LIFE INSURANCE - THE FOUNDATION OF FINANCIAL SECURITY

What You Should Know About Buying Life Insurance

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BUYING LIFE INSURANCE

Buying life insurance is not like any other purchase you will make. When you pay your premiums, you're buying the future financial security for your family that only life insurance can provide. Among its many uses, life insurance helps ensure that, when you die, your dependents will have the financial resources needed to protect their home and the income needed to run a household.

Choosing a life insurance product is an important decision, but it often can be com-plicated. As with any major purchase, it is important that you understand your needs and the options available to you.

That's where this booklet comes in; read it thoroughly. It takes you through the basics, step-by- step, as you prepare for this significant purchase. Most important, it will help you know what questions to ask when you're buying life insurance.

Life insurance also can be used to help with other financial goals, such as funding retirement or education expenses. However, it is important to remember that the main purpose of life insurance is financial protection. If your primary goals are something other than protection, you should consider what other financial products are available to meet those goals.

The information in this brochure has been compiled by the American Council of Life Insurance, a trade association of more than 600 life insurance companies. Collectively, these companies provide about 90 percent of the life insurance in force in the United States.

LEARNING THE BASICS

The best way to make an informed decision about buying life insurance is to become familiar with the basics.

Why do I need life insurance?

Life insurance is an essential part of financial planning. One reason most people buy life insurance is to replace income that would be lost with the death of a wage earner. The cash provided by life insurance also can help ensure that your dependents are not burdened with significant debt when you die. Life insurance proceeds could mean your dependents won't have to sell assets to pay outstanding bills or taxes. An important feature of life insurance is that no income tax is payable on proceeds paid to beneficiaries.

How much life insurance do I need?
Before buying life insurance, you should assemble personal financial information and review your family's needs. There are a number of factors to consider when determining how much protection you should have.

These include: any immediate needs at the time of death, such as final illness expenses, burial costs and estate taxes;l funds for a readjustment period, to finance a move or to provide time for family members to find a job; and ongoing financial needs, such as monthly bills and expenses, day-care costs, college tuition or retirement. Although there is no substitute for a careful evaluation of the amount of coverage needed to meet your needs, one rule of thumb is to buy life insurance that is equal to five to seven times your annual gross income.

What is term insurance?
Term insurance provides protection for a specific period of time. It pays a benefit only if you die during the term. Some term insurance policies can be renewed when you reach the end of a specific period which can be from one to 20 years. The premium rates increase at each renewal date. Many policies require that evidence of insurability be furnished at renewal for you to qualify for the lowest available rates.

What is permanent insurance?
Permanent insurance provides lifelong protection and is known by a variety of names, described later. As long as you pay the necessary premiums, the death benefit always will be there. These policies are designed and priced for you to keep over a long period of time. If you don't intend to keep the policy for the long term, it could be the wrong type of insurance for you.

Most permanent policies including whole, ordinary, universal, adjustable and variable life have a feature known as "cash value" or "cash surrender value". This feature, which is not found in most term insurance policies, provides you with some options:

You can cancel or "surrender" the policy "in total or in part" and receive the cash value as a lump sum of money. If you surrender your policy in the early years, there may be little or no cash value.l If you need to stop paying premiums, you can use the cash value to continue your current insurance protection for a specific period of time or to provide a lesser amount of protection to cover you for as long as you live. Usually, you may borrow from the insurance company, using the cash value in your life insurance as collateral. Unlike loans from most financial institutions, the loan is not dependent on credit checks or other restrictions. You ultimately must repay any loan with interest or your beneficiaries will receive a reduced death benefit.

The cash values of many life insurance policies may be affected by your company's future experience, including mortality rates, expenses and investment earnings. Keep in mind that with all types of permanent policies, the cash value of a policy is different from the policy face amount. Cash value is the amount available when you surrender a policy before its maturity or your death. The face amount is the money that will be paid at death or at policy maturity.

What are the types of permanent insurance?
There are many different types of permanent insurance. The major ones are described below:

Whole Life or Ordinary Life
This is the most common type of permanent insurance. The premiums for a whole life policy must be paid periodically in the amount indicated in the policy. These premium amounts generally remain constant over the life of the policy.

Universal Life or Adjustable Life
This variation of permanent insurance allows you, after your initial payment, to pay premiums at any time, in virtually any amount, subject to certain minimums and maximums. You also can reduce or increase the amount of the death benefit more easily than under a traditional whole life policy. (To increase your death benefit, you usually will be required to furnish the insurance company with satisfactory evidence of your continued good health.)

Variable Life
This type of permanent policy provides death benefits and cash values that vary with the performance of an underlying portfolio of investments. You can choose to allocate your premiums among a variety of investments which offer varying degrees of risk and reward stocks, bonds, combinations of both, or accounts that provide for guarantees of interest and principal. You will receive a prospectus in conjunction with the sale of a variable product.

The cash value of a variable life policy is not guaranteed, and the policyholder bears that risk. However, by choosing among the available fund options, the policyholder can create an asset allocation that meets his or her objectives and risk tolerance. Good investment performance will lead to higher cash values and death benefits. On the other hand, poor investment performance will lead to reduced cash values and death benefits.

Some policies guarantee that death benefits cannot fall below a minimum level. There are both universal life and whole life versions of variable life.

What are the advantages and disadvantages of term and permanent insurance?

Term Insurance

Advantages
Initially, premiums are generally lower than those for permanent insurance, allowing you to buy higher levels of coverage at a younger age when the need for protection often is greatest.l It's good for covering specific needs that will disappear in time, such as mortgages or car loans.

Disadvantages
Premiums increase as you grow older.l Coverage may terminate at the end of the term or may become too expensive to continue.l Generally, the policy doesn't offer cash value or paid-up insurance.

Permanent Insurance

Advantages
As long as the necessary premiums are paid, protection is guaranteed for your entire life.l Premium costs can be fixed or flexible to meet personal financial needs.l Policy accumulates a cash value that you can borrow against. (Loans must be paid back with interest or your beneficiaries will receive a reduced death benefit.) You can borrow against the policy's cash value to pay premiums or use the cash value to provide paid-up insurance. The policy's cash value can be surrendered' in total or in part ' for cash or converted into an annuity. (An annuity is an insurance product that provides an income for a person's life-time or for a specific period of time.)l A provision or "rider" can be added to a policy that gives you the option to purchase additional insurance without taking a medical exam or having to furnish evidence of insurability. (For more information on riders, see page 19.)

Disadvantages
Required premium levels may make it hard to buy enough protection.l It may be more costly than term insurance if you don't keep it long enough.

GETTING STARTED

After you have thought about your financial needs and have become familiar with the basic types of life insurance, you will need to choose a company and agent.

How do I choose a company?
More than 2,000 companies in the United States sell life insurance. While some consumers prefer to buy policies directly from a company, most people buy life insurance through agents or brokers. Much of the information provided here will be helpful whichever way you decide to buy life insurance.

Before purchasing a policy, check the company's financial condition. You can do this by asking the agent or requesting information from your state's insurance department. A number of insurance rating services rate the financial strength of companies. These ratings can be found in large public or business libraries, or can be obtained directly from the rating service. There may be a fee forthat information.

Also check with the state insurance department to be sure the company is licensed in your state.

How do I choose an agent?
Collect the names of several agents through recommendations from friends, family and other sources. The following are some questions you may want to ask a potential agent:

Is the agent licensed in your state?
All states require that agents be licensed to sell life insurance. In addition, agents who sell variable products must be regis-tered with the National Association of Securities Dealers and have additional state licenses.

What company or companies does the agent represent?
Does the agent have any professional designations?Professional designations include Chartered Life Underwriter (CLU) and Life Underwriting Training Council Fellow (LUTCF). Agents who also are financial planners may have designations, such as Chartered Financial Consultant (ChFC), Certified Financial Planner (CFP) or Member of The Registry of Financial Planning Practitioners.

Is he or she a member of a professional association?

The major association for agents is The National Association of Life Underwriters (NALU). Through NALU's local associations, agents can attend educational seminars and can stay on top of trends in the business. Similar training and services are provided to financial planners through the American Society of CLU & ChFC, the Institute of Certified Financial Planners (ICFP), and the International Association for Financial Planning (IAFP).

What can I expect an agent to do for me?
An agent should be willing and able to explain various policies and other insurance-related matters. Let your agent know what you expect from him or her. You should feel satisfied that the agent is listening to you and looking for ways to get you the right type and amount of insurance at an affordable price. If you are not comfortable with the agent, or you aren't convinced he or she is providing the service you want, find another agent.

THE AGENT VISIT

Now that you have reviewed the basics of life insurance and thought about your personal financial needs, you can shop for a life insurance policy with more confidence and knowledge.

What can I expect during an agent visit?
The agent you have selected will meet with you to discuss your life insurance needs. He or she will ask questions about family income and your net worth. Using the information you already have assembled about your financial situation, you should be prepared to discuss your insurance options.

Will the agent ask questions about my health?
In this initial meeting, be prepared to answer questions about your health (for example, age, medical condition, medical history, family history, personal habits). It is important that you answer these questions carefully and truthfully; this information helps a company charge a fair premium for your coverage. For instance, you may pay a lower premium if you don't smoke. On the other hand, if you have a chronic illness, you may be charged a higher premium.

Also, in the event of a claim, accurate and truthful answers enable your beneficiary to receive prompt payment. Inaccurate or untruthful answers, however, may cause delay or even denial of a claim.

When you apply for life insurance, you may be asked to have a medical exam. Often, a licensed medical professional will make a personal visit.

YOUR AGENT'S RECOMMENDATION

Once you have discussed your financial needs and objectives with your agent, he or she will recommend the type of life insurance policy that will best suit your purposes. Often, the agent will provide a "policy illustration" that will show how your policy will work. (See page 16.)

Carefully study your agent's recommendation and ask for a point-by-point explanation if there are items you don't understand. Because your policy is a legal document, it's important that you know what it provides.

Here are some other questions you should ask:

Does this policy truly meet my needs?

If your agent recommends a term policy, consider the following:l
How long can I keep this policy?
If you want the option to renew the policy for a specific number of years or until a certain age, ask your agent about the terms of renewal of the contract.l When will my premiums increase? Annually? Or after a longer period of time, such as five or 10 years?l Can I convert to a permanent policy? Some policies allow you to convert the policy to permanent insurance without a medical exam, regardless of your physical condition at the time of the conversion. These policies are known as "convertible term."

If your agent recommends a permanent policy, consider the following:
Are the premiums within my budget? Be sure you want to spend the money for this type of long-term coverage.l Can I commit to these premiums over the long term?l Make sure you know the amount you would receive if you surrender your policy.Keep in mind that permanent insurance is designed to provide protection for your entire life. If you don't plan to keep the product for many years, consider another type of policy. Cashing in a permanent policy after only a couple of years can be a costly way toget insurance protection for a short term.

What does my policy illustration show? An illustration shows policy premiums, death benefits, cash values and information about other items that can affect your cost of obtaining insurance. Some of the items listed in the illustration are used by the insurance company to reduce your costs if its future financial results are favorable. Your policy may provide for dividends to be paid to you as either cash or paid-up insurance. Or it could provide for interest credits that could increase your cash value and death benefit or reduce your premium. These items are not guaranteed. Your costs or benefits could be higher or lower than those illustrated, because they depend on the future financial results of the insurance company. With variable life, your values will depend on the results of the underlying portfolio of investments.

Ask your agent for an explanation of the illustration; some figures are guaranteed and some are not. Remember that the insurance company will honor the guaranteed figures regardless of its future financial experience.

If your policy is a variable life policy, be sure that the interest rate assumed is reasonable for the underlying investment accounts to which you choose to allocate your premiums. For example, some investment advisors suggest that a higher interest rate assumption may be warrant-ed if you plan to allocate your premium to a stock account, while a lower rate should be assumed for more conservative alternatives.

It is important to keep in mind that an illustration is not a legal document. Legal obligations are spelled out in the policy itself.

Here are additional questions to ask about the policy illustration:

Is the illustration up to date? Is it based on current experience?l Is the classification shown in the illustration appropriate for me (i.e., smoker/non-smoker, male/female)?l When are premiums due annually, monthly or otherwise?l Which figures are guaranteed and which are not?l Will I be notified if the non-guaranteed amounts change? Does the policy have a guaranteed death benefit, or could the death benefit change depending on interest rates or other factors?l Does the policy pay dividends or provide for interest credits? Are those figures incorporated into the illustration?l Will my premiums always be the same? Is it possible that the premium will increase significantly if future interest rates are lower than the illustration assumes?l If the illustration shows that, after a certain period of time, I will not have to make premium payments, is there a chance I could have to begin making payments again in the future?l Is the premium level illustrated sufficient to guarantee protection for my entire life?

What happens if I fail to make the required premium payments? If you miss a premium payment, you typically have a 30- or 31-day grace period during which you can pay the premium with no interest charged. After that, the company can with your authorization draw from a permanent policy's cash value to keep that policy inforce. In some flexible premium policies, premiums may be reduced or skipped as long as sufficient cash values remain in the policy. However, this will result in lower cash values.

What happens if I become disabled and can't pay the premiums on my policy?
Provisions or riders that provide additional benefits can be added to a policy. One such rider is a waiver of premium for disability. With this rider, if you become totally disabled for aspecified period of time, you do not have to pay premiums for the duration of the disability.

Are other riders available?
Another rider, called an "accidental death benefit", provides for an additional benefit in case of death as a result of an accident.

A relatively new rider offered by some companies provides "accelerated benefits," also known as "living benefits." This rider allows you, under certain circumstances, to receive the proceeds of your life insurance policy before you die. Such circumstances include terminal or catastrophic illness, the need for long-term care or confinement to a nursing home.

Ask your agent for information about these
and other policy riders.

When will the policy be in effect?If you decide to purchase the policy, find out when the insurance becomes effective. This could be different from the date the company issues the policy.

Is a "Buyer's Guide" available?
Most state insurance departments require companies to provide consumers with a buyer's guide to help them understand life insurance terms, benefits and costs.
Ask your agent for a copy.

FINAL TIPS

Here are a few tips to keep in mind about your life insurance purchase:Take your time. On the other hand, don't put off an important decision that would protect your family. Make sure you fully understand any policy you are considering and that you are comfortable with the company, agent and product. Don't rush into a decision just because you are feeling pressured.When you purchase a policy, make your check payable to the insurance company, not to the agent. Be sure you are given a receipt.After you have purchased an insurance policy, keep in mind that you may have a "free-look" period usually 10 days after you receive the policy during which you can change your mind. During that period, read your policy carefully. If you decide not to keep the policy, the company will cancel the policy and give you an appropriate refund. Ask your agent.Review the copy of your application contained in your policy. Promptly notify your agent or company of any errors or missing information.If an agent or company contacts you and wants you to cancel your current policy to buy a new one, contact your original agent or company before making any decisions. Surrendering your policy to buy another could be very costly to you.

If you have a complaint about your insurance agent or company, contact the customer service division of your insurance company.

If you still are dissatisfied, contact your state insurance department. Most departments have a consumer affairs division that can offer help.Review your policy periodically or when your situation changes to be sure your coverage is adequate.

OTHER RESOURCES

Where else can I get information about insurance?Your personal insurance agent and company are good sources of general information about insurance.Contact the National Insurance Consumer Helpline (NICH) at 1-800-942-4242. NICH is a toll-free consumer information telephone service sponsored by insurance industry trade associations. Look in your local library for magazines or books on insurance or personal finance.The consumer affairs division of your state insurance department can provide useful information. Some departments have toll-free numbers to respond to consumer questions.

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