LIFE INSURANCE GUIDE

Important Facts You Should Know Before Buying Life Insurance

Life Insurance Is Financial Protection.
Life Insurance comes in many different forms and what you choose for protection should be in line with your goals.

RetireVillage

Presented by Joe Uppleger

Life Insurance Guide

Important Facts You Should Know Before Buying Life Insurance.

What Is Life Insurance?

In its most simple definition, a life insurance policy is a contract made between an insurance company and the insurance policy holder. In exchange for premium payments on a set schedule, the insurance company provides a lump-sum payment, known as a 'death benefit', to beneficiaries upon the insured's death.

People buy life insurance for many reasons, including:

- income replacement,
- mortgage protection,
- supplemental retirement income,
- liquidity for future tax liability,
- funeral and burial costs,
- covering the loss of a business' key staff member(s),
- diversify investments,
- and many other reasons.

Typically, a life insurance policy is chosen based on the specific needs and goals of the owner. There are a variety of life insurance types available to consumers today, the most popular being term and permanent life insurance. Term life insurance generally provides protection for a set period of time, while permanent insurance (such as whole and universal life) provides lifetime coverage.

It's important to note that death benefits from all types of life insurance are generally income tax-free, which helps secure your wealth for the future. Of course, the most important fact to remember about life insurance is the following:

Life insurance is financial protection.

In the event of a premature death, a life insurance policy provides liquid resources your loved ones may need to pay immediate and continuing expenses. And for those that live a long life, the cash value in life insurance could be available to you as a source of additional retirement income for your golden years. Ultimately, the goal of life insurance is to ensure that your life's accumulated wealth remains useful to your family and your goals—not spent on avoidable taxes or mismanaged after you're gone.

One of the most attractive features of life insurance policies is that they are adaptable as you see fit. Life insurance policies can provide immediate protection when you first purchase a policy and later evolve to fit your life as your needs change. Therefore, choosing the right type of life insurance and selecting the correct policy for your goals is an important decision that requires basic knowledge and sound planning.

Before we delve further into how to get started on which life insurance policy is right for your future, let's take a look at some interesting facts regarding life insurance in the United States.

Facts About Life Insurance

According to LIMRA, one of the trusted authorities in researching life insurance trends, the following insights were presented in the company's annual Insurance Barometer report in 2018:

- 90% of those surveyed think that a family's primary wage earner needs to own a life insurance policy.

- More than 1/3 (35%) of all households would experience adverse financial impacts within one month if a primary wage earner died.

- Among those with life insurance policies, nearly 1 in 5 say that they do not have enough coverage to address their future needs. Similarly, 1 in 5 of those that don't have any life insurance coverage believe they need a life insurance policy.

- Consumers overestimate the cost of life insurance. This is especially true for Millennials, where 44% overestimate the cost of a life insurance policy at an astounding 5 times the actual amount.

- 40% of Millennials say they wish their spouse/partner would buy more life insurance coverage.

- Over half of all consumers state that they need the services of a primary financial advisor; 37% already have one, while 14% are actively looking for one.

- Half of all consumers say they are more likely to purchase life insurance if priced without a physical examination (called "simplified underwriting").

- Half of all adults surveyed mentioned that they visited a life company website and/or sought life insurance information online. Of those, nearly 1 in 3 purchased or attempted to purchase life insurance online — about the same as in 2016.

- The importance of social media platforms is growing for those seeking life insurance policies and useful information for decision-making, which is particularly true among younger generations. 54% of Millennials are likely to ask social media connections for recommendations on trusted financial professionals.

[Source: https://www.limra.com/research/abstracts_public/2018/2018_insurance_barometer.aspx]

Choosing the Right Policy

The purchase of life insurance is an important decision. There are many reasons why life insurance policies are purchased, but these reasons should be based on your specific financial planning needs and goals.

To begin the process of picking the insurance policy that's right for you, you should create a list of the current and future financial needs of those who depend on you. This should take some time and introspection, as you may want to consider:

- immediate and extended family,
- children who may be enrolling in higher education,
- grandchildren that have yet to be born,
- declining health of loved ones,
- family-owned businesses,
- and any other needs that may grab your attention.

Carefully consider worst-case scenarios and potential conflicts that could potentially arise, prioritizing who may be most vulnerable in your passing. Remember, because life insurance works as financial instrument as well as coverage for your loves ones, you may want to go over these concerns with your spouse or a professional (i.e. life insurance agent, estate planner) estate planner to can guide you through their experience with other clients.

You will also want to review some basic life and financial questions to help you choose the right life insurance policy. These include:

Q: Why do I need life insurance?

Many people buy life insurance because others are dependent on them and to work as a financial instrument for future-planning. Life insurance provides tax-free cash to your family in the event of your death, which enables you to make more concrete plans for your loved ones' future in your absence.

The money your beneficiaries receive can be an important financial resource to cover daily living expenses, pay the mortgage, cover funeral expenses, pay off a vehicle and other debts. Life insurance proceeds can help fund school tuition and remove the burden of debt that their children may encounter. The benefits that a well-chosen life insurance policy provide are also more profound, as it can reduce the present-day stress caused by worry and financial concern, replacing it with peace of mind that your life's purpose continues after your passing.

Of course, many people see their needs change as they get older. Once the life policy might have been needed for mortgage protection and then later in retirement, it might be used to replace an income stream if a partner were to die.

Those on fixed or limited income may find solace knowing that a surviving spouse will not be faced with a financial burden after their death. The flexibility of life insurance makes it an attractive choice for those that want a wide variety of financial options as they age.

Q: How much life insurance coverage do I need?

As you may have read before, among those with life insurance, roughly 20% say that they do not have enough coverage for the future (according to [2018 stats] from [Life Insurance Marketing and Research Association]). For those without life insurance, 20% also agree that they do not have enough coverage. With numbers this large, it's important to take an earnest look into how much life insurance coverage you need.

It should be noted that there isn't a consensus on what amount is sufficient, needs and goals are different and vary by individual circumstances and over time. Insurance needs are based on a combination of your financial responsibilities, sources of income, savings and goals.

Because every person's situation varies, it may help to answer some of the following questions, such as:

- *How much of the family income do I provide?*
- *If I were to die, what would my family use for income?*
    - One of the first expenses that a family incurs from the passing of a loved one are burial costs. Considering that the average costs of a funeral is between $7,000 to $10,000, life insurance can help avoid creating an unnecessary financial burden for your family.
- *How would my income be replaced?*
- *Would my children have enough money for their education?*
    - *As of 2019, the average cost of a college education annually for a private university is over $30,000; in-state university's charge over $9,000. Depending on your child's area of focus, such as medical school, these costs can be even higher.*
- *How much inflation should I plan for?*
    - Considering that the annual inflation rate in the United States is around 2% per year, online calculators can provide an estimate of how your current finances will hold up at this rate. Online calculators, such as https://www.usinflationcalculator.com/inflation/current-inflation-rates/ can provide a more concrete assessment of the future.
- *Could my spouse replace my income?*
- *Does anyone else in my family or at work depend on me financially?*
- *How much debt do I have, how would it be repaid?*
- *How much do I owe on my mortgage?*
- *Do I have charities that I would want to leave money for?*
- *What is the value of my estate?*

Many people prefer the *do it yourself* approach to selecting the right amount of life insurance, but an insurance professional will provide expert assistance and insight into the process, helping you determine what level of protection is right for you and your family.

An agent can help you more accurately determine how much coverage you need. Evaluating income sources and financial responsibilities allows the agent to monetize potential obligations should a premature death occur. Family needs, school expenses, medical care, and retirement savings are all taken into consideration.

If you are a *do-it-yourself* person or simply want to corroborate the advice of an insurance professional, the Internet provides numerous calculators to help you make the right decision simply by entering "life insurance calculator" in your preferred search engine. Some calculators allow you to enter in your annual income, cost of burial expenses, years of income needed to cover the policyholder's loss, and more.

Your need for life insurance will vary and change with your age and responsibilities. The amount of insurance you buy should depend on the standard of living you wish to assure for your dependents. Consider the amount of assets and sources of continuing income available to your dependents when you pass away. You should choose an amount of life insurance necessary to meet the needs you are trying to satisfy.

A balance needs to be achieved in this process. To be over-insured can negatively affect your day-to-day budget and threaten your long-range financial goals just as much as being under-insured can.

Now that you have a good idea of your insurance needs, it is time to familiarize yourself with the various types of life insurance policies, weighing the direct and passive benefits they provide.

What are the Different Types of Life Insurance?

Life insurance falls into two different categories: term and permanent.

What is Term Life Insurance?

Term life insurance, also known as “temporary life insurance”, provides protection for a specified period of time. The most typical timespan of these policies are options of 10, 20, or 30 years—with some variations among different insurers. Term is the most affordable coverage because it doesn’t usually have any features other than providing a pure death benefit. The price of the policy, or premium, typically stays the same each year during the term. Of course, the downside to term insurance is that once it expires, the price to buy a new policy goes up as you get older.

Some term policies can provide benefits other than the death benefit. As an example, some polices offer a “return of premium” benefit that will generally return all premiums paid at the end of a specified term if no death benefit was paid. The insurance company in return for accepting the insurance risk would only earn the use of the premiums and not the premiums themselves.

What is Permanent Life Insurance?

Permanent life insurance, on the other hand, provides a death benefit for your entire life and also functions as an investment. A portion of each premium that a policyholder pays goes into an account known as the policy’s “cash value”. This cash value continues to grow on a tax-deferred basis until you decide to take a withdrawal or borrow from the policy.

Permanent insurance is significantly more expensive than a term life insurance policy. Various fees and commissions charged can reduce your annual return on the investment part of the policy, compared to what individuals could potentially earn in the market otherwise.

The four most common types of permanent life insurance are:

- whole life
- universal life
- universal indexed life
- variable life

Whole Life (also known as ordinary life) offers premiums, cash value and death benefit that are guaranteed for your whole life. Whole life premiums are guaranteed fixed over the life of the policy. However, whole life insurance policies offer a fixed death benefit and cash value that grows at a fixed rate of return, fully guaranteed. Variations of paying whole life premiums do exist, as in some policies, premiums may be required to be paid for a set number of years before qualifying for these benefits. Under other policies, premiums are paid throughout the policyholder's lifetime.

Universal Life generally provides the greatest flexibility in designing a policy based on specific goals. Universal life provides the ability in setting premium payments as well as death benefits. Each year, your policy is assessed “cost of insurance” (COI) fees, which are based on your age and the historical experience of the insurance company. The more likely that death claims could be paid out could mean a higher cost of insurance (COI). The opposite is also true, where favorable mortality experience could mean lower policy expense.

Most Universal life contracts offer minimal guarantees and because of the flexibility, management of the policy over the years is essential.

Indexed Universal Life insurance plans are an evolution of traditional universal life insurance. Indexed universal plans provide a death benefit and a separate cash value that may increase over time depending on how the funds in the policy are invested. Traditional universal life deposits the premium after insurance costs in the general account of the insurance company.

Indexed universal life allows funds to be invested in an outside source, such as the S&P 500 Stock Index. The funds are technically invested in futures, not the actual fund and returns will only be a portion of the actual returns. Because of this, downside market risks are avoided with indexed universal life insurance policies.

Variable Life allows you to choose among a variety of investments offering different risks and rewards. Instead of your premiums being deposited in the general account of the insurance company, you can choose which investment might make sense for you. Options can include stocks, bonds, or investments that guarantee principal and interest. Death benefits and accumulated value in the policy can vary depending on the performance of the invested assets AND the actual cost of the insurance benefit.

Variable life does carry risks along with financial rewards. These can include expenses such as investment fees, insurance fees and general operating costs—all of which are charged back to the policy and subtracted prior to calculation of net returns. Many different options are offered in this category; therefore, it is important to fully understand the details of the policy with in-depth research and the help of a professional agent/advisor.

The Differences between Term and Permanent Life Insurance

Type of Policy	Premium	Face Amount	Cash Value	Policy Loans
Term	Low; but increase w/age	Renewable into old age	None	No
Whole	Level	Level; can't be changed	Yes; no ability to choose investments	Yes
Univeral	Flexible	Level; can vary	Yes; no ability to choose investment	Yes
Variable	Level	Level; Can't be changed	Yes; abililty to choose investments	Yes
Variable Universal	Flexible	Level; can vary	Yes; ability to choose investments	Yes

Now that you know that term and permanent are the two main types of life insurance, deciding on which type is best for your life's unique situation can still be a bit confusing. In general, both types provide protection. Permanent life insurance is intended for long-term benefits while term life insurance is intended for temporary usage. With term insurance, your protection merely ends either at the end of the term or when you stop making premium payments.

Another way to think about the different types of life insurance is that permanent is designed to insure you during a lifetime or as long as you make regular premium payments, and term is designed to provide protection for a specific time period. **In other words, with permanent life insurance, you buy; with term life insurance, you rent.**

Term policies are generally purchased for a specific need and are therefore only intended for protection, such as providing tax-free funds to pay a mortgage if the insured dies. Permanent life insurance, on the other hand, can build up cash value over time and takes more premeditation. This cash value grows tax-deferred and can be used at some future date either by borrowing from the policy or converting it to supplemental retirement income. If your need for life insurance diminishes, permanent life insurance may have cash value available to you if you surrender the policy.

Cash value insurance advantages include:

- lifetime protection in exchange for paid premiums,
- a fixed premium cost in whole life,
- flexibility with premiums in universal and variable life,
- and can be used as retirement income, as the IRS allows for the accumulated cash value to be transferred to an annuity (IRS 1035 exchange) without tax liability.

Cash value insurance does have disadvantages.

Cash value insurance is a longer-term policy, carrying more risk and responsibility. It is designed to be owned for a substantial period of time.

A decision to cancel or surrender early can be an expensive mistake, and you may lose out on this benefit if you fall on hard financial times or neglect to pay the premiums. Considering that premiums for permanent cash value life insurance can be much higher than a policy which only provides a death benefit, it's important to select a policy designed for your specific needs and goals.

Purchasing a Life Insurance Policy

The process of purchasing life insurance usually follows a number of steps:

1. To get started, you will go through an in-depth evaluation of your ability to become a policy holder—which is known as the underwriting process. Your agent will ask you several general questions about your health to start the application process. These questions are meant to weed out unqualified applicants and to assist the agent in finding policies that fit your needs.

2. Next, the insurance company will follow up with a telephone interview to get a more complete picture of your health and lifestyle. To prepare, expect an associate of the insurance company or licensed medical professional to ask more precise details of your personal and family's medical history. You will also be asked for some financial information. To ensure that you provide accurate information, make sure to have your doctor's information handy as well as any recent hospitalizations and a list of medications that you currently take.

3. After the interview, you will be required to take a paramedical exam. This assessment is conducted by a licensed medical professional and shouldn't take more than 30 minutes. The medical professional takes basic readings of your health, including blood pressure reading, height, weight, and providing blood/urine samples. Some types of life insurance policies allow individuals to opt-out of this, such as real-time term life insurance policies, which can give you the coverage you need in less than 20 minutes. Talk to your independent insurance adviser for more information.

4. Once the paramedical exam has been conducted, the underwriting department of the insurance company will review your application. They may then contact you with any additional follow-up questions they may have.

5. After your agent reviews your information, they will notify you when a decision is made. This typically takes 3 – 4 weeks, though some applicants receive answers in a shorter timeframe.

6. If your application is approved, your policy will be delivered to you. Make sure to review it carefully, and if you have any questions, be sure to contact your independent agent to clarify items that may be confusing or unclear.

Should you use the Internet to buy life insurance or should you use the services of an agent?

In the age of the Internet where everything is available at our fingertips, buying the right life insurance policy seems to be within the reach of most computer-savvy individuals…

Or is it?

Life insurance can be purchased almost anywhere, banks, stockbrokers, direct from the company, Internet, by phone from advertising and even by mail. Type into *Google* the word *life insurance* and see how many offers come up from the search query. With all of these options, why would you use an agent?

Remember, the cost of the insurance will be the same regardless of how you elect to buy. Working with an agent can provide you with insight into different policies, different companies and an agent will ask you many more pertinent questions than a computer website will.

Agents are required to learn as much about your needs and goals as possible. By doing so, many more options of life insurance protection could be uncovered. Plus, when working with an agent you could receive personalized service and insurance updates.

Each department of insurance in your state of residence keeps records of all licensed agents such as how long have they been an agent, are there any complaints, what companies does he or she represent. This is public information and fully available to you.

How do you select an agent?

Agents often belong to professional associations that grant professional credentials and designations such as Chartered Life Underwriter (CLU) and Life Underwriter Training Council Fellow (LUTCF).

When considering buying a policy, the agent (or company) will provide you with a policy illustration, their guess as to future performance (or policy guarantees).

Here are important points regarding life insurance policy illustrations.

- A policy illustration is an estimate of future policy performance. A policy illustration is not part of the life insurance policy and is not a legal document. Legal obligations are spelled out in the policy contract. A policy illustration, however, can help you understand how a policy works.
- A policy illustration is meant to provide an example, based on certain assumptions, of how a policy's costs and benefits may develop over time.
- Illustrations take into consideration your age, marital status, current state of health, health rate variances, smoker, occupation and avocations.

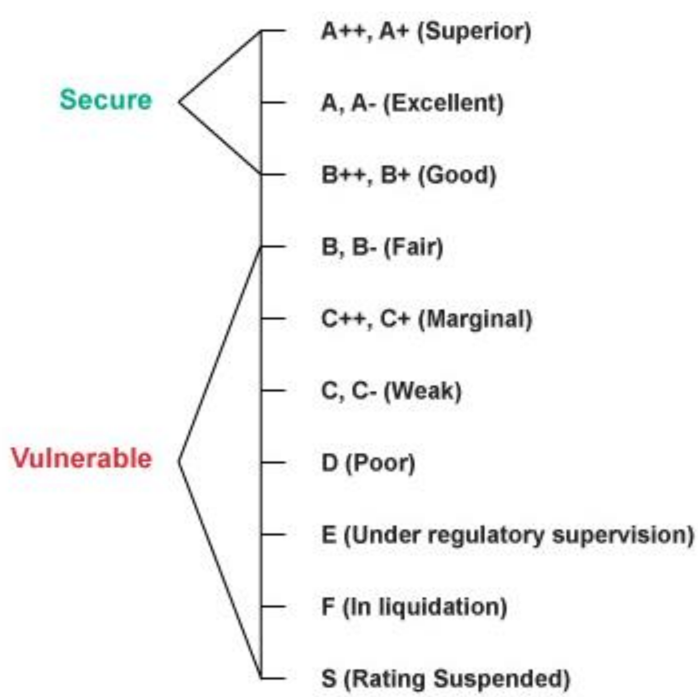
- Actual costs and policy performance could be higher or lower than those in the illustration because they depend on the future financial results of the insurance company. If the policy has guarantees, the company will honor them regardless of actual results. Always ask which figures are guaranteed and which are not because a policy illustration can be complicated.

Selecting a Life Insurance Company

What company should I select?

Insurance companies are the most regulated of all financial industries. Each state has full authority to examine and approve any company doing business in their state. In addition to state regulation, financial rating services also investigate and attach a financial rating to the insurance company. There are several rating services such as A.M. Best Company, Fitch Ratings, Moody's Investor Services and Weiss Ratings. These services evaluate the financial strength of companies and their ability to provide reliable service for policyholders.

The following illustration will give you a guideline to the financial strength of the insurance company regardless of which rating service you select.



Frequently Asked Questions about Life Insurance

1. How do I know which life insurance company is safe?

Life insurance companies are highly regulated by each state's Department of Insurance. Your Department of Insurance can provide you with information to assist you in deciding about purchasing coverage, including:

- whether or not the company is licensed,
- complaints filed,
- and years in business.

Also, be sure to ask around. Those who have held life insurance policies for years can give you valuable information to inform your decision.

2. What will happen to my policy if the company fails?

Insurance companies licensed to write life insurance policies in your state are members of the State Guarantee Association. Each state guarantees the performance of companies authorized to conduct business in the state, however guarantees do vary.

The following link to the National Organization of Life & Health Insurance Guaranty Associations will help you look up your specific state of residence: https://www.nolhga.com/policyholderinfo/main.cfm

3. Is the policy a legally binding contract?

Yes, an insurance policy issued by an insurance company is a written guaranteed contract. Provisions in the policy are legally defined and specified.

4. If I buy a policy, can I name or designate the beneficiary?

Yes, as the owner of the policy, you have the ability name a beneficiary and change the beneficiary(ies) whenever you want to. However, many companies will only allow a beneficiary to have an insurance interest in the life of the insured at the time of application. In other words, the named beneficiary would suffer a financial loss should death of the insured occur. Having the advice of a professional before choosing a policy can solve this problem for you and avoid losing out on your policy.

5. If I quit paying the premiums and drop the policy, can the insurance company sue me for breach of contract?

No, life insurance policies are unilateral. You may quit or surrender a policy anytime you wish, but if you pay the premiums specified, the company must honor their contract.

6. If the policy pays a death claim to my beneficiary, do they have to pay federal income taxes?

No, life insurance paid as proceeds from a death benefit claim are tax-free.

7. My policy has accumulated cash value but it is less than the premiums I have paid, why?

Cash value (accumulated value) of a whole life insurance policy is the amount of money the policy will accumulate in the contract. The amount of cash value depends on the face amount of the policy, the length of time the policy has been in force, and the length of the policy's premium payment period.

The cash value will normally increase throughout the life of the policy, depending on your contract. Life insurance is a long-term plan - in most polices, the cash value will eventually exceed the premium deposits. Bear in mind that many permanent cash-value policies show no available cash value in the first year.

8. I just received my new policy, how much time do I have to review it and still get a refund?

The "free look" period depends on your state of residence, but generally 30 days for the free look period is an industry standard. Ask your insurance agent or the insurance company to determine how long your specific period is.

9. I am applying for a life insurance policy and a medical exam is required. Do I have to pay for it?

No, you don't have to pay for the medical exam required by the insurance company. Instead, the insurance company foots the bill of the medical exam to determine if you quality according to the policy standards.

10. Are the premiums I pay for my life insurance tax-deductible?

No, life insurance premiums are not tax-deductible; however, death benefits paid to a named beneficiary are tax-free.

11. I recently returned from vacation and realized I hadn't made my insurance payment, what happens?

If you miss a premium payment, you usually have a 30- or 31-day grace period in which to make your payment without consequences. The policy will remain in effect during the grace period. If you die within the grace period, your beneficiary will receive the death benefit minus the overdue premium. However, if you don't pay premiums for longer than this period, you may lose coverage, face penalties, and other drawbacks—make sure to consult with an agent for the worst-case scenario.

12. If I am hurt and unable to work, how will I pay my premiums? Can I buy additional insurance for that?

Yes, most companies offer a "waiver of premium" feature. Should you become disabled and unable to work, the premiums will be made for you by the insurance company. Generally, there is a waiting period, such as 6 months.

Tips about Life Insurance

Take time to fully understand any policy you're considering and that you're comfortable with the company, agent, and product.

Many states require the agent or company provide you with a buyer's guide to explain life insurance terms, benefits, and costs.

Always answer questions on your life insurance application truthfully. If you do not understand the questions, ask. Be sure your application has been filled out accurately. If an error is discovered, make sure your agent knows as soon as possible. This can help avoid potential conflicts in the future, where you may unintentionally violate the terms and conditions of the policy.

When buying a policy, ALWAYS make the check payable to the insurance company and never an agent or an agency. It is a good idea to always ask for and obtain a receipt from the agent. Once the policy is issued, the company will notify you in writing and a policy should be in your possession within 60 days or less.

If you are confused or fail to understand exactly what you have applied for or purchased, consult your state's Department of Insurance.

Additional Resources

American Council of Life Insurers - www.acli.com

National Association of Insurance Commissioners Consumer Information - https://eapps.naic.org/cis

LIMRA (formerly known as Life Insurance Marketing and Research Association) - www.limra.com

SAFE FUTURE FINANCIAL LLC

joe@safefuturefinancial.com

Joe Uppleger
5840 Sterling Dr. Ste 510
Howell, MI 48843

"Helping People All Across the Nation
Protect Their Retirement Money"

Safe Future Financial
(734) 323-7429

Disclaimer: This report is intended only as basic information about life insurance, it should not be used in any final decision about purchasing a specific policy.

Life insurance is a part of your long term financial planning and seeking professional and authorized agents, insurance professionals, insurance companies and brokers is essential. Never make any decision without fully understanding all aspects of your decision and how it may affect your goals and plans. Planning should include any tax liability as well as current and future use of your available assets. If you do not fully understand the process, seek a second opinion. Your state department of insurance is a solid source for information.