LIFE SECTION 1

TYPES OF POLICIES

A. Traditional Whole Life

1. Ordinary (Straight) Life

a. Covers until you die or age 100, whichever comes first
b. Is considered to be permanent protection - policy matures at age 100
c. Rates and benefits are based on law of large numbers (mortality table)
d. Has guaranteed, tax-deferred interest rate on cash value (usually 3-4%)
e. Cash value starts to build slowly after third policy year
f. Premium is level, since company's risk goes down as cash value goes up
g. If you die the insurer keeps the cash value to offset their risk
h. Has lowest net cost in the long run since cash value belongs to the client
i. Client has access to cash through cash surrender or a policy loan
j. Rates are per unit of protection ($1,000 is 1 unit)
k. Cash value is guaranteed to be a certain amount per $1,000 (in the future)
l. Cash value will equal face amount at policy maturity (age 100)

2. Limited Pay and Single Premium Whole Life

a. Same as straight whole life EXCEPT premium paying period is shorter
b. Still reaches maturity at age 100 (not end of premium paying period)
c. Client pays the same amount of money over a shorter period of time
d. The shorter the premium paying period, the higher the premium
e. Cash value builds faster than ordinary (straight) whole life
f. Cash value still equals face amount at age 100 (policy maturity)
g. A 20 Pay Life will be paid up in 20 years (20 PL)
   1. If purchased at age 30, paid up at age 50
h. A Life Paid up at age 65 will be paid up at age 65 (LP 65)
   1. If purchased at age 30, paid up at age 65
i. A single premium policy will have an immediate cash value (1 Pay Life)

3. Adjustable Whole Life

a. Allows insured to adjust face amount, premiums or term of protection
b. Adjustments made to one provision will also affect other provisions
c. Sold to clients with fluctuating incomes, such as real estate brokers
d. Actually a combination of term and whole life
e. Coverage may not be increased beyond original amount without a physical

f. Still a type of whole life, maturing at age 100

B. Interest/Market Sensitive Whole Life Products

1. Universal Whole Life

   a. Brought out in early 1980s to compete with other products with higher yields
   b. Has guaranteed minimum interest rate (usually 3-4% like whole life)
   c. Also has current interest rate which varies year to year
   d. Allows client extreme flexibility regarding premium payments (flexible premium)
      1. Insured does not have to pay annual premium (cash value may be debited to pay cost of protection)
         a. This would not be a loan
         b. It would not reduce the face amount
   e. Protection portion of policy is actually term insurance (cost increases)
   f. Does not require a FINRA securities license to sell
   g. May require additional premiums to be paid if target not achieved
      1. Target premium based on projected earnings
   h. Option A UL has level death benefits (term)
   i. Option B UL will pay beneficiary both face amount PLUS cash value
   j. UL products vary from company to company
   k. Not as popular during times of lower interest rates
   l. Face amount (option A) is made up of term insurance

2. Variable Whole Life

   a. Brought out so clients could participate in the stock market indirectly
   b. Cash value deposited into a separate account (like a mutual fund)
   c. No guaranteed rate of return or guaranteed cash value
   d. Requires FINRA Series 6 or Series 7 license to sell
      1. FINRA used to be called the NASD
   e. Regulated by the SEC (Federal Securities and Exchange Commission)
   f. Also regulated by the FINRA (Financial Industry Regulatory Authority)
   g. NYSE (New York Stock Exchange) license not required
   h. Sales persons must give out a disclosure document (prospectus) at sale
   i. Minimum death benefit (face amount) is guaranteed
   j. The death benefit may increase above minimum if separate account does well
   k. Excess cash value (if any) purchases additional insurance upon death
   l. Projections may be used as long as they are not guaranteed
   m. Variable life has a fixed premium
   n. The earnings on the separate account are variable

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3. Variable/Universal Whole Life

   a. Combines best features of both universal and variable whole life
   b. Requires a FINRA (Series 6 or 7) securities license to sell
   c. Allows the client to self direct cash values into sub-accounts
   d. Has no guaranteed interest rate or cash value
   e. Has a flexible premium
   f. Face amount is term insurance (option A)
   g. Policy may pay out more upon death if option B is selected, face amount plus cash value

4. Interest Sensitive Whole Life

   a. Generally just another name for universal life (UL)
   b. Has current interest rate that varies year to year
   c. Also has guaranteed minimum interest rate (usually 4%)
   d. A combination of term and an interest bearing savings account

5. Equity-Indexed Life

   a. A type of cash value life insurance, where the minimum death benefit is guaranteed as well as the minimum earning on the cash value in the general account
   b. Not classified as securities
   c. Securities license is NOT required
   d. Cash value accumulation is usually linked to an index (S&P 500)
   e. If the index outperforms the guaranteed interest rate, the difference is credited to the cash value as per the insurance contract
   f. Has a fixed premium

C. Term Life

1. General Features of Term Insurance

   a. Used for temporary situations (not permanent insurance)
   b. Has no cash value, so net cost highest in long run
   c. Premium goes up every year, based on attained (current) age
   d. May expire at a certain age or time in the future (often age 65)
   e. Has lowest cost in the short run
   f. May be convertible to whole life at current (attained) age regardless of health
   g. May be renewable up to a certain age or date without a physical exam
   h. May have face amount that is level, decreasing or increasing
   i. Often used in group life policies (annual renewable term - ART)

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2. Level Term

   a. Has level face amount, but increasing premiums at renewal
   b. May be purchased for 1 year at a time (annual renewable term)
   c. Often sold for 5, 10, 15 or 20 year increments with average premium
   d. Both the premium and face amount are level for a period of time

3. Decreasing Term

   a. Face amount goes down, but premium remains the same
   b. Often used as mortgage redemption insurance
   c. A variation is also used for credit life (sold by banks)
   d. Usually convertible to whole life regardless of health
   e. Not renewable, since by expiration date, face amount is zero
   f. Although premium stays the same, cost increases as face amount decreases

4. Increasing Term

   a. Face amount goes up instead of down
   b. Added as a rider to some whole life policies at an extra cost
   c. Allows beneficiary to receive the face amount PLUS premiums or cash value

5. Special Features of Term Insurance

   a. Most term is renewable up to a certain age or date regardless of health
   b. Most term is convertible to whole life regardless of health
   c. Conversion is based on current (attained) age, not original age
   d. Conversion may only be to a more expensive policy, such as whole life
   e. You cannot convert term to term or whole life to term
   f. You can never convert to more coverage than you have
      1. If you wanted more insurance, you would have to pass a physical and pay a premium based upon your current (attained) age

6. Return of Premium

   a. A type of term insurance in which the insured gets back the premiums paid in at the end of the term if they are still alive
      1. Premiums returned to the insured tax-free as the premium is paid with after-tax dollars
      2. Some insurance companies offer a partial return of premium if the policy is cancelled by the insured before the end of the term
   b. Should the insured die during the term, the face amount of the policy is paid to the beneficiary
   c. The premium for a return of premium policy is generally more than that for a term policy, but less than that of a traditional whole life policy

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D. Annuities

1. General Features of Annuities

   a. They are the opposite of life insurance
   b. Life insurance creates an estate, but an annuity liquidates the estate
   c. They have no protection feature or death benefit
   d. There is no underwriting, since there is no protection
   e. They are often used as a life insurance settlement option for beneficiaries
   f. They always have a beneficiary during the pay-in or accumulation period
   g. They may or may not have a beneficiary during the pay-out or annuity period
   h. They are purchased mainly for retirement purposes, but have other uses
   i. During the pay-out period, all payments are for the life of the annuitant
   j. You are betting that you are going to live a long time when you buy an annuity
   k. If you think you may die soon, you should buy life insurance
   l. They can be purchased with single, level or flexible premiums
   m. They are used to fund lotteries and to structure settlements in lawsuits
   n. They are long term investments subject to 10 % early withdrawal penalties on withdrawals taken prior to age 59 ½
      1. There is no 10% penalty on early annuitization
   o. They are tax-deferred during the pay-in or accumulation period
   p. Immediate Annuities have no pay-in or accumulation period
   q. Deferred annuities are purchased by younger clients for retirement
   r. Variable annuities use a separate account (like a mutual fund)
   s. Fixed annuities are backed by the State Guaranty Fund, variables annuities are not
   t. Annuities are perfect for a client who is worried that they are going to live too long since the payments payout for life
   u. Annuities have a 30 day grace period

2. Annuity Pay-Out Options

   a. Contractual in nature, cannot be changed once selected
   b. Selected by annuitant upon annuitization
   c. Amounts received in excess of the cost basis are taxable as ordinary income
   d. All pay-out options will pay annuitant for life
   e. Annuitization is not required, annuitant may remain in pay-in period indefinitely
   f. Cash surrenders under age 59 ½ subject to IRS 10% penalty
   g. No 10% penalty applies to early annuitization
   h. Most annuities are nonqualified (funded with after tax dollars)

3. Five Specific Annuity Pay-Out Options

a. Life Income (also known as Straight Life option)
1. Has no beneficiary, so is considered to be risky
2. Has highest monthly payout due to risk factor
3. Will pay as long as annuitant lives
4. Insurer keeps any remaining money when annuitant dies
5. Seldom selected

b. Life Income with Period Certain (5, 10, 15 or 20 years)
1. Guarantees payments to either annuitant or beneficiary
2. The longer the period certain, the lower the monthly payment
3. Has beneficiary during the period certain only
4. Will pay as long as annuitant lives
5. Has less risk than life income option, therefore the payout is lower
6. Period certain doesn't guarantee all monies, just those that would have been paid out during the period certain
7. Still some risk
8. Period certain may not exceed life expectancy of annuitant

c. Life Income with Refund (cash or installment refund to beneficiary)
1. No risk, so it has lowest monthly payments to annuitant
2. If annuitant dies before recovering all monies, refund is made to the beneficiary
3. Beneficiary may choose cash refund or installment refund
4. Most popular pay-out option
5. Will pay as long as annuitant lives

d. Joint Life Annuity
1. Two or more annuitants (usually husband and wife)
2. Pays only until the first annuitant dies

e. Joint and Survivor Annuity
1. Two or more annuitants (usually husband and wife)
2. Pays until the last party dies (the survivor)
3. Payments often adjusted upon the death of the first party due to age differences between the parties

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4. Types of Annuities

   a. Single Premium Deferred Annuity (SPDA)
      1. Purchased usually by younger clients to supplement retirement
      2. Earns tax-deferred interest during the accumulation period (pay-in period)
      3. May be annuitized anytime without IRS penalty
      4. Amounts paid out in excess of cost basis are taxable as ordinary income

   b. Level Premium Annuity
      1. Annuitant agrees to make monthly payments in level amounts into the annuity during the accumulation period (pay-in period)

   c. Flexible Premium Annuity
      1. Annuitant pays in whatever amount, whenever he wants

   d. Immediate Annuity
      1. Has no accumulation period (no pay-in period)
      2. Annuitant pays in single premium and annuitizes right away (enters pay-out period)
      3. Payments begin 1 month later

   e. Fixed Annuity
      1. Insurer puts annuitants' funds into their general account
      2. Has guaranteed minimum rate of return (around 3-4%)
      3. Often has current rate of return that varies year to year
      4. Insurer bears the investment risk
      5. Insurer must pay out the guaranteed minimum rate, even if they earn less

   f. Variable Annuity
      1. Insurer puts annuitant's funds into their separate account
      2. Separate account is similar to a mutual fund
      3. Often used to hedge against inflation
      4. Fixed annuities have purchasing power risk, variables annuities don't
      5. No guaranteed minimum rate of return
      6. No guaranteed cash value
      7. Payout is valued in annuity units
      8. Annuitant bears the investment risk
      9. Producer must have FINRA securities license (Series 6 or 7)
      10. Subject to both state and federal regulations
      11. Insurance comes under state regulation
      12. Securities come under federal regulation (SEC)

g. Indexed Annuity
   1. A type of fixed annuity where both the principal and interest are guaranteed
   2. Not classified as securities
   3. Securities license is NOT required
   4. Cash value accumulation is usually linked to an index (S&P 500)
   5. If the index outperforms the guaranteed interest rate, the difference is credited to the cash value
   6. Premiums do not change based upon performance

E. Combination Plans and Life Insurance Policy Variations

1. Joint Life Policy (First to Die)

   a. Covers 2 or more insureds on the same policy
   b. Usually husband and wife
   c. Most inexpensive way to insure both parties
   d. Insurer gives a discount
   e. Usually whole life coverage on both insureds
   f. Usually set up as a first to die policy
   g. When either party dies, the policy pays the face amount
   h. There is no further coverage for remaining party

2. Survivorship Life Policy (Last to Die, Second to Die)

   a. Similar to a joint life policy
   b. Usually set up as a last to die policy
   c. Pays nothing when the first insured dies
   d. Pays face amount when survivor dies
   e. Usually used to pay estate taxes by wealthy clients
   f. Estate taxes are due when the last spouse dies
   g. Allows estate to pass to heirs with taxes already paid
   h. Used in estate planning

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LIFE SECTION 1
Types of Policies

KEY FACTS

- A real-estate producer, because of her fluctuating income, might purchase adjustable whole life.
- A client may skip, reduce, or increase premiums on a universal life policy (the premium is flexible). The policy will not lapse as long as there is enough cash value to cover expense deductions.
- Variable universal whole life allows the client to self-direct the cash value investment.
- Variable products have no guarantees and are not backed by the state guaranty fund.
- An increasing term policy's limits increase each year by the amount of premium paid. An increasing term policy is sometimes called a return of premium policy.
- Term insurance is renewable without a physical examination, up to a certain age.
- Term insurance may be converted to whole life, but not the reverse. Conversion is based on the client's attained (current) age, but without a physical exam.
- Credit life is a type of decreasing term. Benefits are paid directly to the creditor.
- Credit life is usually not used as mortgage protection coverage, since most mortgages are too long.
- The policy limits on credit life cannot exceed the amount of the loan.
- Limited pay whole life policies, though paid up earlier, do not mature until the client's age 100.
- Universal life offers flexible premiums.
- Investing in variable products is considered a hedge against inflation.
- All annuities are for life. You cannot outlive the income from an annuity.
- Annuities are the opposite of life insurance. Life insurance creates an estate.
- Annuities systematically liquidate your estate over a period of time.
- Annuities, both individual and group, contain a 30 day grace period.
- Fixed annuities guarantee a fixed rate of return and are backed by the state guaranty fund.
- If you die during the accumulation period of an annuity, the account value will be paid to your beneficiary or to your estate. Any taxes due will be paid at the estate level.
- A life income annuity (straight or pure life annuity) has no beneficiary, and is the most risky option for the annuitant.
- A refund annuity has the least amount of risk, to the client.
- The premium for a $100,000 immediate annuity is $100,000, regardless of the client's age, health, gender, etc. It is the pay-out that depends on these factors.

- Variable life producers do not have to be registered with the New York Stock Exchange (NYSE). They do have to be registered with the Financial Industry Regulatory Authority (FINRA) as a variable contracts producer. FINRA used to be called the NASD.
- Client's funds invested in a variable life contract or variable annuity must be kept in the insurance company's separate account, which is similar to a mutual fund.
- Client's funds used to purchase whole life and fixed annuities are kept in the insurance company's general account, which is invested more conservatively.
- Whole life policies must contain a table showing their guaranteed cash value at the end of each year (anniversary date) for the first 20 years. It is shown per unit (per $1,000). The mortality table and interest rate used in determining those values must also be shown.
- The SEC is a federal agency that regulates securities.
- The NASD is an association that regulates its own members. The NASD is now known as FINRA.
- You must be registered with the NASD (FINRA) in order to sell a variable product.
- On a 20 pay life, the cash value will equal the face amount at maturity (age 100).
- Annuity tables are different than mortality tables since there is no insurance protection.
- Whole life and limited pay life both reach maturity at the same time (age 100).
- A single premium may buy a policy that is paid up for life.
- Annuities are often used as life insurance settlement options.
- Universal life, variable life and variable/universal life are all interest sensitive whole life products (adjustable whole life is not).
- UL has a choice of death benefits, option A or B.
- Variable whole life is an insurance and a securities product; hence it is regulated on the state level by the department of insurance and on the federal level by the SEC.
- In order to renew renewable term the insured only has to pay the premium.
- A flexible premium annuity allows the client to pay in whatever amount they wish, whenever they wish.
- A joint and survivor annuity would pay while either party is alive.
- An immediate annuity would be funded with a single premium and would begin payments 1 month later.
- On a variable annuity, during the payout period, the annuity is valued in annuity units.
- On a return of premium term insurance policy, if the insured does not die during the term, the premium is returned to the insured tax-free.
- Equity-indexed life insurance offers a minimum guaranteed interest rate on cash value accumulation, as well as the ability to be credited with additional earnings depending upon the performance of the index (typically the S&P 500 index).
- A whole life insurance policy is designed to provide protection until you die or reach age 100.
- If your client buys a 20 pay life that means that they have purchased a whole life policy in which the premium will be paid up in 20 years.

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- If your client is age 30 and buys a 20 pay life, the policy premiums will be paid in full by the time the client is age 50 (LP50).
- Variable life insurance does not have a guaranteed interest rate or guaranteed cash value.
- An annuity does not have any underwriting.
- If you take cash surrender on your annuity under age 59 ½ there is a 10% early withdrawal penalty on any earnings. This penalty would be in addition to the ordinary income tax rates owed on the earnings.
- If a husband and wife purchase a joint life policy, the policy will pay out the death benefit when the first party dies.
- If a husband and wife purchase a survivorship life policy, the policy will pay out the death benefit when the last party dies.
- Survivorship life is commonly purchased to fund estate taxes.

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