because you're not the family breadwinner you don't need to worry about life insurance. You may do valuable work for your family that would be difficult and costly to replace if you weren't there. For instance, you might be responsible for the housekeeping, the childcare, the maintenance of the house, or other necessary jobs.

Hiring professionals to do the same work is likely to be expensive. The value of what you do varies, but it could cost a family $70,000 or more a year to replace the services that a homemaker provides. So it might make sense for you and your family to consider insuring your life if you're a stay-at-home mom or dad, since the contribution you make has more than sentimental value for your family.



Supporting kids and parents
These days, more and more people find themselves raising children while at the same time supporting their parents in their old age. There's even a name for it: the sandwich generation. It's because you find yourself squeezed between two equally pressing obligations. The more people you have dependent on you, the more life insurance you probably need.



When the kids are grown
Without kids to support, your life insurance needs will probably be considerably smaller than they were before. You might still have older parents to think of, or you may need life insurance to support a surviving spouse or as an estate planning tool. And if you've got a policy with a cash value attached, you might be able to use that to help reach your retirement goals.

Types of Life Insurance

You can buy life insurance that protects you for a limited period of time or stays in effect until you die.

All life insurance has some similarities. You pay **premiums** to a life insurance company in exchange for its promise to pay a certain amount of money, called the **death benefit**, to your primary **beneficiary**, whom you identify when you buy the insurance.

But as you explore your coverage options, you may find that the details seem complicated because the terminology is unfamiliar. Here's what you need to know:

The **policy** is the document that spells out the agreement between you and the company that insures you. The first page states the **face value**, which is the amount the insurer agrees to pay as the death benefit following your death.

If you own the policy, that makes you the **policyholder**. You have all the rights of ownership, including the right to

- Change the beneficiary or add other beneficiaries
- **Assign**, or transfer, ownership to someone else
- Access the policy's account value if it has one

If you're the person whose life is covered by the policy, you're the **insured**. You can own a policy on your own life or on the life of another person. Similarly, another person can own a policy where you're the insured.

Your policy may last for a specific **term**, or period of time, such as 5, 10, 20, or 30 years. Or you can buy a **permanent** policy, which means it covers you as long as you're alive. With either term or permanent insurance, however, you must be up-to-date on your premium payments for your policy to be **in force**. If you fail to pay, you might end up with a **lapsed policy**. In that case, no death benefit would be paid if you were to die.

TERM INSURANCE

As long as you pay the premium, you're covered during the policy's term, subject to policy provisions.

If you die, your beneficiaries receive the death benefit.

If you stop paying the premium, the policy ends and you get nothing back.

INSURANCE ONLINE

An insurance company's website can be a valuable resource. If you want to learn about the various types of life insurance, those descriptions will be available. There may also be a calculator to help you estimate the coverage you need. And once you've purchased a policy, you might be able to manage your account, make a payment, or report a claim online.

SETTING THE PREMIUM

The premium, which you typically pay on a regular schedule, such as monthly or annually, varies from policy to policy based on a number of factors. In addition to the risk the insurance company takes that you will die sooner than it expects, the amount of the face value affects the cost. So does the type of policy—whether it's term or permanent—and how many additional features it has.

As you comparison shop for the right policy, you'll discover that the premiums for term insurance tend to be cheaper, especially when you are young and are expected to live for a long time. As you get older, the premiums on new or renewed term policies cost more.

In contrast to term policies, permanent policies have higher premiums initially, but if you keep the same policy for your lifetime the annual cost never increases. In addition, part of the premium for permanent insurance forms a **cash value account**, which may accumulate tax-deferred earnings.

LIFE INSURANCE

RETURN OF PREMIUM TERM

Return of premium (ROP) life insurance resembles traditional term coverage in some ways. You choose a 20- or 30-year policy and pay regular premiums during the term. The big difference, though, is that if you're alive when the term ends, you get all of your premiums back, and your net insurance cost is $0. If you end your policy before the end of the term, you get a percentage of your premiums back but not the full amount you paid.

PERMANENT INSURANCE

As long as you pay the premium, you're covered, subject to policy provisions.

If you die, your beneficiaries receive the death benefit.

If you stop paying the premium, you get the cash surrender value.

COMPARING ALTERNATIVES

If you're not certain whether term or permanent insurance is right for you, it may help to think about the answers to these questions:

- Do you want insurance protection for a limited, defined period or for your lifetime?
- Are you more concerned about providing a death benefit or about a growing cash value?
- Do you anticipate that your insurance needs will change significantly in the foreseeable future?
- What's the comparative cost of purchasing the amount of coverage you need?

WORKING WITH AN AGENT

There are a number of advantages to working with a life insurance agent to choose a policy. Agents can help you assess your financial circumstances, define your coverage needs, and suggest whether a term or permanent policy might work best for you.

The more questions you have about how insurance can meet your financial needs, the more important the professional and personal attention you receive from an agent can be in selecting the right policy.

Agents may work for a single insurance company or sell products from a number of companies. Those who work for a particular company often benefit from the training and resources the company offers, which may enhance the service they offer. That includes assisting your beneficiaries when they receive a death benefit.

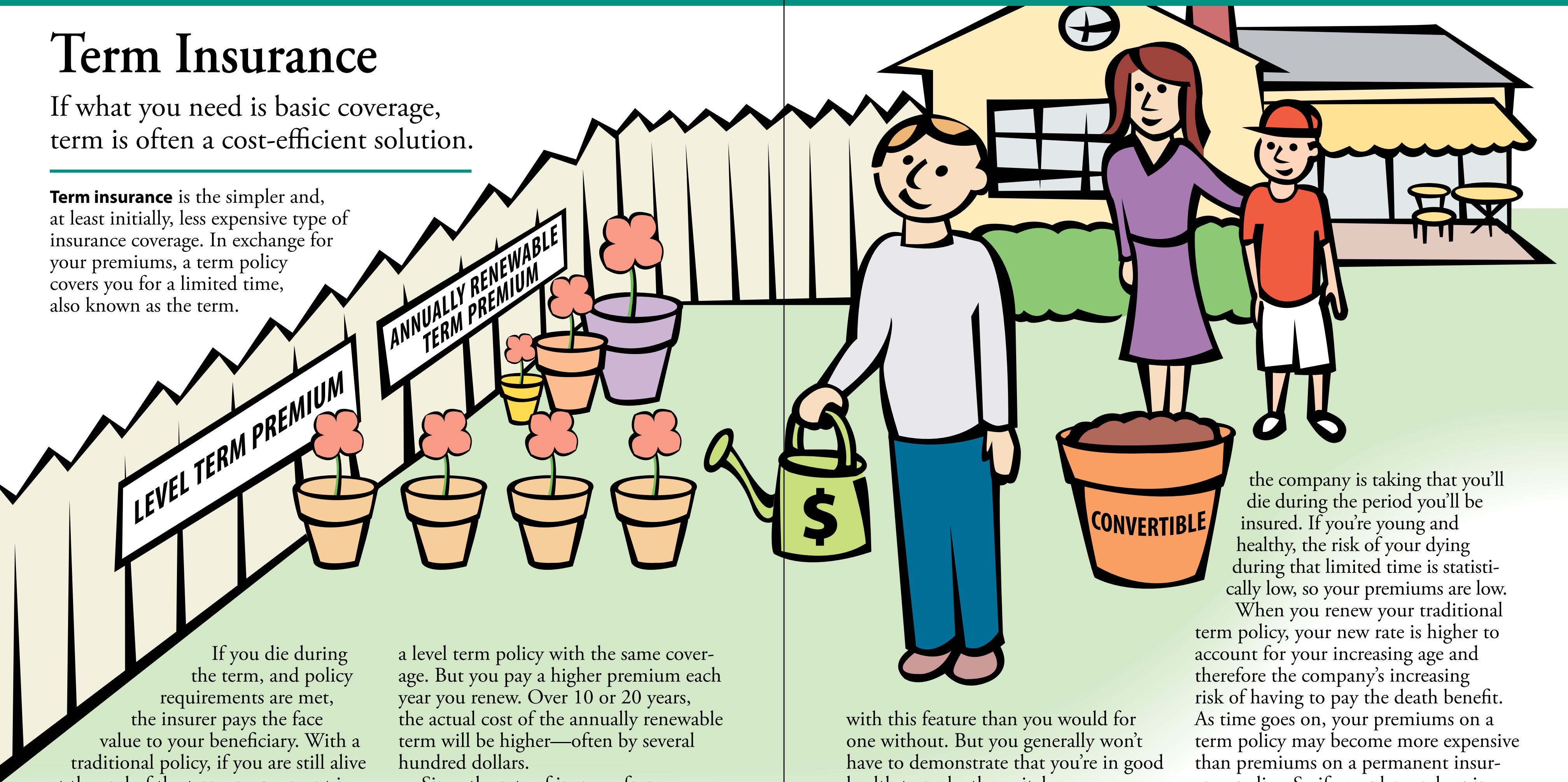
ANALYZE THIS

When you meet with an agent, the first thing you'll do together, before you talk about specific products, is complete what's called a **needs analysis**. The agent will ask you about your financial situation and discuss your insurance needs. If you have existing coverage, you and the agent will probably review whether that policy meets your current needs.

You'll want to take your financial records with you to the initial meeting, including a summary of your assets and liabilities. If you have a written financial plan, it's a good idea to take that as well. It's part of an agent's job to help you figure out what life insurance to buy. So the more information you can provide, the better he or she can evaluate what your best alternative will be.

Term Insurance

If what you need is basic coverage, term is often a cost-efficient solution.



Term insurance is the simpler and, at least initially, less expensive type of insurance coverage. In exchange for your premiums, a term policy covers you for a limited time, also known as the term.

If you die during the term, and policy requirements are met, the insurer pays the face value to your beneficiary. With a traditional policy, if you are still alive at the end of the term, no payment is made. With a return of premium (ROP) policy, you get your premiums back.

A term policy is ideal for income needs that you expect will end after a set time—for example, money to cover mortgage payments, school tuitions, or household help to care for small children if anything should happen to you. That's why families with limited budgets and young children often find term is a good fit for their financial plans.

Term insurance may be right for people of different ages or financial circumstances, but there may be age limits after which you can't renew.

ON THE LEVEL

There are different ways for insurance companies to structure the way you pay your policy premiums. The most basic is known as **level term insurance**. It's easy: You pay the same premium amount each year the policy is in effect, and you know exactly what the insurance will cost for the term.

In contrast, with an annually renewable term policy, the premium in the first few years is typically lower than for a level term policy with the same coverage. But you pay a higher premium each year you renew. Over 10 or 20 years, the actual cost of the annually renewable term will be higher—often by several hundred dollars.

Since the rate of increase from one year to the next varies, it's hard to know exactly what the difference in cost will be. But it is something your agent may be able to tell you when you're considering your alternatives.

FEATURES OF TERM POLICIES

Your term policy may also be **renewable** or **convertible**, or both.

A renewable policy guarantees you can renew your coverage each time the term of your existing policy ends without having to demonstrate you are in good health. That's especially important if you've developed any sort of medical condition that might negatively affect your ability to buy new coverage. Premiums increase at each renewal and are based on your age at that time. But check your policy because renewable policies are typically available only up to a certain age, such as 75.

With convertible term insurance, you can convert your term policy to a permanent policy with the same death benefit if you decide that lifetime coverage meets your needs better. You will pay higher premiums for a policy with this feature than you would for one without. But you generally won't have to demonstrate that you're in good health to make the switch.

TERM LENGTH

You'll have a choice of terms when you buy a level term policy. The longest terms may extend 20 or 30 years, and there are generally also mid-length terms, such as 10 years, and shorter terms of around 5 years.

It's important to establish why you're buying the protection and how long you anticipate you'll need it, since the longer your term, the higher your annual premiums will be. On the other hand, if you really do want coverage for a longer time, you may be better off with the policy that has a longer term, since if you renew a short-term policy the overall cost may be higher.

THE COST OF TERM

Traditional term insurance tends to cost less than permanent insurance when you're young for a couple of reasons. First, you're paying only for insurance coverage. You don't accumulate a cash value, so if you end the policy you don't get any money back. Second, the premiums you pay are based on the risk the company is taking that you'll die during the period you'll be insured. If you're young and healthy, the risk of your dying during that limited time is statistically low, so your premiums are low.

When you renew your traditional term policy, your new rate is higher to account for your increasing age and therefore the company's increasing risk of having to pay the death benefit. As time goes on, your premiums on a term policy may become more expensive than premiums on a permanent insurance policy. So if you plan on keeping your coverage for an extended length of time, you may want to consider whether permanent insurance is actually a more cost-efficient alternative.

With a ROP term policy, the premiums tend to be higher than for traditional term but are guaranteed and level for the full term, either 20 or 30 years. If you want to continue the policy rather than getting your premiums back when the term ends, the premiums increase annually and are adjustable up to the maximum stated in your policy.

HEALTH CHECK

Be careful of letting one term policy expire before buying another one. The reason is that you may have to verify again that you're in good health. If you've developed a medical condition since your previous purchase, the price of the premiums on the new policy may be substantially higher. Worse, if the condition is serious enough, it could make you uninsurable, which means the company refuses to issue you a policy at any price.

Permanent Insurance

You can buy coverage that lasts your lifetime.

Permanent insurance is exactly what it sounds like: It's lifetime coverage that you can buy at any time before you reach the insurer's upper age limit for issuing a policy, often 80. The policy lasts as long as you live—provided you keep the policy in effect by paying the premiums.

Part of your premium pays for insurance coverage and administrative fees, and part goes into a **cash value account**, which grows tax deferred. The longer you pay your premiums, the larger it has the potential to grow. If you die when the policy is in force, your beneficiary receives the **death benefit**, or face value of the policy, which includes the balance in your cash value account.

USING YOUR CASH VALUE

There may be times when you can borrow against the **cash value**, something you can't do with a traditional term policy. Interest rates on cash value loans are generally lower than the rates available on other loans.

However, the loan you can take is limited to a percentage of the account value. Even more important, any amount you've borrowed and haven't repaid at the time of your death, plus the interest due, is subtracted from the face value and reduces the amount your beneficiaries will receive.

Since your primary goal in buying the insurance to begin with is protecting your loved ones, you may want to borrow against that protection only as a last resort.

PRICE COMPARISONS

If you were to compare the initial annual premiums of a term life insurance policy and the annual premium of a permanent policy for the same amount of coverage, you would discover that the amount due on the permanent policy was higher, perhaps substantially higher.

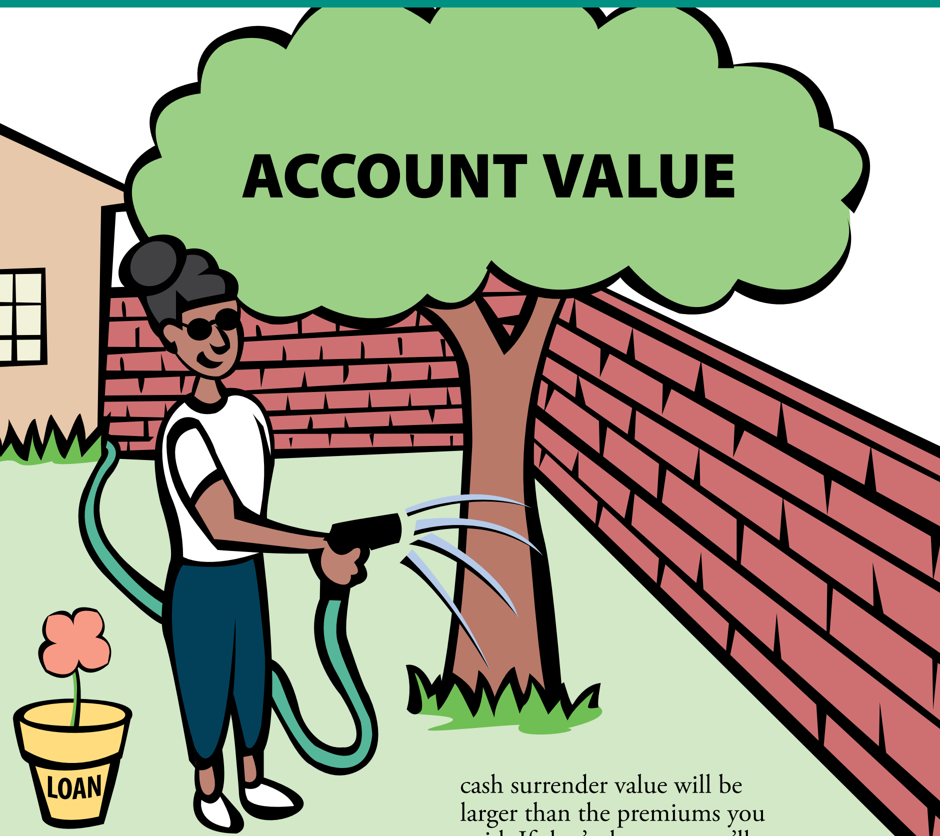
But what you can't tell at first glance is that over an average life expectancy, the reverse is likely to be true. That's because while term insurance, which is priced to cover you for a limited time, gets more expensive each time you renew, permanent insurance premiums are guaranteed to remain the same as long as you hold the policy.

If you pay the same amount each year, or what's known as a **level premium**, you're actually spreading out the cost of protecting yourself when you're older over your entire lifetime.

CUSTOMIZE YOUR RIDE

Policies are a little like cars—you can buy the standard model, or you can pay extra for additional features. The add-ons you may be able to get with your policy are known as **riders**. Here are two of the most common ones:

- **Waiver of premium** is a rider that protects you in case you're disabled. If you have a qualifying disability, this rider will keep your policy in force without your paying additional premiums.
- **Spouse and children's insurance** riders let you add coverage for your spouse and children as part of your main policy rather than buying separate policies for them.



INSURING THE WHOLE

Whole life insurance is the oldest and most straightforward type of permanent life insurance. You select the face value, which remains fixed for your life. If you want additional coverage, you can add a term rider or buy another policy.

The premium is guaranteed not to increase while the policy is in force. You may also be able to choose among payment schedules, so you can select one that best suits your budget. For example, you might pay a premium each year, either in a single payment or installments. You might buy a policy that lets you pay for a lifetime's worth of coverage within a fixed period, such as 15 years. Or you might choose a policy that will be entirely paid up when you reach a certain age.

The company invests your cash value on your behalf, generally in conservative, slow-growth, but low-risk, investments.

CHANGING YOUR MIND

If you **surrender** your policy, the issuing company will subtract any outstanding policy loan balances plus interest from the cash value account and send you a check for the remainder, which is known as the **cash surrender value**.

If the policy has been in force for a number of years, it's possible that the cash surrender value will be larger than the premiums you paid. If that's the case, you'll owe income tax at your regular rates on the difference between what you paid in and what you received.

Remember, though, that when you surrender your policy, you've ended your contract. No death benefit will be paid.

YOUR MONEY BACK?

Some insurers offer what are known as participating policies. They're whole life policies that pay policy dividends in years when the insurer's cost of providing insurance is less than the amount it has collected in premiums. (These insurers may also offer nonparticipating polices.)

Although the dividends aren't guaranteed, if the company does pay them, you'll usually have a choice of what to do with the money. For example, you may be able to receive it as cash, leave it with the insurer to accumulate interest, reduce your premiums, buy paid-up additional coverage, or repay a loan you've taken from your cash balance.

Policy dividends are considered a return of premium rather than income and usually aren't taxable. There's an exception if the dividends you receive are greater than the premiums you paid. Then the excess is taxable. However, any interest on the dividends you leave on deposit is taxable in the year you can withdraw it—which may or may not be the year it is paid.

Universal Life

If you need to adjust your insurance for life's ups and downs, you might need a universal solution.

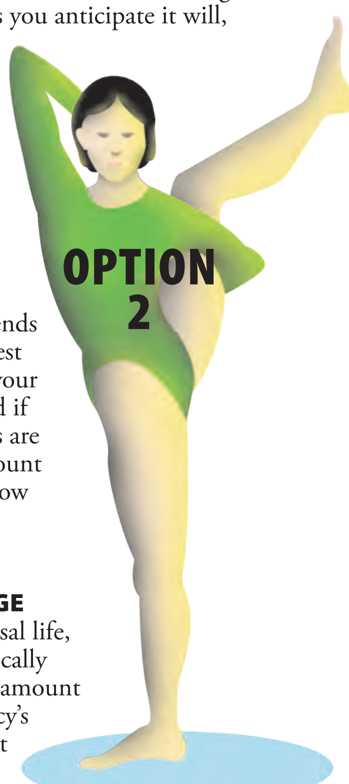
Universal life insurance is permanent insurance that's a little more complicated than whole life coverage—but much easier to adjust as the circumstances of your life change. While the details of a whole life policy, such as the death benefit and the premium, are generally fixed when you buy, both the death benefit and the premiums you pay may be adjusted with a universal life policy.

FLEXING YOUR POLICY

Like a whole life policy, a universal life policy provides a **death benefit** and an **account value**. When you make a premium payment, the insurance company deducts an administrative cost, figured as a percentage of the premium, and deposits the rest to your account value. Then each month, the company deducts enough from the account value to cover the costs of insuring you, including administrative fees. The remaining balance earns interest at a rate that reflects what the company is earning on the investments it makes. If the issuing company earns more than it anticipated, it credits more to your account value. But you never accumulate earnings at less than the guaranteed rate.

Typically you can decide at the time you purchase the policy how much the death benefit will be. With a universal policy, you also decide if you prefer a **level death benefit** or a variable one. The level benefit, often called Option 1, remains the same for most of the time you own the policy, but may increase later in your life as your cash account value increases.

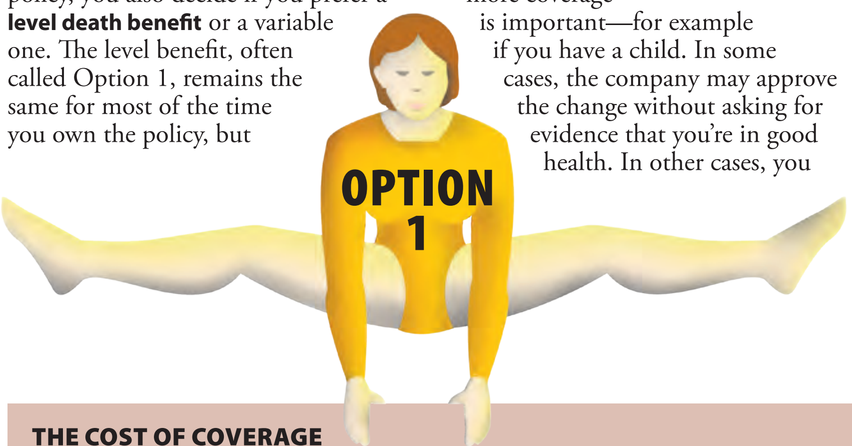
Option 2, a variable death benefit, changes to reflect the account value of your policy. As the account value grows over time, as you anticipate it will, the death benefit increases. The more it grows, the greater the benefit. Remember, though that the rate of growth depends on the interest credited to your account, and if interest rates are low, the account value will grow more slowly.



ANOTHER ADVANTAGE

With universal life, you can typically increase the amount of your policy's death benefit if you think more coverage is important—for example if you have a child. In some cases, the company may approve the change without asking for evidence that you're in good health. In other cases, you may have to demonstrate what's called your **insurability** just as you did when you bought the policy originally.

You may also have the option of reducing the death benefit, if for example you are having difficulty paying the premiums or if you need less coverage. The lowest death benefit is the same as the minimum issue amount, or the smallest policy the company will write. Of course, you also reduce the death benefit by borrowing against or withdrawing from your account value.



THE COST OF COVERAGE

The premiums on a universal life insurance policy may be lower than the premiums on a whole life policy with the same death benefit. That's the case, in part, because the company has the right to increase the cost of insurance charges if interest rates fall below the level it anticipated. You'll also find, if you comparison shop, that the fees for this type of insurance tend to be higher than the fees for comparable whole life.

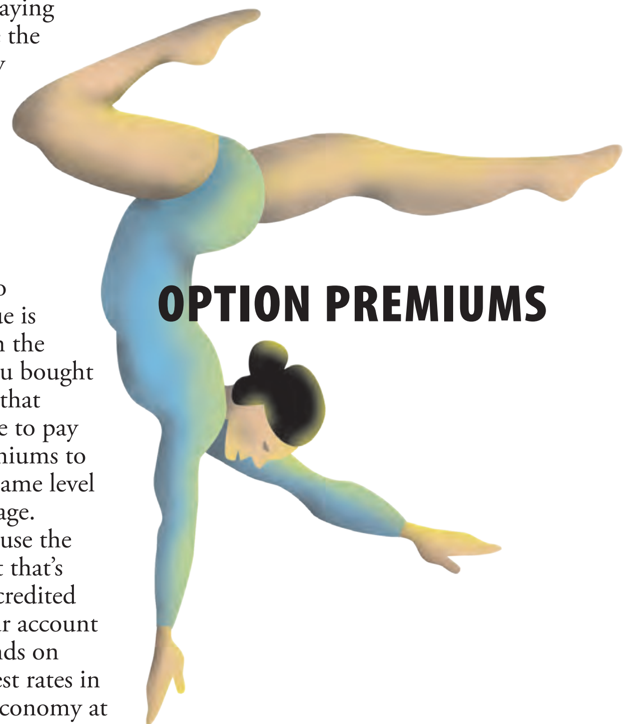
CHANGING PREMIUMS

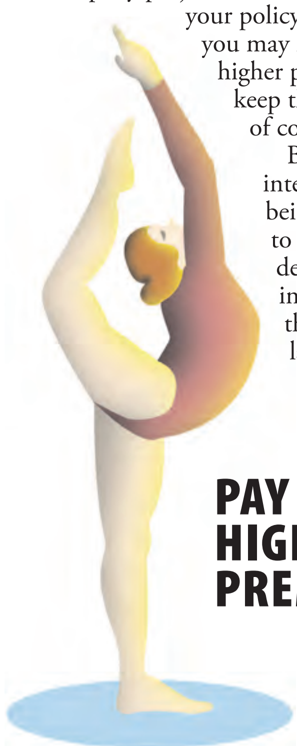
If you have a substantial cash value account in your universal life policy, it's earning a high rate of interest, and you're not seeking a higher death benefit, you may choose to reduce the premiums you pay or stop paying them altogether. In that case the issuing company uses money already in your account to cover the monthly cost of insuring you. But you'll want to monitor the situation closely. If the monthly charges deplete the account value, your policy will lapse.

However, what might also happen, if your account value is growing at a slower rate than the company projected when you bought your policy, is that you may have to pay higher premiums to keep the same level of coverage.

Because the interest that's being credited to your account depends on interest rates in the economy at large, there's no way to predict whether it will be higher or lower. One thing you can be sure of, though, is that it won't remain the same over the years you own your policy.

So when you review your insurance options with a professional, you may want to look at what happens to your earnings and premiums with the most optimistic forecast, with perhaps a 4% annual return, and then compare it to what happens in the most pessimistic forecast, such as the policy's minimum guaranteed interest rate. That way you don't make decisions based solely on the rosiest or the gloomiest picture, but you're aware of the policy's potential.





ACCOUNT VALUE CUSHION

A universal life policy lets you build up your account value by paying larger or more frequent premiums or by adding lump sums. You might choose this alternative to increase your death benefit, for example, as part of estate planning.

And while protecting the people who depend on you is the primary reason to have life insurance, the larger your tax-deferred account value, the more you have available to borrow or withdraw in an emergency. And unlike loans from employer sponsored retirement accounts, loans from your insurance policy don't have a repayment timetable.

How Much Life Insurance?

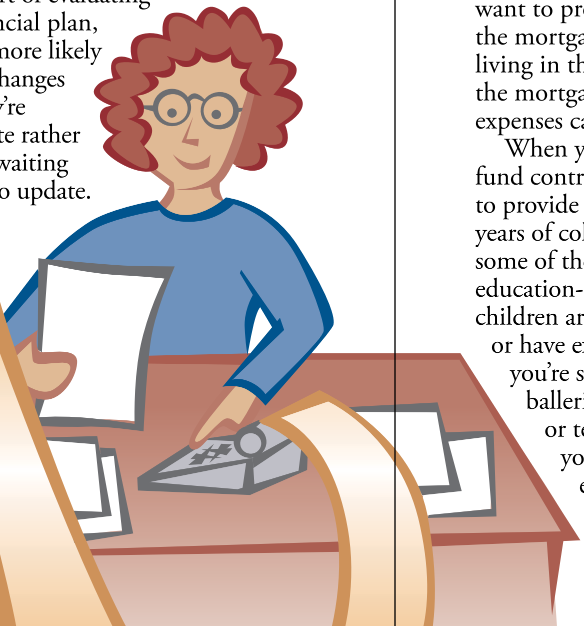
The right coverage can secure your family's financial future.

You may have heard that your life insurance policy should replace five to seven times, or as much as ten times, your annual income. However, this kind of rough estimate is no substitute for a thorough analysis of your needs. Your insurance agent can help review your life insurance options with you to be sure you buy a policy that's right for you.

First, you should determine what expenses the policy should cover. For most people, the death benefit should pay immediate costs related to your death, help meet your dependents' daily living expenses, and set aside money for future needs, such as education. Of course, your dependents may need more or less, based on your existing assets, their own income and assets, and whether they'll receive income from Social Security or other sources.

Keep in mind, though, that the life insurance policy that's right for you at one stage of your life may not provade the coverage you need at another. For example, you may decide to convert a term insurance policy to a permanent policy to lock in lower premiums. If you have universal life, you may want to take advantage of the option of increasing your death benefit.

When an insurance review is a regular part of evaluating your financial plan, you'll be more likely to make changes when they're appropriate rather than risk waiting too long to update.



CALCULATE YOUR NEEDS

Add up the immediate and long-term expenses your death benefit should cover, and subtract other income, as in the following example:

IMMEDIATE AND ONE-TIME EXPENSES	
Funeral expenses, costs of settling the estate, unpaid medical bills	**$10,000**
Your outstanding debts (minus mortgage)	**+ $20,000**
One-time contribution for college fund	**+ $120,000**
Total immediate costs	**= $150,000**
DEPENDENTS' ONGOING LIVING EXPENSES	
Dependents' annual living expenses (include mortgage payments)	**$85,000**
Subtract spouse or partner's take-home pay	**– $50,000**
Subtract Social Security survivorship benefit	**– $5,000**
Subtract investment income	**– $3,500**
Dependents' annual need for additional income	**= $26,500**
Multiply by the number of years they would need the income	**x 20**
Total death benefit for living expenses	**$530,000**
Add immediate costs to amount needed for living expenses	**+ $150,000**
Death benefit needed	**$680,000**

ADD OR SUBTRACT

A life insurance calculator can help you come up with a ballpark figure as you begin exploring your life insurance needs. But it can't take you as an individual into account. You should modify the basic coverage the calculator suggests to come up with a more precise amount—by adding money for special purposes or subtracting things that don't apply. Here are some things you may want to consider:

Some life insurance calculators list your mortgage balance as a one-time expense. If your dependents plan to sell the house at your death, you may want to provide a lump sum to pay off the mortgage. But if they'll continue living in the house, you can include the mortgage payments in your living expenses calculation.

When you calculate your college fund contributions, you may not have to provide enough to pay for a full four years of college if your family invests some of the death benefit in a special education-savings account. And if your children are of widely differing ages or have extraordinary expenses—say, you're supporting a world-class ballerina or a competitive golfer or tennis player in the making—you might want to take the extra step of calculating costs for each child separately.

OTHER CONSIDERATIONS

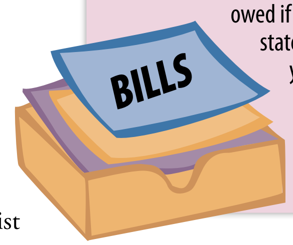
The way your beneficiaries receive the death benefit could also have an impact on the amount they need. While they may choose a lump-sum payment, other settlement options are built into the policy. For example, beneficiaries may receive a fixed amount based on age, paid monthly or annually for life, or an amount that is paid on a predetermined schedule over a fixed period, such as 10 or 15 years.

As you select a policy, it's important to think about both the amount of protection you need and what the coverage will cost.

You also need to fit the premiums into your budget. If you buy a policy with premiums you can't afford, you're more likely to let the policy lapse, leaving your dependents' financial security at risk. But if you buy too small a policy, you still leave your dependents' security at risk.

PAY THE BILLS

Some states are community property states, where married people share responsibility for each other's debts. So your surviving spouse could be responsible for money you owed if you died first. In other states, your estate, not your surviving spouse, is responsible for your outstanding debts when you die.



UNDERSTANDING ILLUSTRATIONS

Your insurance agent may show you an illustration of the account value that a permanent policy could accumulate over your lifetime assuming a certain set of conditions. These illustrations can give you an idea of the cash you could have access to if you terminated your policy to provide a source of retirement income or for some other reason.

These estimates can be helpful, but be sure to look at them closely. If an illustration is based on earning an interest rate that's higher than the policy's minimum rate, it's probably a good idea to ask the agent to show you an illustration of what would accumulate if you earned only the minimum. Together those illustrations could provide a realistic picture of both a potential upside and a more limited downside.

SWEET CHARITY

For many people, life insurance is used to comfort and protect family. If you no longer need the policy for your family, you might consider naming a charitable organization as your beneficiary.

You might be able to donate more money through a death benefit than you could afford to give in your lifetime. There may be income tax benefits, too, if you assign ownership of your policy to the charity.

Be sure to consult with the charity about your gift, since organizations have different preferences. Some can afford to wait years to collect a death benefit, but others may prefer to use the cash value now.

Qualifying for Insurance

What kind of life insurance risk are you?

Buying life insurance isn't simply a question of pointing to the policy you want and writing a check. First the company has to decide whether it makes business sense to insure you, and what the price will be. Specifically, the company wants to know your **mortality risk**—or the odds that it will have to pay the death benefit on your policy sooner than it would normally expect. The process of assessing this risk can be complicated, but it boils down to this: Good health and low-risk employment and hobbies mean you qualify for higher amounts of coverage and lower premiums.

THE NUMBER CRUNCHERS

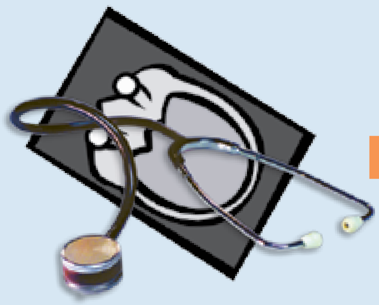
The point of life insurance is to protect loved ones from financial hardship when you die. Of course, everyone dies. The question that matters to insurers is, when? Being able to afford to provide coverage is based on a company's ability to calculate the answer—not for you individually, since that can't be done, but for groups of people of the same age and gender with similar medical histories and lifestyles. This process of classifying the risk you pose is called **underwriting**.

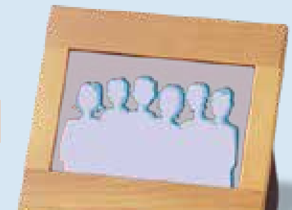
The statistical experts who crunch these numbers are called **actuaries**. They gather information on large numbers of people and divide them into groups with similar risks. Then, they calculate how many from each group can be expected to die from one year to the next. This information is charted in **mortality tables**, which insurers use to calculate how much money they'll need to pay **claims** each year.

Your premium rates are based on where you fit in the mortality tables. A long life expectancy translates to lower rates.

HIGH-RISK WARNINGS

Every company sets its own underwriting standards, but most of them pay close attention to:





Your current health: You may have to undergo a physical exam to confirm basic details about your health. Certain health conditions—such as heart disease, cancer, diabetes, and AIDS—may trigger higher rates, or mean your application is turned down. Smokers or others tobacco users pay more than people in otherwise similar health who don't smoke or use tobacco.

Your health history: The insurer can request past health records. You may be in a high-risk category if there is a history of certain diseases in your family, such as Huntington's disease, heart disease, stroke, or sickle cell anemia.

IF YOU LIVE TO BE 100

Companies used to price premiums for permanent policies so that, if you lived to be 100, your cash value would equal your death benefit. At that point, the company would write you a check for the cash value and your coverage would end. These days, living to 100 isn't the rarity it used to be, so many policies let policyholders keep their insurance in force as long as they live.

OTHER PATHS TO COVERAGE

There are alternatives for purchasing insurance even if you have health problems. In some cases, the insurer charges more. For example, with a **table rating** you pay a percentage increase above the company's standard rate for a comparable policy. For example, a table 1 offer might increase your premium by 25%.

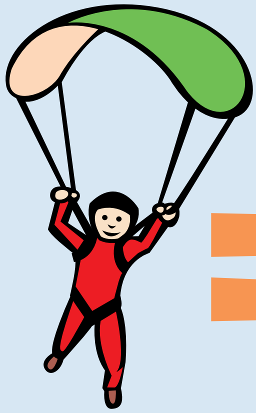
You should also check whether you can get group insurance through an employer or other association to which you belong. Group policies often cover all eligible participants up to a certain limit before requiring underwriting. And if your spouse or partner is eligible for group insurance, you may be able to get coverage through that policy.

Or, if you have an existing policy, you may be able to increase coverage without underwriting. But always be honest. Lying on your life insurance application is called misrepresentation, and if the company finds out, it can refuse to pay the death benefit.

RISK CATEGORIES

Life insurance companies use four basic risk categories, although many companies divide these further into subcategories for more accurate pricing:

- + **Preferred risk** applicants have the longest life expectancy and pay the lowest rates.
- **Standard risk** applicants have an average life expectancy and pay standard rates.
- – **Substandard risk** applicants have a lower life expectancy and pay the highest rates.
- **Declined** or **uninsurable** applicants pose more risk than the company is willing to insure.



= MORTALITY RISK

Occupation and hobbies: Some jobs are considered high risk and may make it more difficult to buy insurance. Certain hobbies, such as flying your own plane, car racing, and skydiving, are considered high risk and may increase your premiums or make it difficult to find coverage.

IN THE GENES

Medical research regularly uncovers more information about the impact of your genetic make-up on your vulnerability to certain diseases. This can be an enormous advantage, both for prevention and early treatment. But many people worry that details of their DNA could be used to deny them insurance.

Here's the good news. Most states prohibit or restrict insurance companies from denying coverage because of genetic risks—though in some states insurers can use the information to assess your application. In addition, some insurance companies, as a matter of policy, refuse to use this information.* If you're concerned about this issue, check your home state's laws and the genetic testing policies of any insurer you're considering.

*State Farm does not use genetic testing.

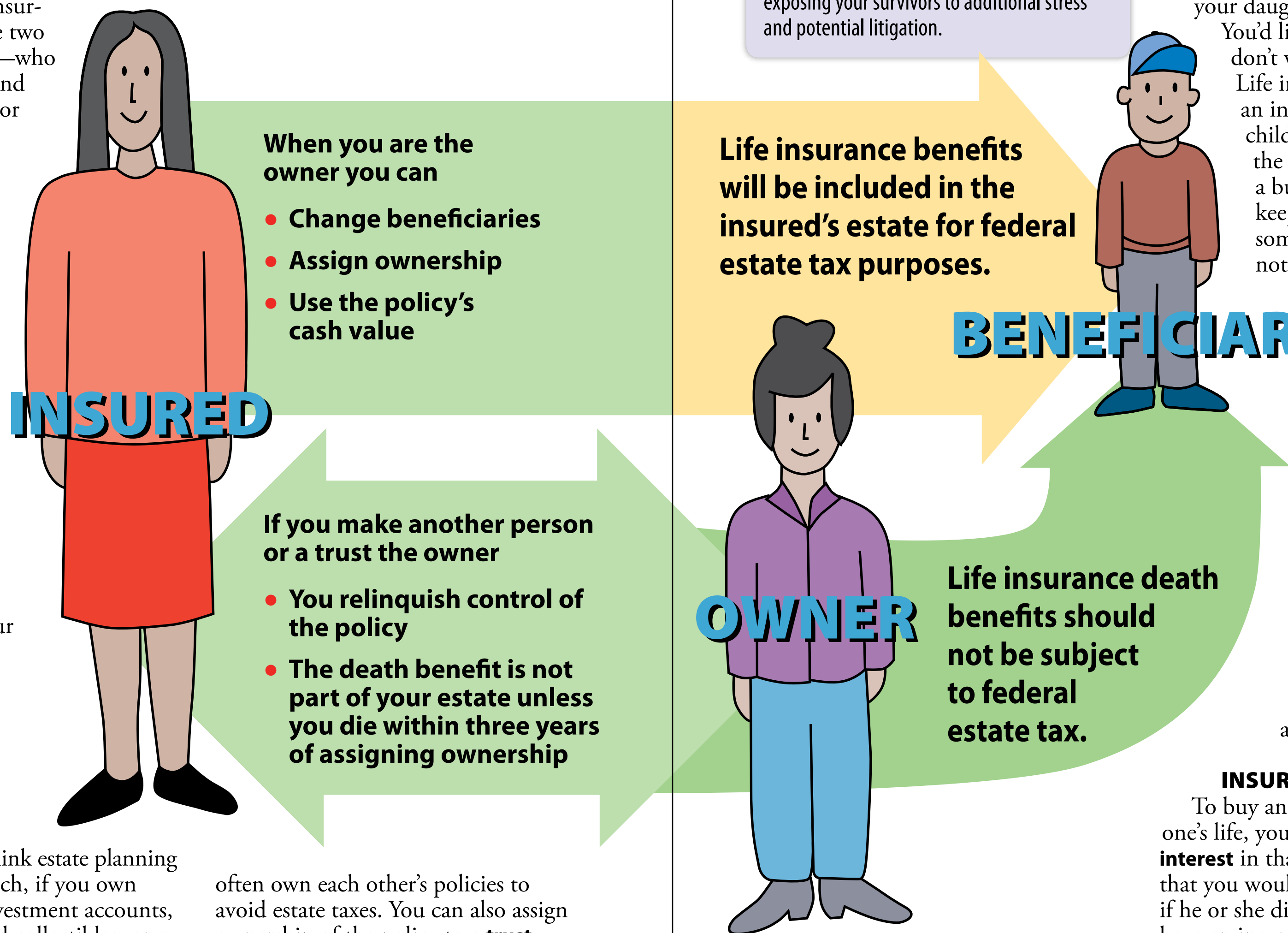
Ownership and Beneficiaries

Decide carefully who will own your policy, and who will benefit.

When you buy life insurance, you must make two important decisions—who will own the policy and who the **beneficiary** or beneficiaries will be.

The customary approach is for the owner and the insured to be the same person, but it's not the only alternative. It's a good idea to check with your tax or legal adviser to see if it makes more financial sense for someone else to be the owner.

You can choose any beneficiary you wish—and if you own the policy you can easily change your initial designation, add other primary beneficiaries, or identify secondary beneficiaries.



OUT OF YOUR HANDS

Although you may think estate planning is only for the very rich, if you own your house, a car, investment accounts, assets like jewelry and collectibles, or a business, your estate may come closer to the federal estate tax exemption amount than you think. If you also own your life insurance policy, when you die the proceeds will be considered part of your estate. Unfortunately, if you haven't planned carefully, the death benefit might push the value of your estate over the exemption limit, triggering estate taxes that could cut into your heirs' inheritance.

You can do three things to keep the death benefit out of your estate and away from federal estate taxes. You can name your spouse as sole beneficiary, since generally the estate tax doesn't apply to assets you leave your spouse. You can assign ownership of the policy to someone else. Unmarried couples often own each other's policies to avoid estate taxes. You can also assign ownership of the policy to a **trust**.

Experts strongly recommend that if you're considering a trust you get professional help from a lawyer who specializes in estate planning.

THREE-YEAR RULE

If you die within three years of assigning ownership of your existing life insurance policy to a trust or any other owner, the death benefit is still part of your estate. But if an irrevocable trust buys a new policy on your life, the three-year rule doesn't apply.

If there's a major change in your life, such as a marriage or a divorce, you should check with your agent about updating your beneficiary designation. Since you buy life insurance to provide security and comfort in an emotionally trying time, you don't want to risk exposing your survivors to additional stress and potential litigation.

WHO GETS THE BENEFIT?

When you name the beneficiaries of your life insurance policy, you should consider how the death benefit will supplement other assets you leave to your heirs, and what the effect will be on the people who receive the money.

You may feel comfortable leaving everything to your spouse. But you may want to choose secondary beneficiaries, in case that person is no longer living—if you die together, for example. If the beneficiaries are minors, a guardian, custodian, or trust must manage the money for them until they reach the age of majority. So if you name children as beneficiaries, you must consider designating someone to manage funds in their interest.

You may also want to use life insurance to equalize inheritances, especially if you'd like to leave assets to children from a previous marriage, or if you have material assets that can't be split evenly. For example, suppose you own a valuable grandfather clock that your daughter has always admired. You'd like to leave it to her but don't want to play favorites. Life insurance can provide an inheritance to your other children equal to the value of the clock. Or you may own a business that you'd like to keep in the family, although some of your children want nothing to do with it. You can leave the business to the children who want it, and provide for the others with life insurance.

If instead you designate your estate as your beneficiary, you can address the death benefit in your will.

Estate planning is complicated, and regulations differ from state to state. An estate-planning lawyer can help make sure your arrangements are sound.

INSURABLE INTEREST

To buy an insurance policy on someone's life, you must have an **insurable interest** in that person, which means that you would suffer a financial loss if he or she died. The law assumes you have an insurable interest in your own life and the lives of your spouse and dependents. Others must prove they have an insurable interest if they want to buy a policy on your life.

The buyer only needs to prove an insurable interest at purchase. If circumstances change—such as through divorce or the dissolution of a business partnership—the person named as beneficiary, even if he or she is also the policyholder, can usually still collect a claim at the death of the insured.

INCOME TAX RELIEF

One advantage of life insurance is that the death benefit isn't usually subject to income tax, and it passes directly to the beneficiary without going through probate.

Customizing Coverage

Life insurance policies aren't one-size-fits-all.

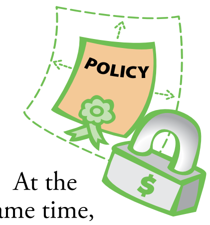
Your income, your lifestyle, your plans for the future, and your concerns about your loved ones all have an effect on the kind of life insurance coverage you need. So life insurance companies usually give you ways to customize your policy so it fits the details of your life and your financial plan more neatly.

One way to customize is from a menu of riders you'll be offered when you buy your policy. These are optional add-ons for which you pay extra premiums. Riders can make your policy more flexible, and they give you some added protections, so they're worth looking into. But you'll want to decide before you buy which ones provide an effective way to accomplish your financial goals.

- Waiver of premium
- Additional insured
- Guaranteed insurability
- Accelerated benefits

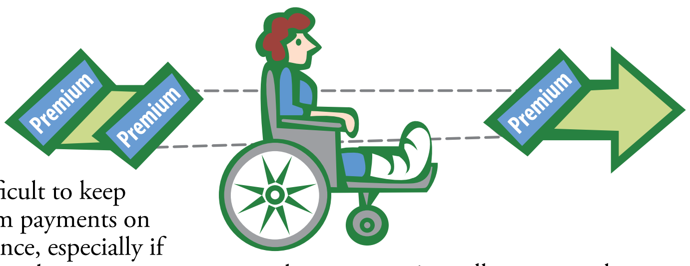
WILL YOU STILL BE INSURABLE?
Often, policies will offer you the option to add more coverage at certain times. Sometimes these increases in coverage require additional underwriting. The problem is that between the time you first buy your policy and the time you decide to add coverage, your health and circumstances may change, making you a higher mortality risk than you were in the beginning. In that case, the additional insurance may cost more than you expected, or your application may even be declined. If you really need the extra coverage, this could be a problem.

A guaranteed insurability rider "insures your insurability." For a modest added amount, you have the right to buy more insurance on specific dates without evidence of insurability.



At the same time, if your life plans don't seem to require more insurance later in life—and many people find that their need for life insurance decreases with time—continued insurability may not be something you have to worry about at all.

WAIVER OF PREMIUM
If you become disabled and you're unable to work, you may find it difficult to keep up the premium payments on your life insurance, especially if it means choosing between covering immediate expenses and taking precautions for the future. If you find yourself in this situation, there's a chance you might let your policy lapse, or be cancelled, which puts your family's long-term security at even greater risk. A waiver of premium allows you to keep your policy in force without making premium payments if you have a qualifying disability.



INSURING SOMEONE ELSE
You may have the option of adding coverage for someone else on your policy—usually immediate family members or other people in whom you have an insurable interest, such as a business partner. Evaluating this option can be a fairly straightforward decision, based on comparing the cost of buying a separate policy with the cost of the rider.

However, you'll want to find out what happens if you die first. Will the coverage on the other person insured by your policy continue or will it end?

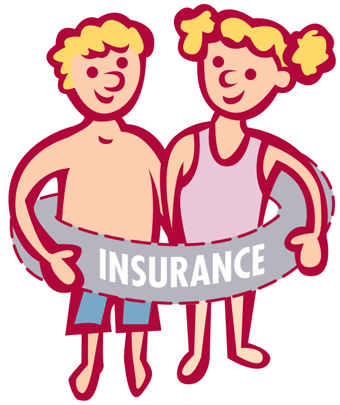
GROUP POLICIES
Some employers, associations, and alumni groups offer group term life insurance. A group policy may be a good deal, but it usually isn't enough to cover your needs.

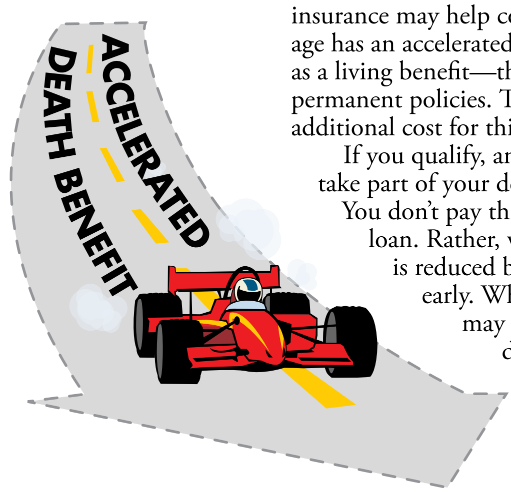
Also, group coverage typically ends when you leave your job. So it's smart to think of it as a supplement, not a substitute.

CHILDREN WITH SPECIAL NEEDS
Children with special needs often have higher than usual expenses and need financial help for a longer time than other children. While many of these children achieve independence in adulthood, it's possible that your child will need assistance throughout his or her life. So if you have a child with special needs, your life insurance needs may be much greater and more complex.

If you want to plan for a special needs child, it's important to work with a legal adviser with experience in this area, who can help recommend a solution that will work for you and your child.

COVERING THE KIDS
Many policies offer a rider that lets you add term insurance on your children, sometimes with an option to convert the coverage to permanent insurance at a certain date. Among the reasons for this coverage are that it's generally inexpensive, would pay final expenses if the child died, and could be an advantage if the child had a serious medical condition that meant being uninsurable as an adult. Alternately, you might prefer to increase your own coverage or to boost what you're saving for the child's education.





ACCELERATED BENEFITS
Before your death, you may face significant costs because of a serious injury or terminal illness. Life insurance may help cover these expenses if your coverage has an accelerated death benefit—sometimes known as a living benefit—that's available on some term and permanent policies. There may, or may not, be an additional cost for this provision.

If you qualify, an accelerated death benefit lets you take part of your death benefit while you're still alive. You don't pay this money back, as you would a loan. Rather, when you die, your death benefit is reduced by whatever portion you took early. While reducing the death benefit may not be ideal, having access to the death benefit does allow you to pay for the medical care you need and reduces the debts you might otherwise leave behind.

Advanced Planning

If you make the right legal arrangement, you can use life insurance more effectively.

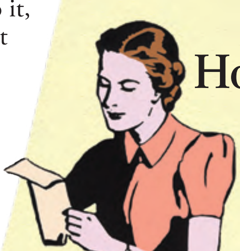
Sometimes complex financial needs call for complex financial planning. Perhaps your assets are substantial and complicated, or you own your own business. You can work with financial advisers and lawyers to use life insurance in legal arrangements that give you more control, reduce potential estate taxes, and accomplish more of your goals.

LIFE INSURANCE TRUSTS

By assigning ownership of your policy to an **irrevocable life insurance trust (ILIT)**, or by having the trust purchase the policy with money you gift to it, you can take the death benefit out of your estate and maintain control over how it's used. You must give up complete ownership to remove the policy from your estate. If you think you may need to use the cash value or want to reserve the right to change beneficiaries, you probably don't want an ILIT.

But, by assigning ownership to a life insurance trust, you gain another kind of control: the ability to specify how the trust distributes the death benefit. If you want part of the death benefit to fund your child's college tuition, you can instruct the trustees to maintain funds for this purpose. You can also leave the death benefit money in the trust with instructions to provide income to your spouse or partner, which keeps the assets out of his or her estate. However, establishing an ILIT is something you don't want to do without legal and tax advice.

How ILITs Work



1. You, the **donor**, set up the trust. You name the trust as the life insurance policyowner and beneficiary. You provide the trust with enough money to pay the premiums. In the trust document, you specify the beneficiaries of the trust.

2. Your **trustees** control the property in the trust, paying the premiums while you're alive and managing the death benefit and distributions after you die. The trustees are generally paid a fee for their services. You can choose to give your trustees wide discretion in managing the trust or restrict their actions.

3. Your **beneficiaries** get their share of the death benefit from the trust.

BUY-SELL AGREEMENTS

One of the biggest investments you ever make could be in your own business. You might own a business by yourself, with a partner, or as a **closely held corporation**, which is owned by a limited group of stockholders. If so, your death could throw the company's future into uncertainty. Discussions could turn into long legal battles that sour relationships and drain money from the business and your heirs. To make the transition easier, you can work with an attorney to create a **business continuation plan**, which irons out what happens to a company if an owner dies.

One popular business continuation plan is a **buy-sell agreement** funded with life insurance. There are several ways to structure a buy-sell agreement. Basically, the agreement ensures that if an owner dies, the surviving owners must buy the deceased person's share of the business at a set price. For example, suppose you own a business with a partner. Your buy-sell agreement could set the value of each share of the business at $500,000. Each of you would buy a life insurance policy on the other's life with a death benefit of $500,000. That way if you died, your business partner would immediately have the money to buy out your share of the business, and vice versa.

You can also set up a buy-sell agreement with a chosen successor, such as an employee or relative you trust to run the business after you're gone. In that case, your successor would be the owner and beneficiary of a policy on your life that pays out enough to buy your share of the business at your death. Here, too, you'll want professional advice before signing any documents.

KEY EMPLOYEE INSURANCE

What if one of your employees is so valuable and irreplaceable that his or her death would spell financial disaster for your company? You can buy life insurance on a **key employee** to protect your business from that financial risk.

Just remember to approach your employee first. Most states require either that you notify your employee about the reasons for the insurance coverage or that you get your employee's written consent.

TIME MATTERS

When you move assets into a trust to take them out of your estate, the three-year rule applies. In brief, that means the transaction must have occurred at least three years before your death to be effective. Otherwise the assets are considered yours for estate tax purposes.

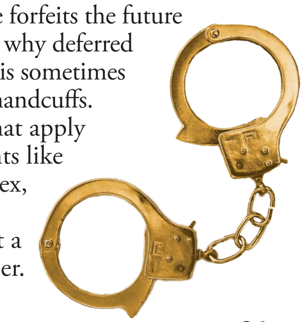
DEFERRED COMPENSATION

Deferred compensation is a way to offer an incentive for employees to stay with your company. Unlike benefits such as a 401(k) plan, deferred compensation isn't a qualified plan. You can offer it to some employees and not others and choose when to start paying benefits.

For example, you may have a well-compensated employee you'd hate to lose. You can set up a plan in which she agrees to freeze her salary in exchange for $5,000 a month after age 65. By forgoing raises, she stays in a lower tax bracket.

To make this plan work, you can buy a large permanent life insurance policy on her life. When she retires, you use the cash value to pay the deferred compensation. If she dies before retirement, her beneficiaries get the death benefit. However, if she resigns, she forfeits the future income. That's why deferred compensation is sometimes called golden handcuffs.

Tax rules that apply to arrangements like this are complex, though, so be sure to consult a qualified adviser.



Inheriting Wealth

Understanding inheritances is vital, whether you're giving or receiving.

During your lifetime, you might inherit money from a parent, relative, spouse, or friend. Or you may pass the money on at your death. That's why you need to educate yourself now about how to handle inheritances as well as help your heirs understand the implications of receiving your property from you.

THE EDUCATION PROCESS

Whether you're the person providing an inheritance or the person receiving it, it's smart to seek professional advice from an experienced attorney on the emotional and financial implications of an inheritance.

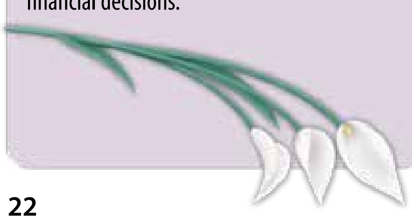
When you've created a will, and have figured out whom you'd like to pass your property on to, your lawyer may suggest you tell those people that they will be inheriting something from you. That way, the inheritance won't come as a shock. And if there's something specific you want to happen to that inheritance, such as keeping a cherished heirloom in your family after you die, you can tell your heirs what your wishes are while you're alive.

However, if you don't feel comfortable disclosing whom you're leaving inheritances to, you might want to write out instructions—or have your lawyer document your wishes—so your heirs are informed when they receive their inheritances. The more information you can provide, the less stress your heirs may face after your death. For example, you might explain how to handle taking income from a 401(k) or 403(b) account, or which assets to liquidate to pay estate or inheritance taxes.

If you are the person receiving an inheritance, you may find that it's more stressful than you imagined. Many people feel guilty about suddenly coming into unearned wealth, while others are not prepared for the obligations that accompany an inheritance. So getting professional financial advice on how to invest and how to manage money can help you prepare for the day when you do receive an inheritance.

GRIEVING

It's common to feel strong emotions about an inheritance, since it's often linked to the death of a loved one. Experts recommend that you postpone making major financial decisions until your initial grieving period has passed. When you start thinking of the inheritance as your money—and not as a gift or loan—you might be ready to start making thoughtful financial decisions.



CASH INHERITANCES

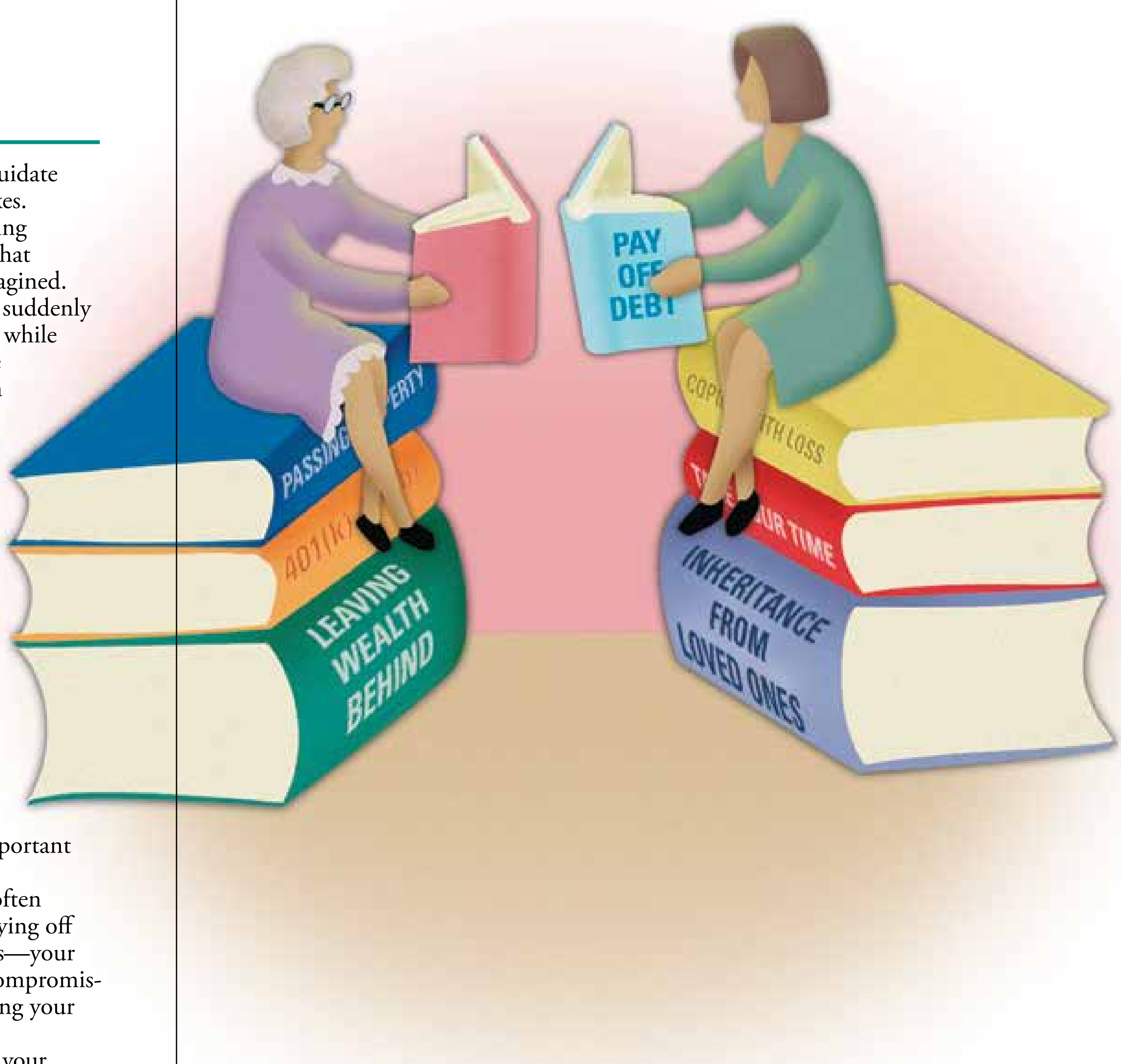
If you've received a cash inheritance, it's smart to list your financial priorities before you start spending the money. Be sure to weigh short-term rewards against long-term comfort. While a new car may be an affordable luxury, it may not be more important than your retirement security.

Personal financial advisers often recommend that you make paying off debt—like credit card balances—your first priority, especially if it's compromising your credit rating or limiting your other investments.

You might want to consider your retirement security as well. If you've fallen behind in your IRA contributions in the year you get an inheritance, consider using part of the money to help make up the difference. While you can't put inherited cash in your salary reduction plan, such as a 401(k), you may still maximize those tax savings indirectly. If you use an inheritance in your current budget, you may find you can contribute more of your wages to your retirement plan.

If you don't already have an emergency fund that could cover three to six months of expenses, part of your inheritance can serve as one. This fund could be vital if you lose your job or face an unexpected expense.

If you have children, you may also decide to set aside some of your inheritance in their college fund. If you don't have an existing education fund, inherited money may be a perfect initial investment.



SECONDARY CONSIDERATIONS

If you have already addressed your primary concerns, you may want to consider further options.

You might want to use part of your inheritance to treat yourself or improve your quality of life. You could splurge on an elaborate vacation or set aside enough money to send your child to private school. If you can afford it, there's nothing wrong with responsible indulging.

A final option is to give a good portion of your inheritance to a charity or research organization, perhaps in memory of the person who left you the money. The emotional rewards of carrying on a legacy by contributing to a good cause can outweigh the value of spending the money on luxuries.

WIDOWHOOD

If you are widowed, your financial considerations may seem particularly hard to handle after the loss of your partner. You automatically become the full owner of all the property that you had held jointly. And you may have a large sum of life insurance money to manage. Eventually, you will have to claim your portion of payouts from Social Security, a pension, IRA, or annuity. Each of these responsibilities will be manageable with time. Here, too, the advice of a trusted financial planner or lawyer can be helpful.

Account value is the portion of your premiums that accumulates in the tax-deferred account of a universal life policy. Each month the insurer subtracts the cost of providing insurance, plus administrative fees and credits earnings on the remaining balance, at a rate that reflects what it's earning on its investments but is never less than the guaranteed rate.

Beneficiary is the person who receives the face value of your life insurance policy minus any outstanding loans plus interest and dividends after your death. You can name multiple beneficiaries or a primary and secondary beneficiary.

Cash value account is a tax-deferred account that receives a portion of each premium you pay for permanent life insurance and earns interest. You can borrow against the cash value, but unpaid loans plus interest reduce the death benefit that would be paid.

Cash surrender value is the amount of your cash value account that you receive back if you surrender your policy or allow it to lapse. Generally the only part that's taxable is any amount that exceeds the premiums you paid.

Claim is a request for payment that the beneficiary of your life insurance policy makes after your death.

Convertible policy is a term life insurance policy that you can change to a permanent policy typically without having to prove your insurability. A convertible policy generally has higher premiums than a regular term policy with the same benefit from the same insurer.

Death benefit is the dollar amount the beneficiary of a life insurance policy receives when the insured person dies.

Face value is the amount of a life insurance policy, which determines how much a beneficiary receives when the insured person dies. An outstanding loan is subtracted from the face value to determine the death benefit.

Insurability means that you qualify for life insurance coverage because your health, age, lifestyle, and other factors meet the insurer's requirements.

Lapsed policy is a life insurance policy that is no longer in force because you have stopped paying the premiums or your policy loan exceeded the maximum.

Level premium means you pay the same amount each time a premium on a life insurance policy is due for the entire time the policy is in force.

Needs analysis is a professional evaluation of the type and amount of life insurance you should have.

Permanent insurance, also called cash value insurance, provides lifetime coverage—provided you pay the premiums that are due—and accumulates a cash value against which you can borrow. The premium is fixed for the life of the policy. Outstanding loans plus interest reduce the death benefit.

Premium is the purchase price of a life insurance policy. You can pay a single lump sum or in installments. With permanent policies, the premium remains the same as long as the policy is in force. With term policies, the premium increases when you renew. On other policies, it may go up as the cost of providing the insurance increases, or if your account value isn't large enough to pay for coverage.

Renewable policy is a term life insurance policy that can typically be extended for an additional term without requiring you to prove insurability.

Rider is a modification added to an insurance policy that typically provides new or extended coverage in return for a higher premium.

Term insurance is a life insurance policy that provides a guaranteed death benefit for a set period, such as 10, 20, or 30 years, provided you keep the policy in force by paying the premiums that are due. At the end of the term, the coverage ends unless you renew the policy. Term policies don't accumulate a cash value.

Underwriting means evaluating the risks of providing insurance and agreeing to take those risks by selling you a policy.

Universal life is a type of permanent life insurance that offers a flexible death benefit that you can change with evidence of insurability. The tax-deferred account value grows at the guaranteed rate of interest or higher, and you can borrow against it or use it to pay premiums if it is high enough. However, premiums can increase if the cost of providing insurance increases or interest rates lag expectations.

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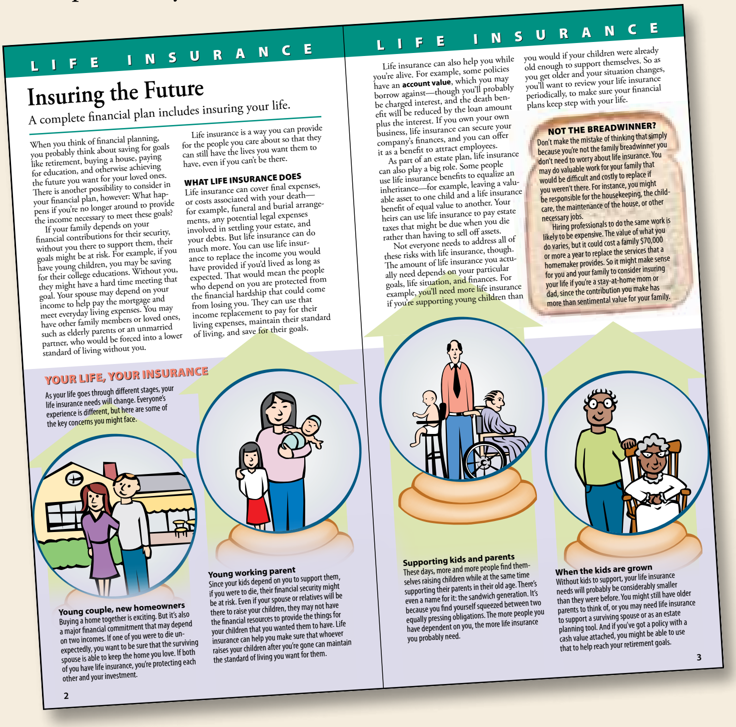
GUIDE TO UNDERSTANDING LIFE INSURANCE makes the basics of life insurance easy to understand, so you can decide how much coverage you need, which policy features to look for, and what to expect when you buy. Its engaging graphics and clear, straightforward language give you the knowledge you need to make the life insurance choices that are right for you and the people who depend on you.



LIFE INSURANCE

Insuring the Future

A complete financial plan includes insuring your life.

When you think of financial planning, you probably think about saving for goals like retirement, buying a house, paying for education, and otherwise achieving the future you want for your loved ones. There is another possibility to consider in your financial plan, however: What happens if you're no longer around to provide the income necessary to meet these goals?

If your family depends on your financial contributions for their security, without you there to support them, their goals might be at risk. For example, if you have young children, you may be saving for their college educations. Without you, they might have a hard time meeting that goal. Your spouse may depend on your income to help pay the mortgage and meet everyday living expenses. You may have other family members or loved ones, such as elderly parents or an unmarried partner, who would be forced into a lower standard of living without you.

Life insurance is a way you can provide for the people you care about so that they can still have the lives you want them to have, even if you can't be there.

WHAT LIFE INSURANCE DOES

Life insurance can cover final expenses, or costs associated with your death—for example, funeral and burial arrangements, any potential legal expenses involved in settling your estate, and your debts. But life insurance can do much more. You can use life insurance to replace the income you would have provided if you'd lived as long as expected. That would mean the people who depend on you are protected from the financial hardship that could come from losing you. They can use that income replacement to pay for their living expenses, maintain their standard of living, and save for their goals.

YOUR LIFE, YOUR INSURANCE

As your life goes through different stages, your life insurance needs will change. Everyone's experience is different, but here are some of the key concerns you might face.

Young couple, new homeowners
Buying a home together is exciting. But it's also a major financial commitment that may depend on two incomes. If one of you were to die unexpectedly, you want to be sure that the surviving spouse is able to keep the home you love. If both of you have life insurance, you're protecting each other and your investment.

Young working parent
Since your kids depend on you to support them, if you were to die, their financial security might be at risk. Even if your spouse or relatives will be there to raise your children, they may not have the financial resources to provide the things for your children that you wanted them to have. Life insurance can help you make sure that whoever raises your children after you're gone can maintain the standard of living you want for them.

2

LIFE INSURANCE

Life insurance can also help you while you're alive. For example, some policies have an **account value**, which you may borrow against—though you'll probably be charged interest, and the death benefit will be reduced by the loan amount plus the interest. If you own your own business, life insurance can secure your company's finances, and you can offer it as a benefit to attract employees.

As part of an estate plan, life insurance can also play a big role. Some people use life insurance benefits to equalize an inheritance—for example, leaving a valuable asset to one child and a life insurance benefit of equal value to another. Your heirs can use life insurance to pay estate taxes that might be due when you die rather than having to sell off assets.

Not everyone needs to address all of these risks with life insurance, though. The amount of life insurance you actually need depends on your particular goals, life situation, and finances. For example, you'll need more life insurance if you're supporting young children than you would if your children were already old enough to support themselves. So as you get older and your situation changes, you'll want to review your life insurance periodically, to make sure your financial plans keep step with your life.

NOT THE BREADWINNER?
Don't make the mistake of thinking that simply because you're not the family breadwinner you don't need to worry about life insurance. You may do valuable work for your family that would be difficult and costly to replace if you weren't there. For instance, you might be responsible for the housekeeping, the childcare, the maintenance of the house, or other necessary jobs.

Hiring professionals to do the same work is likely to be expensive. The value of what you do varies, but it could cost a family $70,000 or more a year to replace the services that a homemaker provides. So it might make sense for you and your family to consider insuring your life if you're a stay-at-home mom or dad, since the contribution you make has more than sentimental value for your family.

Supporting kids and parents
These days, more and more people find themselves raising children while at the same time supporting their parents in their old age. There's even a name for it: the sandwich generation. It's because you find yourself squeezed between two equally pressing obligations. The more people you have dependent on you, the more life insurance you probably need.

When the kids are grown
Without kids to support, your life insurance needs will probably be considerably smaller than they were before. You might still have older parents to think of, or you may need life insurance to support a surviving spouse or as an estate planning tool. And if you've got a policy with a cash value attached, you might be able to use that to help reach your retirement goals.

3

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