

info sheet **Choosing Life Insurance**

The need for life insurance is obvious: to ensure that you and your family are protected in the case of disability or death. But even while most people buy insurance to protect their homes, cars, jewelry, and other valuable possessions, some don't have any life insurance. Others don't have enough coverage under the policies they have purchased. It's important that you understand the different types of life insurance and how to determine the appropriate amount of coverage you need.

For example, let's say you work and your spouse stays home to take care of your children. As the breadwinner, you might determine your minimum level of coverage by thinking in terms of how much insurance it would take to replace your income. In addition, even though your spouse has no earnings, you might consider purchasing enough insurance to cover the child-care expenses you would incur in the event he or she passed away. Or, if you're a business owner, you may want to use insurance as part of a succession plan for your business. Of course, everyone's needs are different, and these examples just give you an idea of how to start thinking about your level of life insurance coverage.

Source for definitions: Sun Life of Canada

Types of life insurance

Here is an overview of the three basic kinds of life insurance available and who would benefit most from each kind.

Whole Life Insurance

Whole life insurance is designed for permanent life insurance protection, i.e., when coverage is needed for your whole life. The traditional whole life policy calls for the same "level" annual premium every year. In effect, therefore, you are paying more than the term cost of your coverage in the early years and less in the later years, making the overall payments more affordable. If you surrender the policy during your life, some of your premium payment (plus interest) will be returned to you in the form of a cash surrender value. This value builds over time, and you can access it (via policy loans) even if you do not surrender the policy. Traditional whole or permanent life insurance provides lifetime insurance protection with solid cash value accumulation, fixed premiums, and guaranteed death benefits.

Consider this option if you

- need insurance protection for a long period
- prefer your premiums to remain the same
- want a permanent policy that offers guarantees*
- want to build tax-deferred cash value over time
- may want to take out a loan on the cash value

* Guarantees are backed by the claims-paying ability of the issuing insurance company.

Term Insurance

Term insurance is usually the most affordable life insurance option available, particularly at younger ages. It allows the policyholder to protect his or her family for a specified amount of time. It provides temporary coverage and builds no cash value. There are different types of term policies. Some have a premium that increases annually, while others provide coverage for a specific period of time with a level premium. When your needs change, many term policies can be converted to permanent life insurance.

Consider this option if you

- have a limited budget
- want lower initial premiums, allowing you to buy higher levels of coverage at a younger age
- have a specific temporary need you'd want covered in the event of your death, such as a car loan, college costs, or a mortgage
- don't need to build cash value
- have no other insurance needs once the temporary policy expires or have permanent insurance to cover your other needs

Universal Life Insurance

Universal life insurance, a "flexible premium" life insurance policy, can help you meet a variety of needs. Like whole life insurance, it builds cash value, but unlike whole life, it allows you to vary the amount and/or timing of premium payments, as well as to adjust the death benefit amount to adapt to your changing needs. Your premium payments go into an account value fund, to which interest is credited and from which the cost of your insurance coverage and other charges are deducted.

Consider this option if you

- need flexibility to change your premiums, coverage, or death benefit
- anticipate your circumstances may change, such as an addition to your family or additional financial needs you wish to cover
- want some of the benefits of whole life insurance (tax-deferred cash value accumulation and guaranteed death benefit) with greater flexibility

Note: If you are married, you might consider survivorship life insurance, also known as "second-to-die" insurance, as an alternative or supplement to single life insurance (when the policy insures the life of only one person). Since spouses can generally leave an unlimited amount of assets to each other without federal estate tax, most of that tax today is paid at the death of the second spouse. Survivorship policies insure both spouses under one policy, paying the death benefit at the second death when it is needed to pay taxes. The cost of this coverage is generally less than the cost of coverage on either spouse alone.

Income Protection

By reviewing your entire situation with an investment professional, you'll be able to determine the best kinds and amounts of life insurance for your particular needs. A general rule of thumb is to purchase insurance in an amount that is six to eight times your annual earnings. However, you should also take into account the following:

- other sources of income you might have
- whether you are married (and if so, what your spouse's annual earnings are)

- how many dependents you have (including aging parents who might be financially dependent upon you)
- any employer-sponsored policies you may have
- exactly what expenses you are trying to cover (e.g., college, mortgage, estate taxes)

As a starting point, this chart shows the monthly income that various amounts of insurance would provide to your family in the event of your death.

If you have this much life insurance	After taking out \$25,000 for last expenses	Your family will have this much left to provide income	Which will provide this much monthly income for 10 years	Or this much monthly income for 20 years	Or this much monthly income for 30 years
\$25,000	\$25,000	\$0	\$0	\$0	\$0
\$50,000	\$25,000	\$25,000	\$263	\$163	\$132
\$100,000	\$25,000	\$75,000	\$788	\$488	\$396
\$250,000	\$25,000	\$225,000	\$2,365	\$1,465	\$1,188
\$500,000	\$25,000	\$475,000	\$4,992	\$3,093	\$2,508
\$1,000,000	\$25,000	\$975,000	\$10,247	\$6,349	\$5,147

Monthly income figures are based on 5% interest earnings on the lump sum; source: Liberty Mutual Insurance Company

Life Insurance Checklist

As you start to consider the types and amounts of life insurance that are appropriate for you, you'll need to answer the following questions:

- Would your family's financial security be at risk if you were to die?
- How much money will your dependents need in order to live comfortably after you're gone?
- What are your monthly expenses, including mortgage payments and utilities? Could your family afford to continue living in your home?
- How much debt would you be leaving behind (including any medical or estate expenses) that your family will need to be able to pay off?
- Could your children's college educations be paid for?
- How about any emergency expenses, such as an expensive home repair?
- How much coverage can you afford? How high a premium can you pay on a monthly basis? Quarterly?
- What is the claims-paying ability of the insurance company you're considering, and how is the company rated by industry experts?
- Will your family need assets to handle taxes on your estate?
- Business owners: Will your successor have enough assets to purchase your interest in the business in the event of your death or disability?

Resources for Further Information

<http://www.pueblo.gsa.gov/acli/index.htm>

A guide prepared by the American Council of Life Insurance (ACLI) to help you know what questions to ask when you're buying life insurance.

<http://www.insweb.com/>

Get free quotes, as well as articles focusing on life insurance

This material is not intended to replace the advice of a qualified attorney, tax adviser, investment professional, or insurance agent. Before making any financial commitment regarding the issues discussed here, consult with the appropriate professional.

Contact your investment professional for more information or to construct a personalized Heritage Planning Profile to help your parents, your children, or yourself.