



AMERICAN BAR ENDOWMENT

Insuring your life's needs. Advancing your life's work.

Life Insurance—What's Right For You?

When you purchase life insurance, you're providing for the future—perhaps the fulfillment of promises to loved ones to maintain a lifestyle, to have the necessary funds for a college education, to be able to comfortably pay off bills, even a mortgage, or to provide the edge to help the continuation of your business by providing funds to help cover outstanding loans, or to make a gift to your favorite charity. That future, for all of those who are counting on you right now, could be jeopardized if you haven't considered the financial impact of your death. Of course, the emotional impact of death will not be eased by any beneficial proceeds. But think of the obligations that will continue, without you there to manage them.

Choices

There are many choices of Life Insurance products and sometimes that can be a deterrent to finalizing your decision, simply because there are so many! But, this multitude of products has evolved because the needs of individuals are so varied. You are the only person who can decide what type of product and how much coverage you need, and these needs change as you age, become more successful, become a homeowner, start a family, or even start your own business. As your wealth and obligations change, so, too will your need for Life insurance.

What's available? There are Whole Life, Term Life, Universal Life and Variable Universal Life individual policies available and Group Term Life available by virtue of membership in a professional association, as well as the Life Insurance provided by employers. Should you consider one of these products or a mix designed to meet certain needs at certain times of your life? Again, only you can make that decision. Each product has features that may appeal to you.

Term Life Insurance

Whether an individual policy or a group certificate, term life insurance is probably the most basic form of life insurance. It can be an affordable product, providing protection for a limited period of time.

Level Premium Term Life Insurance

With a Level Premium Term Life insurance product, you would have a level amount of insurance—that is, a benefit amount that does not reduce with age—with a rate that does not increase during a specific period of time. That period of time, the “term,” can be 5, 10, 15, 20 or 30 years, or even other set terms. At the expiration of the term, you can generally renew the coverage for an additional specified term, but the rate for the subsequent term will be higher than that for the initial term. You would make a decision on the length of the term that's right for you by considering the financial obligations that you have and the length of time for which you will be committed to those obligations. For instance, you might have a mortgage for 20 years, or you might have young children who will not be ready for college for another 10 years. Cash values do not develop on this form of insurance because premium paid are used to cover the cost of insurance entirely. (You may be able to convert all or part of an individual term life insurance policy, without having to furnish evidence of insurability, to permanent life insurance, which would develop cash values.)

Increasing Premium Term Life Insurance

There is also an Increasing Premium Term Life insurance, which is renewable every year until expiry age (which may vary by state) without providing evidence of good health, but, as the name implies, the premiums increase annually.



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With Term Life insurance products, a benefit will be paid to your beneficiary should you die within the specific term in force. If you survive the term and do not renew for another term or convert to permanent life insurance, there is no benefit payable.

Permanent Life Insurance

Permanent life insurance, cash value life insurance, provides life-long protection (provided premiums are paid when due). Cash value insurance generally has higher initial premiums than term insurance and most permanent policies are eligible for dividends, but dividends are not guaranteed. You might be offered the option to apply any current or accumulated dividends towards premium payment. If dividend values are sufficient, out-of-pocket premium payments may end or be reduced after several years, while coverage can continue for life. (Any cash value which accrues under a permanent life insurance policy can be borrowed from the policy, but borrowing requires the payment of loan interest and will affect the policy values.) If you decide to stop paying premiums and surrender your policy, the guaranteed policy values are yours.

Whole Life Insurance

Whole Life is permanent insurance that protects you for your whole life, from day of purchase until death, provided premiums are paid. Cash values generally accumulate every year on a tax-deferred basis and can be accessed through a policy loan or withdrawal, which reduces the death benefit. The premiums remain level and are guaranteed never to increase. You might consider whole life insurance to help pay off any outstanding debts in the event of your premature death, to cover estate expenses or for business uses, such as covering the cost of continued operations.

Universal Life Insurance

Universal Life Insurance provides permanent life insurance protection and access to cash values that grow tax-deferred at competitive interest rates. It is adjustable life insurance that allows flexible premium payments—at a scheduled or unscheduled time, but the policy will terminate at any time if the cash surrender value is insufficient to pay the monthly deductions, whether due to insufficient premium payment, if loans or withdrawals are made, or if current interest rates or charges fluctuate. It will pay the benefit if the insured dies before the maturity date and pays the cash value if the insured is living at the maturity date. When a premium is paid, an expense charge is immediately deducted and the balance is placed in a cash value fund to earn interest at the current rate. Insurance expense charges necessary to keep the policy in force are paid internally, monthly, from the cash value, regardless of whether or not premium was paid. The cost of insurance increases each year, based on your age; dividends are not payable.

Variable Universal Life Insurance

Variable Universal Life Insurance combines the premium and death benefit flexibility of traditional universal life insurance and the investment flexibility and risks of variable life insurance. These products are considered securities because the policyowner assumes investment risk associated with the variable investment divisions, whose performance will fluctuate with market conditions.

Survivorship Life Insurance/Second-to-die Insurance

There is also Survivorship Life Insurance, or second-to-die insurance, that can insure both you and your spouse, with the proceeds payable after the second death. This type of insurance may appeal to you if you find that you may have estate tax liabilities. Under one arrangement, you may want to establish an irrevocable life insurance trust to purchase the insurance policy, with your heirs as beneficiaries, which keeps the insurance proceeds out of your estate for tax purposes. By means of a will, estate assets then pass



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to the surviving spouse at the first death. At the second death, the insurance death benefit is paid, with policy proceeds passing directly to the named beneficiaries. This type of insurance is sometimes preferable to those with children with special needs.

How Do I Decide

Remember that you will be required to furnish evidence of insurability, your health history, for the initial application for any Life insurance product, in the majority of instances. You will consider costs, certainly, but balance your decision by the product's features and its value to your needs. When researching the various products and costs, remember also to check on the underwriting carrier's ratings by the leading rating agencies, such as Fitch's, A.M. Best, and Standard & Poor's. The effort you put into your research will be rewarded by knowing that you've found the best insurance product, or mix of products, for you and your beneficiaries. Over time, your needs will change, so if this process can become a standard update when reviewing all of your other important family and business matters, you'll be better prepared to help protect the future for all of those who rely on you right now.