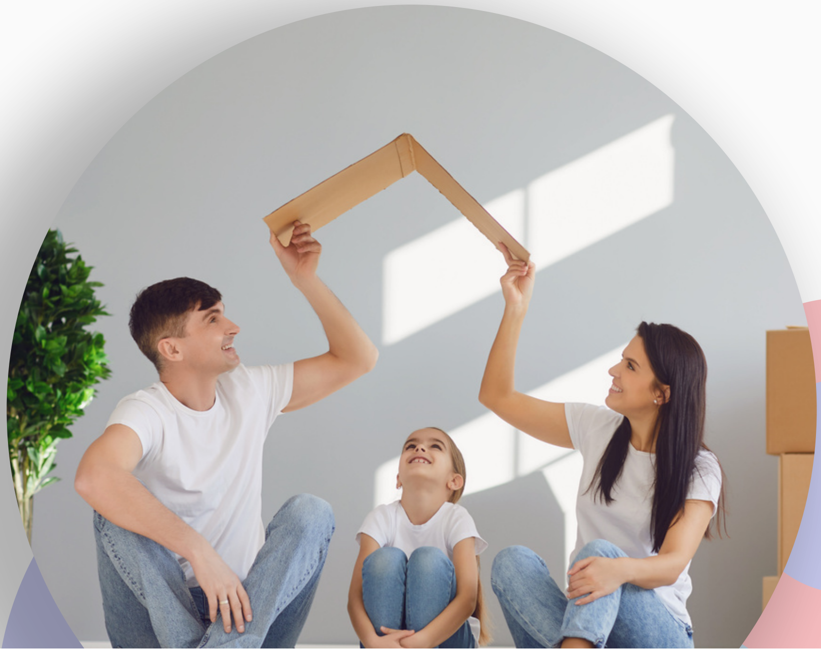
LIFE INSURANCE EXPLAINED

WHAT IS
LIFE INSURANCE?

Life insurance is a contract between a policy owner and the insurance company. This contract in simple terms promises both parties will fulfill their end of the contract. The policy owner will pay a premium, and the insurance company will promise that if the person dies, according to the contract agreement, the insurance company will pay a beneficiary a death benefit. This benefit will be according to what the contract states. The insurance company might also have offered, usually, at the time of the initial contract, other benefits that may cost an additional premium to be added to the policy, these benefits are called riders.

Some insurance contracts are simple, like term life insurance. In a term insurance life policy, a policy owner makes a contract with the insurance company that if the person that is being insured dies within the term period stated in the contract, the insurance company will pay the beneficiary stated in the contract, a death benefit. The death benefit is determined by what was purchased, and what is stated in the life insurance contract. While term insurance is a great option for some, there are many different types of life insurance available, and term life is only one of them.



TERM LIFE INSURANCE

WHAT IS TERM LIFE?

Term life insurance, also known as pure life insurance is life insurance that guarantees payment of a stated death benefit during a specified term period. Once the term is over, dependent on the terms of coverage, the policyholder may have the option to either renew for another term, convert the policy to permanent coverage, or allow the policy to terminate.

Term life insurance is a great option for an individual, or family that would want to pass on a death benefit to a spouse or loved one in case of their passing. It is considered the most popular and straightforward form of life insurance purchased. This is because term life insurance is simple and easy-to-understand coverage, and offers an affordable clear benefit. Term life insurance offers pure death benefit protection only, without any cash value building up within the policy. Because of this, term life insurance is often very affordable, particularly for those applicants who are younger and in good health at the time they apply for the coverage.

With term life insurance, coverage is purchased for a certain length of time, such as for 10 years, 15 years, 20 years, 25 years, and 30 years – and in some cases, even longer. There are also shorter-term policy options offered by many of the best life insurance carriers.

HOW TERM LIFE WORKS

Term life policies have no value other than the guaranteed death benefit. There is no cash value element as is found in a whole life insurance product. The policy's purpose is to give insurance to individuals against the loss of life. This cash benefit may be used by beneficiaries, to settle the policyholder's healthcare and funeral costs, consumer debt, or mortgage debt, among other uses. Term life insurance is not typically used for estate planning or charitable-giving purposes. All premiums cover the cost of underwriting insurance. As a result, term life premiums are typically lower than permanent life insurance premiums.

Typically, when purchasing a level-term life insurance policy, the amount of the premium will remain the same throughout the period specified that the policy is in force. Provided that the insured survives throughout the policy, and he or she wishes to remain covered by life insurance, they will need to re-qualify for a new policy at their then-current age and health status. At that time, the premium on a new life insurance policy may be quite a bit higher. In some cases, a term life insurance policy may have the option to convert the coverage over into a permanent life insurance plan.

INCREASING AND DECREASING TERM LIFE INSURANCE

On some types of term life insurance, the death benefit will go down over time. These are known as decreasing-term life insurance policies. (The premium, however, will usually remain the same). With a decreasing term policy, the policy ends when the death benefit reaches zero.

An individual may want to purchase a decreasing term life insurance policy to cover the balance of their unpaid mortgage. Each year, as the amount of the mortgage balance decreases, so does the amount of the insurance coverage – until eventually, both will end. There are also term policies where the death benefit increases over time. Often, this benefit will be purchased as a cost-of-living rider on the policy. A young parent may consider this type of policy as their coverage needs an increase.

COST OF PREMIUMS

Term life policies are ideal for people who want significant coverage at low costs. Whole life customers pay more in premiums for less coverage but have the security of knowing they are protected for life. While many buyers favor the affordability of term life, paying premiums for an extended period, and having no benefit after the term's expiration, is an unattractive feature. Upon renewal, term life insurance premiums increase with age, which may make new premiums cost-prohibitive. Renewal term life premiums may be more expensive than permanent life insurance premiums would have been at the issue of the original term life policy.

PERMANENT & WHOLE LIFE INSURANCE

Permanent and Whole Life Insurance is different from term insurance, because it offers both death benefit protection, as well as a cash value component. It also differs because as the name suggests, it does not have a time limit like term insurance, but rather is intended to last for the remainder of the insured's lifetime – provided that the premium is paid.

There are many different types of permanent life insurance. The two primary types of permanent life insurance are known as Whole Life and Universal Life insurance. Whole life insurance offers coverage for the full lifetime of the insured, and its savings can grow at a guaranteed rate. Universal life insurance also offers a savings element in addition to a death benefit, but offers different types of premium structures and earns based on market performance.

WHOLE LIFE INSURANCE

The simplest type of permanent life insurance coverage is whole life. With this type of coverage, the premium amount is locked in, and will remain the same throughout the entire lifetime of the policy. This can be helpful for those who need to stick to a budget. It also means that if a person purchases a whole life policy at a very young age, they will still pay the same amount of premium when they get older – regardless of advancing age, or even an adverse health issue.

In some cases, where a person's pre-existing conditions require the individual to buy high-risk life insurance, some graded whole-life policies are the only option. The cash that is in the cash value (see below for cash value explanation) component of a whole life insurance policy is allowed to grow on a tax-deferred basis. This means that the gains on these funds will not be taxed until or unless they are withdrawn – allowing them to compound exponentially over time.

At first, the cash in a whole life insurance policy will grow slowly. This is because the majority of the early premium dollars will go towards paying the agent's commission and the insurance costs. However, over the years, the cash in a whole life policy can steadily grow, often with a minimum guaranteed rate of return.

Some whole life insurance policies will even provide dividends to their policyholders. Because these are a return of premium to the policyholder, they are also not taxed. Dividends can also help the cash value in a policy grow significantly – although they are never guaranteed.

UNDERSTANDING “CASH VALUE”

When an insurance policy contains a guaranteed cash value for a guaranteed premium, it means that the premium is larger at the beginning of the policy than it would be in a term policy, so the additional premium can be invested in a “separate account” controlled by either the insurer or the policyholder, in order to grow the cash value.

Whatever gains are earned can be used in a few different ways: to increase the death benefit, to borrow against for some later use, or to keep the policy in effect so that you can stop paying monthly premiums. If you have a cash value policy, it is best to hold it until death or retirement so that you can allow for probable gains.

TAX ADVANTAGES OF PERMANENT LIFE

Cash value accumulates on a tax-deferred basis, similar to assets in most retirement and college savings plans. Also, death benefits that are paid to the beneficiary are generally not subject to federal income tax.

These tax benefits within universal life insurance policies are similar to 401ks and IRAs. Annual earnings on the investment part of the policy do not get taxed, and any taxable gains when cashing out on a policy can be reduced by the amount of insurance protection the plan provides. Furthermore, in the case of death, the policyholder’s gains usually are not taxed.

SURVIVORSHIP LIFE INSURANCE

With a Survivorship Life Insurance policy, there is more than one person that is covered by the policy purchased. The policy can be set up in a couple of different ways. One way is first to die. With this type of policy, the coverage is designed to pay out when the first person passes away. In most instances, the premium that is charged for this type of policy can be higher than for a policy on just one insured. However, it can often be less than purchasing two separate life insurance policies.

There are also joint and survivor, or last-to-die life insurance policies. With these policies, the coverage pays out when the second person on the coverage passes away. These can either be term or permanent coverage. These policies can also have other advantages, in that they typically will cost less than two separate life insurance policies, and they may have less strict underwriting criteria – especially if one of the individuals is in very good health.

NO MEDICAL EXAM

As its name implies, No Medical Exam Life Insurance coverage will not require that an applicant undergo a medical examination as a part of the underwriting process. In many cases, when applying for life insurance, individuals must meet with a paramedical professional who will ask them in-depth health questions and will also take their blood and urine samples. Because of this, those who have certain types of adverse health conditions may be denied the life insurance that they need. But, with no medical exam coverage, they could be approved for the coverage that they need – and, because there are no medical underwriting requirements to contend with, these policies are often approved within just a day or two after application.

While no medical exam life insurance is the best option for some, we recommend if you feel passing a typical life insurance medical exam is possible, that you try one of the above options before choosing this type of life insurance. This will ensure you are getting the best bang for your buck, and possibly help achieve lower premium rates.

UNIVERSAL
LIFE

Universal Life Insurance is a form of permanent life insurance coverage. This type of life insurance also provides a death benefit and a cash value component where the funds are allowed to grow tax-deferred. Universal Life Insurance is more flexible than whole-life coverage, though. This is because the policyholder is allowed – within certain guidelines – to choose how much of his or her premium dollars will go towards the policy's death benefit, and how much will go towards the policy's cash value.

Because universal life is a permanent life insurance policy, the policyholder will have access to their cash value account. So, just as with a whole life plan, the cash can be borrowed or withdrawn for any reason – including paying off debt, supplementing retirement income, or even going on a vacation.

Universal life insurance policies have many moving parts. There are many things to consider when purchasing a universal life insurance policy. Some of the advantages to consider are flexible premiums, a level or increasing death benefit, and a tax-deferred investment opportunity for the insured. A policyholder can overfund the policy in addition to the monthly premium, and build a cash value. The cash value will grow interest over time and may be borrowed from, or used to subsidize the cost of the life insurance policy premiums in the future. Some of the disadvantages to consider, are the cash value is based on market gains and losses, management fees the insurance carrier charges, and borrowing funds can devalue the benefit paid to beneficiaries at the time of death. Universal life insurance is a great option for those seeking life insurance that can be borrowed from, and that has a cash value build-up, but it is best to learn how all the benefits work before deciding to purchase.

INDEXED
UNIVERSAL LIFE

Indexed Universal Life Insurance plans are similar to traditional universal life insurance, but have some different features. Indexed universal plans (like all universal life insurance) carry a death benefit and a separate cash value that increases over time but differ in how the non-insurance part of the plan is structured. How it works primarily is, the premiums paid go toward the life insurance cost, fees, and with the rest going toward the cash value of the policy. The main difference is that the cash value pays a return based on increases in an equity index, like the S&P 500, versus a fixed rate as with standard universal life insurance plans.

Like universal life Insurance, indexed universal life also has many moving parts. Here are some of the advantages and disadvantages to consider when purchasing an Indexed Universal Life Insurance Policy. Some of the advantages are the tax-deferred growth of the cash value, no contribution limit on policy contributions can make them attractive for tax purposes because of tax-deferred growth, exposure to stock market indexes may offer better long-term growth versus other universal life plans, premiums can be lower than traditional universal life insurance plans, lower risk than stock investing since cash value won’t decrease if the target index falls, may offer better returns than other universal plans in a strong stock market. Some of the disadvantages can be since the insurer makes its money by keeping a portion of the gains, returns will always trail the index, the insurance policy may pay lower returns than other universal life plans in a poor stock market environment, and depending on your situation, the total costs paid may net less long-term benefits versus other insurance and separate investing alternatives.

FINAL EXPENSE LIFE INSURANCE

Final Expense Life insurance coverage is often called burial insurance, and is purchased by those who are considered “seniors,” or between the ages of 50 and 85 – although there are some insurance companies who will sell policies to older applicants. This type of coverage is typically geared towards those who want to ensure that their loved ones will not be saddled with the high cost of a funeral and other related expenses such as a headstone, burial, flowers, and memorial service.

Today, the average cost of such items nationwide can be in the range of $10,000 – an amount that many families just simply do not have readily available. So, a final expense life insurance policy can help. Final expense coverage can be either term or permanent – and the underwriting requirements are often not stringent. Also, the premium cost for this type of coverage is usually not high, even though the applicants are usually older.

TYPICAL FUNERAL EXPENSES

Based on 2021 findings by The National Funeral Directors Association

BURIAL

- Metal Casket: $2,500
- Basic Services Fee: $2,300
- Vault: $1,572
- Embalming: $775
- Facilities/Staff for Ceremony: $515
- Facilities/Staff for Viewing: $450
- Hearse: $350
- Removal or Transfer of Remains: $350
- Miscellaneous Preparation: $275
- Printing for Memorial: $183
- Service Vehicle(s): $150

CREMATION

- Basic Services Fee: $2,300
- Cremation Casket: $1,310
- Embalming: $775
- Facilities/Staff for Ceremony: $515
- Facilities/Staff for Viewing: $450
- Third-Party Cremation Fee: $368
- Removal or Transfer of Remains: $350
- Urn: $295
- Miscellaneous Preparation: $275
- Printing for Memorial: $183
- Service Vehicle(s): $150

HOW AND WHERE TO GET THE BEST PREMIUM QUOTES ON ALL TYPES OF LIFE INSURANCE COVERAGE

Without life insurance, hard-earned assets and savings that were intended for other purposes may have to be used for paying off debt, funding living costs, or paying the high cost of one's final expenses – which today can average more than $10,000 in some areas.

Getting a set of quotes on life insurance is simple. Give us a call, and we will be happy to have an agent working with you on building a formula, to decide the best type of coverage that will fit your personal individual needs.
In the past, there were only a few types of life insurance policies to choose from; however, as time has passed, many insurers have added to their array of product options. This has allowed individuals and families to find coverage that is best for them and their budgets.

Ultimately, you need to decide which type of life insurance policy is best for your needs. Understanding how each one works will make sure you make the right decision. With all of the many types of life insurance and carriers to choose from today, it can help to have an ally on your side that can help you choose the coverage that will fit your individualized needs. Contact us today!

GET THE PROTECTION

YOU DESERVE

Retire American
Dream, Prepare, Implement

866-537-3977 (toll free) **443-537-0555** (local)
RetireAmerican.com | info@healthcareamerican.com