1. What is life insurance?

Life insurance is a policy that pays someone a death benefit when the person insured dies. You choose the amount of the death benefit when you buy the policy.

2. How much does life insurance cost?

Costs are determined by your age, health status, your gender, your job, whether you are a smoker or not and other factors when an application is taken. While all life insurance policies provide a death benefit, all policies are not the same. The varieties of life insurance are designed to help meet different needs. Usually, younger, healthier, non-smoker, low-risk individuals pay lower premiums. An individual 25-35 years old who doesn't smoke and is in excellent health could buy a 20-year, $250,000 level term policy for less than $20 per month or less than $150 a year.

3. What are the basic types of life insurance?

Life insurance comes in two basic types: Term and Permanent (also referred to as Cash Value life insurance). Permanent insurance varieties include Whole Life, Universal Life, and Variable Life.

<u>Term life insurance covers you for a term</u> – a certain number of years – which you choose when you buy the policy. You might buy a 15-year term policy, for example, because you have a 15-year mortgage. The policy only pays a death benefit only if you die during the term. Term policies usually offer the most protection for your money.

Some may have an option to extend, or renew, this coverage each year; depending on the policy and issuing company, these policies could last to your 80s or 90s. Term insurance premiums are usually lower than permanent life's, and term policies usually do not have cash value. Premiums must be paid when due to keep a term policy in force.

Be sure to know the cost structure of any term policy you're considering:

- Most have premiums that remain the same ("level") for a certain number of years and may allow you to continue the coverage beyond that defined period. These policies have a two-stage cost structure:
    - The first stage is often called the **level-premium period**; during this period, the premium is guaranteed not to change.
    - The second stage is the **renewal period**; once the level period ends, you can choose to renew the policy, at a higher and annually-increasing cost. Since these premiums can be markedly higher than the initial premiums, you'll want to know, before you buy, what they would be.
- Some term policies have premiums that are not level; instead, they increase according to a schedule outlined in the policy contract.

<u>Permanent (cash value) insurance covers you for your entire life</u> – as long as you pay the premiums. Permanent life insurance is ideal for needs that may last for your entire life.

Most permanent policies have the potential to build cash value. You may be able to access this cash value via policy withdrawals or loans. Although this can be helpful in certain situations, you should know that taking cash value from your policy can have tax consequences, reduce the amount your beneficiary receives, and/or cause the policy to lapse; it could also mean you'll have to pay additional premiums to keep the policy on force. If you cancel a whole life policy, you can get the cash value.

The brief descriptions below will give you quick insight into how permanent life insurance policies differ.

Whole Life: This is the traditional permanent life insurance that many people think of when they hear "permanent insurance." If you pay your premiums on time, your coverage is guaranteed to stay in force for your entire life, and your policy is guaranteed to build cash value. Premiums for most Whole Life policies remain the same throughout the life of the policy.

Universal Life: This type of permanent policy offers some flexibility with premium payments. Most policies of this type build cash value and earn at least a minimum interest rate and may earn non-guaranteed interest.

Variable Life Insurance: Variable life policies, which also include variable universal life insurance, have the greatest potential to build cash value compared to other permanent policies. Variable policies have underlying investment options, which you choose and that perform like stocks and bonds. Please note, however, that variable policies involve some risk for you because the cash value can also decline and your investment can be lost if the policy's investment options perform poorly.

4. Is life insurance an investment?

The basic purpose of life insurance is simple – to replace income for others who are dependent on your income. Some people also buy life insurance to pay other expenses, such as for funeral costs, debt payments, education and child care. If your goal is investing for the future, there are other options to save that often charge lower fees than a cash value life insurance policy does. Some of these options offer tax advantages and your employer may even match at least part of what you put into savings.

5. When do I pay for life insurance?

Most people pay their life insurance premiums each year (annually, quarterly, or monthly). Some policies are "single premium" meaning you pay once when you buy the policy.

6. How do I apply for life insurance?

A life insurance agent or an insurance broker can give you the application for a life insurance policy. Or, if you buy the insurance policy online, you'll find the application there. In addition to basic information, such as your name, address, employer, job title, and date of birth, you'll be asked for more personal information. This might include:

- Your height and weight
- Your lifestyle habits (do you smoke, drink, exercise, engage in high-risk hobbies?)
- Your financial information, including your annual income, assets, and debt.

It's important that you tell the truth on your application. Your answers will be checked. Review the application before you sign it.

7. Do I have to see a doctor to apply for life insurance?

Many life insurers today still require an in-person medical exam but they may send a professional to your home or office. The professional likely will ask you about your medical history and lifestyle habits, listen to your heart and lungs, take blood and urine samples, and ask about immediate family's medical history. The life insurer could ask for other tests and access and review your medical records. The insurer pays this cost.

8. Are there policies that don't require a medical exam? What do they do instead?

There are policies that are available without medical underwriting. However, these policies tend to cost more than policies requiring a medical exam.

- Simplified issue policies do not require a medical exam but tend to cost more than those requiring a medical exam. "No exam" life insurance is often called "simplified issue" life insurance. The company will ask several health questions on the application. Companies may also use information from motor vehicle report, prescription history and medical history in lieu of a medical exam.

- Accelerated underwriting by asking health questions on the application but also get your driving record, prescription history and information from previous life insurance applications. You may also have to answer questions over the phone. Again, this costs more than buying life insurance that requires a medical exam.

- Guaranteed issue life insurance, also called guaranteed acceptance policies, are generally small, whole life policies for middle aged to senior adults whose health prevents them from other life insurance. It is usually sold as a means to pay funeral costs and other final expenses. Typically there are no health questions and cost is higher than a policy that requires a medical exam.

- Some carriers may use points assigned to your lifestyle; points for maintaining healthy blood pressure, keeping your cholesterol in check, and getting your preventive screenings and tests.

- And, if you purchase life insurance through your employer's plan, you don't have to answer questions or take medical exam. The rates for the employer group are set for the group has a whole.

9. How do I know how much life insurance to buy?

You'll need to think about why you're buying life insurance, what expenses you expect a life insurance death benefit to cover: debt and final expenses; mortgage; education and how long your family would need your income replaced. You will also need to consider what other resources (if any) your beneficiaries would have to pay these expenses and for how long.

There are at least three ways to estimate your life insurance needs:

- Have a life insurance agent or broker help you determine estimated needs;
- Use an online calculator to estimate your beneficiaries' financial needs after you die; or
- Use a rule of thumb such as a multiple of annual earnings, usually 8 to 10 times your current income (you'll find several online).

The first two methods will be more accurate.

10. What is a beneficiary?

A beneficiary is the person(s) or organization(s) you name to receive the death benefit from your life insurance policy. You can name more than one person as the *primary* beneficiary. If you do, you'll need to say how you want them to divide the death benefit. You also should name one or more *secondary* beneficiaries. The secondary beneficiary would receive the death benefit only if the primary beneficiary wasn't living at the time of your death.

You'll need to know the Social Security numbers for all beneficiaries. Experts advise you **not** to name a minor child as a beneficiary because insurance companies won't pay proceeds to anyone considered a minor. You should tell the individuals you name as beneficiaries – the insurance company won't do that for you.

11. What if I change my mind about my beneficiaries?

If you are the owner, you can change beneficiaries for no cost at any time by contacting your insurance company. In fact, you should review your beneficiaries every few years, especially after major life events, such as marriage and having children.

12. I don't have dependents: children or partner. Do I still need life insurance?

Whether you "need" life insurance is an individual decision. Besides insuring your child's education or supporting a partner, people also buy life insurance to cover debts they would leave behind, such as a mortgage or a private student loan, to pay funeral expenses, or to fund family businesses.

13. I have life insurance through my employer. Isn't that enough?

While many employers offer free or low-cost life insurance to their employees, the death benefit usually is far below what you're likely to need if you need life insurance. Usually it's some multiple of your income. And, if you leave that employer, you usually can't take your life insurance policy with you.

14. What if I buy a life insurance policy and change my mind?

You have a "free look" period that starts once you receive the policy. The length of the free look period will be stated on the first page of the policy. Free look periods vary by state but usually are at least 10 days. If you cancel the policy during the free look period, you get all of your money back. Once the free-look period ends, you can still cancel the policy but you likely won't get back any of the money you've already paid.

15. Are there tax advantages to buying a life insurance policy?

There are tax advantages for the beneficiaries of a life insurance policy. They won't pay any state or federal income tax on the death benefits. The death benefit could be subject to estate taxes though.