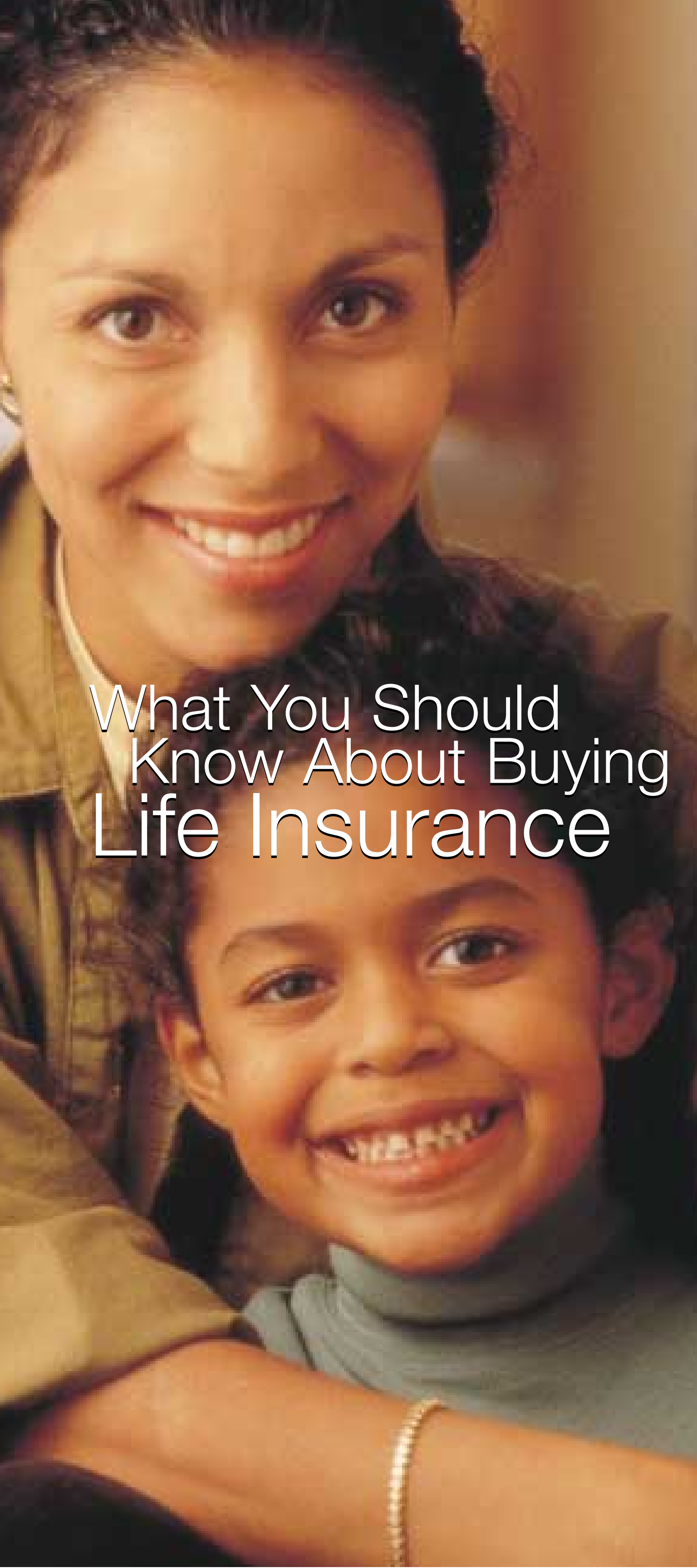
What You Should Know About Buying Life Insurance



Life insurance is the foundation of financial security for you and your family. It protects your financial resources against the uncertainties of life so you can plan for the future.

Choosing a life insurance product is an important decision, but it can be complicated. As with any major purchase, it is important that you understand your needs and the options available to you.

The American Council of Life Insurance (ACLI) has prepared this guide to help you know what questions to ask when you're buying life insurance. The ACLI is a trade association of more than 500 life insurance companies, which collectively provide about 90 percent of the life insurance in the United States.

Getting Started

Why do I need life insurance? The main purpose of life insurance is to provide cash to your family after you die. The money your dependents will receive (the "death benefit") is an important financial resource: It can help pay the mortgage, run the household, and ensure that your dependents aren't burdened with debt. The proceeds from a life insurance policy could mean that they won't have to sell assets to pay outstanding bills or taxes.

What's more, there is no federal income tax on life insurance benefits.

Where do I begin? Start by evaluating your family's needs. Gather all your personal financial information and estimate what your family will need after you're gone. Include ongoing expenses (such as day care, tuition or retirement) and immediate expenses at the time of death (like medical bills, burial costs, and estate taxes). Your family also may need funds to help them readjust… perhaps to finance a move, or pay expenses while job hunting. Remember, life insurance provides financial protection. If protection is not your primary goal, you should consider other financial products.

How much life insurance will I need to purchase?
While there's no substitute for evaluating needs, one rule of thumb is to buy life insurance equal to five to seven times your annual gross income.

What are the different types of life insurance?
There are many kinds of life insurance, but they generally fall into two categories: term insurance and permanent insurance.

What is term insurance? Term insurance provides protection for a specific period of time. It pays a benefit only if you die during the term. Some term insurance policies can be renewed when you reach the end of the term—which can be from one to 30 years. The premium rates increase at each renewal date. Many policies require that you present evidence of insurability at renewal to qualify for the lowest rates.

What is permanent insurance? Permanent insurance provides lifelong protection. As long as you pay the premiums, the death benefit will be paid. These policies are designed and priced for you to keep over a long period of time. If you don't intend to keep the policy for the long term, this may be the wrong type of insurance for you.

Permanent policies are known by a variety of names: whole, ordinary, universal, adjustable and variable life. Most have a feature known as "cash value" or "cash surrender value." This feature, not found in most term insurance policies, provides you with some options:

- You can cancel or "surrender" the policy—in total or in part—and receive the cash value as a lump sum. If you surrender your policy in the early years, there may be little or no cash value.

- If you need to stop paying premiums, you can use the cash value to continue your current insurance protection for a specified time or to provide a lesser amount of protection covering you for your lifetime.
- You usually can borrow from the insurance company, using the cash value in your life insurance as collateral. Unlike loans from most financial institutions, the loan is not dependent on credit checks or other restrictions. You ultimately must repay any loan with interest or your beneficiaries will receive a reduced death benefit.

With all types of permanent policies, the cash value of a policy is different from the policy's face amount. The face amount is the money that will be paid at death or policy maturity. Cash value is the amount available if you surrender a policy before its maturity or your death. Moreover, the cash value may be affected by your insurance company's financial results or "experience," which can be influenced by mortality rates, expenses, and investment earnings.

What are the types of permanent insurance?

Whole life or ordinary life is the most common type of permanent insurance. The premiums generally remain constant over the life of the policy and must be paid periodically in the amount indicated in the policy.

Universal life or adjustable life allows you, after your initial payment, to pay premiums at any time, in virtually any amount, subject to certain minimums and maximums. You also can reduce or increase the death benefit more easily than under a traditional whole life policy. (To increase your death benefit, the insurance company usually requires you to furnish satisfactory evidence of your continued good health.)

Variable life provides death benefits and cash values that vary with the performance of a portfolio of investments. You can allocate your premiums among a variety of investments offering different degrees of risk and reward—stocks, bonds, combinations of both, or accounts that guarantee interest and principal. You will receive

a prospectus in conjunction with the sale of this product.

The cash value of a variable life policy is not guaranteed and the policyholder bears that risk. However, by choosing among the available fund options, you can allocate assets to meet your objectives and risk tolerance. Good investment performance will lead to higher cash values and death benefits. If the specified investments perform poorly, cash values and death benefits will drop.

Some policies guarantee that death benefits cannot fall below a minimum level. There are both universal life and whole life versions of variable life.

What are the advantages and disadvantages of term and permanent insurance? The following points can help you determine which type of insurance best suits your needs.

Term Insurance

Advantages

- Initial premiums generally are lower than those for permanent insurance, allowing you to buy higher levels of coverage at a younger age when the need for protection often is greatest.
- It's good for covering needs that will disappear in time, such as mortgages or car loans.

Disadvantages

- Premiums increase as you grow older.
- Coverage may terminate at the end of the term or become too expensive to continue.

- The policy generally doesn't offer cash value or paid-up insurance.

Permanent Insurance

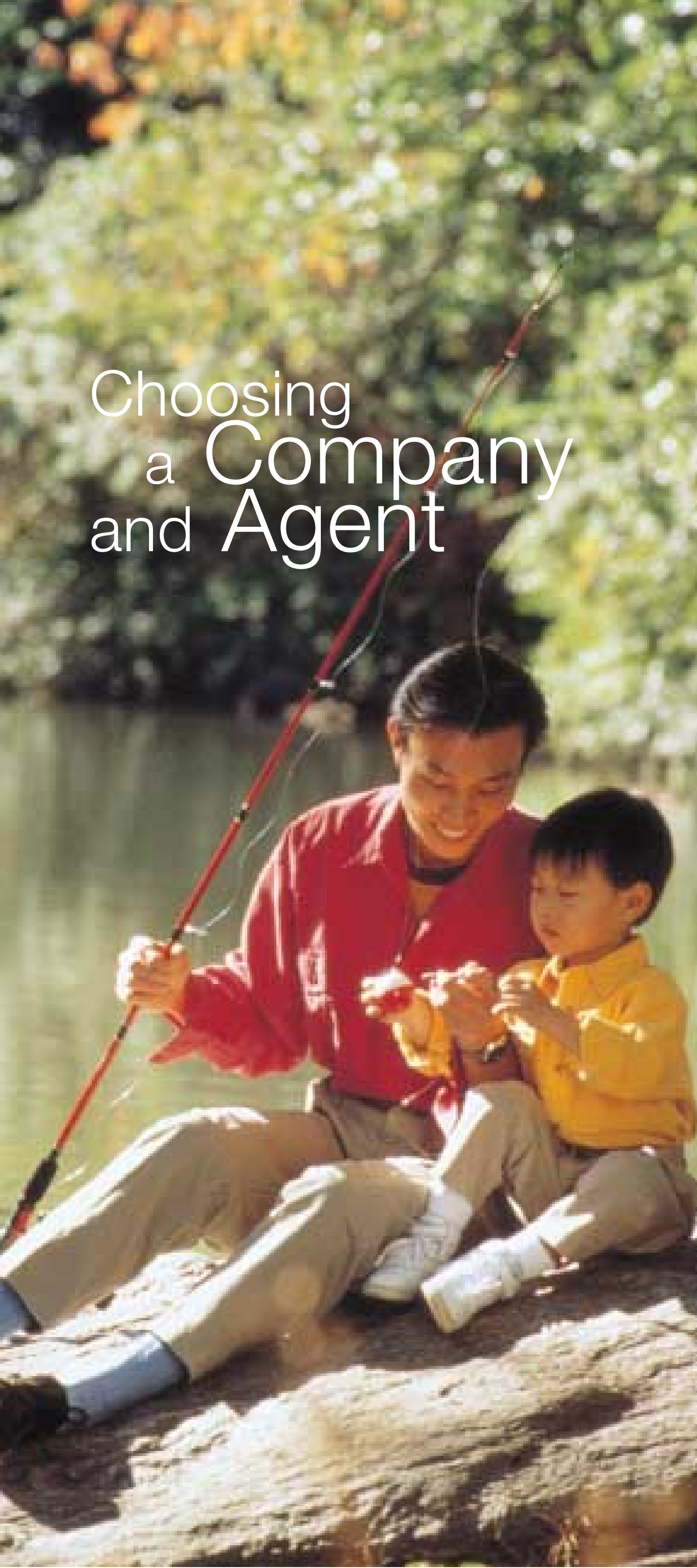
Advantages

- As long as the premiums are paid, protection is guaranteed for life.
- Premium costs can be fixed or flexible to meet personal financial needs.
- The policy accumulates a cash value against which you can borrow. (Loans must be paid back with interest or your beneficiaries will receive a reduced death benefit.) You can borrow against the policy's cash value to pay premiums or use the cash value to provide paid-up insurance.
- The policy's cash value can be surrendered—in total or in part—for cash or converted into an annuity. (An annuity is an insurance product that provides an income for a person's lifetime or a specific period.)
- A provision or "rider" can be added to a policy that gives you the option to purchase additional insurance without taking a medical exam or having to furnish evidence of insurability.

Disadvantages

- Required premium levels may make it hard to buy enough protection.
- It may be more costly than term insurance if you don't keep it long enough.

Choosing a Company and Agent



After you have thought about your financial needs and become familiar with the basic types of life insurance, it's time to choose a company and agent.

Where do I purchase life insurance? About 1,700 companies in the United States sell life insurance. While some consumers prefer to buy policies directly from a company, most people buy life insurance through agents or brokers.

How do I choose a company? Before purchasing a policy, check the company's financial condition. Ask an agent or request information from your state's insurance department. Contact the insurance department to be sure the company is licensed in your state. You also can check the financial health of a company by looking at its "rating." A number of services rate the financial strength of companies, and publications that list these ratings usually can be found in large public or business libraries.

How do I choose an agent? Collect the names of several agents through recommendations from friends, family and other sources. Find out:

Is the agent licensed in your state? All states require agents to be licensed to sell life insurance. In addition, agents who sell variable products must be registered with the National Association of Securities Dealers and have additional state licenses.

What company or companies does the agent represent?

Ask the agent which companies he or she represents and what types of policies these companies sell.

Does the agent have any professional designations?

Professional designations that life insurance agents may earn include Chartered Life Underwriter (CLU) and Life Underwriter Training Council Fellow (LUTCF). Agents who also are financial planners may have other designations, such as Chartered Financial Consultant (ChFC), Certified Financial Planner (CFP), or Member of The Registry of Financial Planning Practitioners.

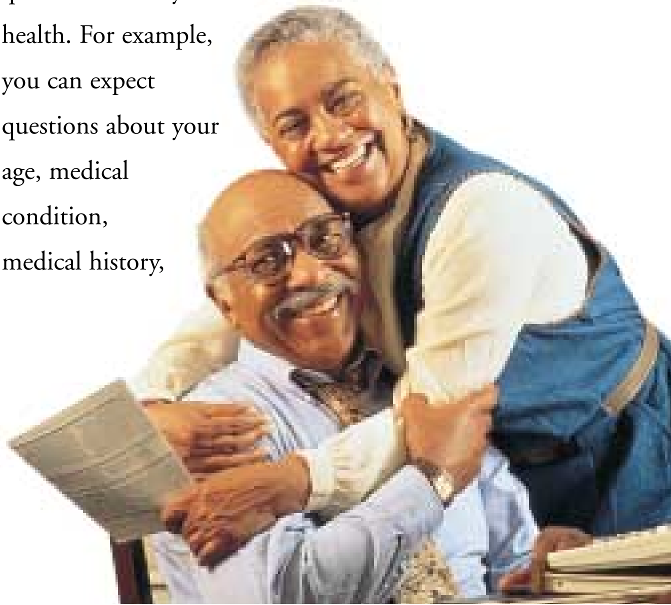
Is the agent a member of a professional association? The major association for agents is the National Association of Life Underwriters (NALU). NALU's local associations provide educational seminars and help update agents on trends. Similar training and services for financial planners are available through the American Society of CLU & ChFC, Institute of Certified Financial Planners (ICFP), and International Association for Financial Planning (IAFP).

The Agent’s Visit

What can I expect during an agent's visit? The agent will meet with you to discuss your life insurance needs. He or she will ask questions about family income and your net worth. With the information you already have assembled about your personal goals and financial situation, you'll be able to discuss your insurance options.

What can I expect an agent to do for me?
The agent should be willing and able to explain various policies and other insurance-related matters. You should feel satisfied that the agent is listening to you and looking for ways to find you the right type and amount of insurance at an affordable price. If you are not comfortable with the agent, or you aren't convinced he or she is providing the service you want, find another agent.

Will the agent ask questions about my health?
Be prepared at the initial meeting to answer questions about your health. For example, you can expect questions about your age, medical condition, medical history,



family history, and personal habits. When you apply for life insurance, you also may be asked to have a medical exam. Often, a licensed medical professional will make a personal visit.

Always answer questions about medical history and health carefully and truthfully; this information helps a company establish a premium for your coverage based on your risk. For instance, you may pay a lower premium if you don't smoke. On the other hand, if you have a chronic illness, you may be charged a higher premium.

Also, in the event of a claim, accurate and truthful answers enable your beneficiary to receive prompt payment. Inaccurate or untruthful answers, however, may cause delay or even denial of a claim.

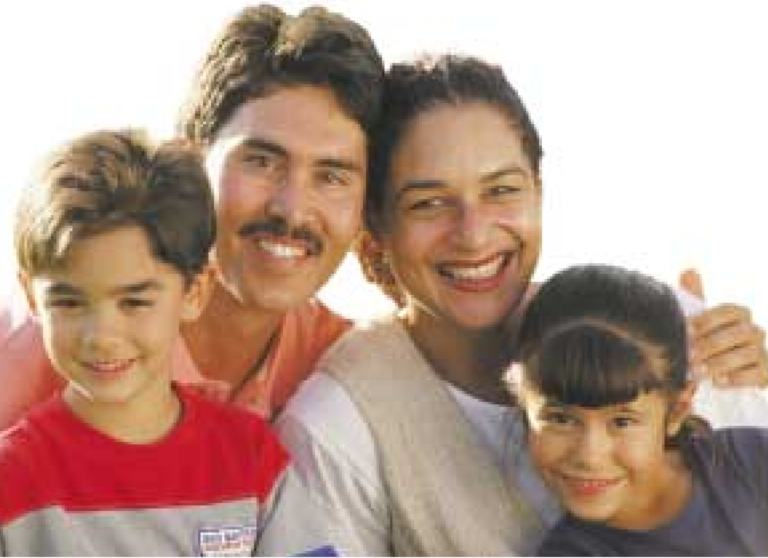
Agent's Recommendation

How do I know if a life insurance policy is right for me? The agent will recommend a life insurance policy that he or she thinks will meet your needs. Look at the recommended policy with care to be sure it fits your personal goals. Often, an agent will provide a "policy illustration" that shows how the policy will work.

Carefully study your agent's recommendation and ask for a point-by-point explanation. Make sure the agent explains items you don't understand. Because your policy is a legal document, it is important that you know what it provides:

If your agent recommends a term policy, ask:

- How long can I keep this policy? If I want the option to renew the policy for a specific number of years or until a certain age, what are the terms of renewal?
- When will my premiums increase? Annually? Or after a longer period of time, such as five or 10 years?



- Can I convert to a permanent policy? Will I need a medical exam when I convert?

If your agent recommends a permanent policy, ask:

- Are the premiums within my budget?
- Can I commit to these premiums over the long term?
- How much will I receive if I surrender the policy?

Keep in mind that permanent insurance provides protection for your entire life. If you don't plan to keep the policy for many years, consider another type. Cashing in a permanent policy after only a few years can be a costly way to get short-term insurance protection.

What does my policy illustration show? A policy illustration shows premiums, death benefits, cash values, and information about other factors that may affect your costs.

Your policy may provide for dividends to be paid to you as either cash or "paid-up" insurance. Or it could provide for interest credits that could increase your cash value and death benefit or reduce your premium. Dividends and credits are not guaranteed. Your costs or benefits could be higher or lower than those in the illustration, because they depend on the future financial results of the insurance company. With variable life, your values will depend on the results of the underlying portfolio of investments. However, when figures are guaranteed, the insurance company will honor them regardless of its financial success. Ask your agent which figures are guaranteed and which are not.

If the illustration is for a variable life policy, be sure that the interest rate assumed is reasonable for the underlying investment accounts to which you would allocate your premiums. For example, a higher interest rate may be warranted if you select a stock account, while a lower rate should be assumed for more conservative alternatives.

Is a policy illustration a legal document, like a contract? No, an illustration is not a legal document. Legal obligations are spelled out in the policy itself.

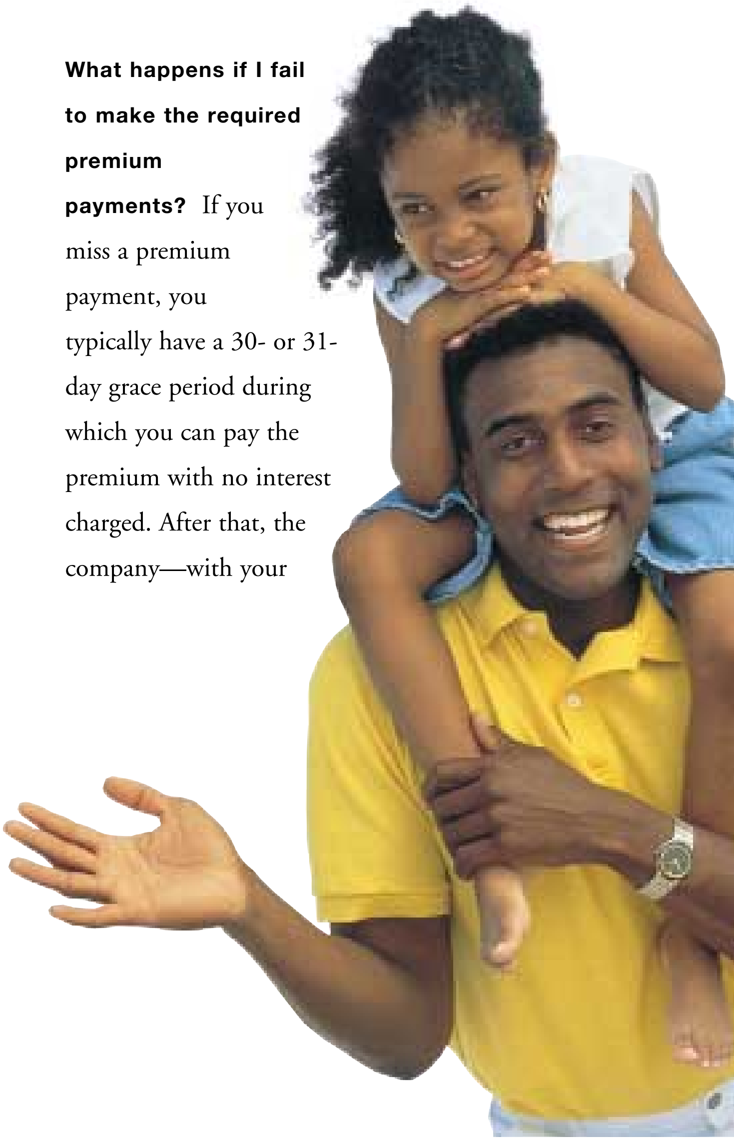
What else should I look for in a policy illustration?

- Is it based on recent experience?
- Is the classification shown appropriate for me (i.e., smoker/nonsmoker, male/female)?
- When are premiums due—annually, monthly or otherwise?
- Which amounts are guaranteed and which are not?
- Will I be notified if the non-guaranteed amounts change?
- Does the policy have a guaranteed death benefit, or could the death benefit change depending on interest rates or other factors?
- Does the policy pay dividends or provide for interest credits? Are those figures incorporated into the illustration?
- Will my premiums always be the same? Could

the premium increase significantly if future interest rates are lower than the illustration assumes?

- If the illustration shows that I will not have to make premium payments after a certain period of time, is there any chance I would have to resume payments in the future?
- Is the premium level sufficient to guarantee protection for my entire life?

What happens if I fail to make the required premium payments? If you miss a premium payment, you typically have a 30- or 31-day grace period during which you can pay the premium with no interest charged. After that, the company—with your

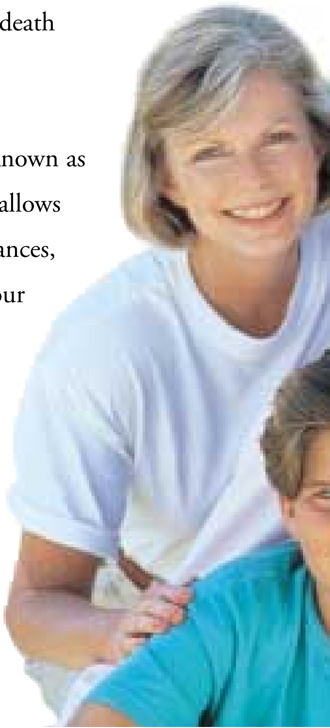


authorization—can draw from a permanent policy's cash value to keep that policy in force. In some flexible-premium policies, premiums may be reduced or skipped as long as sufficient cash values remain in the policy. However, this will result in lower cash values and a shortened coverage period.

What if I become disabled and can't pay the premiums? Provisions or "riders" that provide additional benefits can be added to a policy. One such rider is a "waiver of premium for disability." With this rider, if you become totally disabled for a specified period of time, you don't have to pay premiums for the duration of the disability.

Are other riders available? Yes. An "accidental death benefit," for example, pays an additional benefit in case of death resulting from an accident.

Some companies provide "accelerated benefits," also known as "living benefits." This rider allows you, under certain circumstances, to receive the proceeds of your life insurance policy before you die. Such circumstances include terminal or catastrophic illness, the need for long-term care, or confinement to a nursing home.



Ask your agent for information about these and other policy riders.

When will the policy be in effect? The date that insurance goes into effect could be different from the date the company issues the policy. If you decide to purchase the policy, always check precisely when the insurance becomes effective.

Is a "buyer's guide" available? Most states require companies to give consumers a buyer's guide to help them understand life insurance terms, benefits and costs. Ask your agent for a copy.


Consumer
Tips

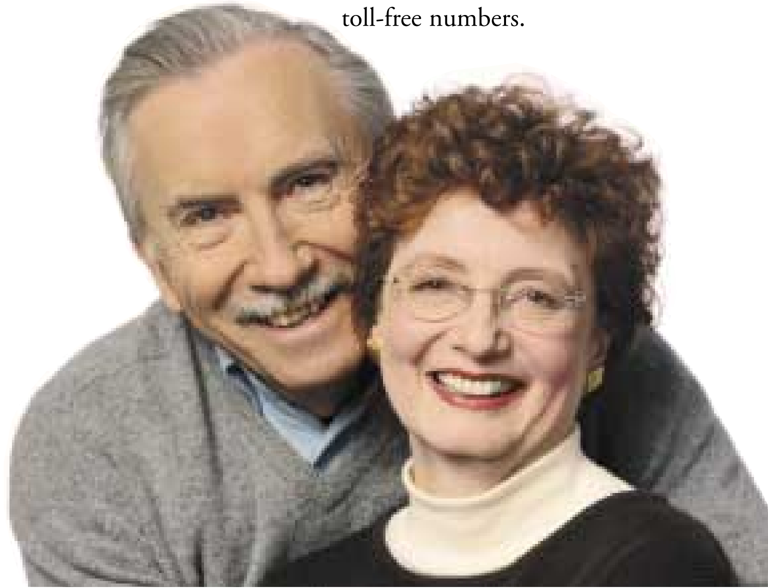
Here are a few tips to keep in mind about your life insurance purchase:

- Take your time. On the other hand, don't put off an important decision that would provide protection for your family. Make sure you fully understand any policy you are considering and that you are comfortable with the company, agent and product.
- When you purchase a policy, make your check payable to the insurance company, not to the agent. Be sure to get a receipt.
- After you have purchased an insurance policy, keep in mind that you may have a "free-look" period—usually 10 days after you receive the policy—during which you can change your mind. During that period, read your policy carefully. If you decide not to keep it, the company will cancel the policy and give you an appropriate refund.
- Review the copy of your application contained in your policy. Promptly notify your agent or company of any errors or missing information.
- If an agent or company contacts you and wants you to cancel your current policy to buy a new one, contact your original agent or company before making a decision. Surrendering your policy to buy another could be very costly.
- If you have a complaint about your insurance agent or company, contact the customer service division of your insurance company. If you are still dissatisfied, contact your state insurance department. Most departments have a

consumer affairs division that can offer help, and some have a toll-free number to respond to consumer requests.
- Review your policy periodically or when your situation changes to be sure your coverage is adequate.

Where else can I get information about insurance?

Your personal insurance agent and company are good sources of general information about insurance. You might also:
- Contact the National Insurance Consumer Helpline (NICH) at 1-800-942-4242. NICH is a toll-free consumer information telephone service sponsored by insurance industry trade associations.
- Look in your local library for magazines or books on insurance or personal finance.
- Contact the consumer affairs division of your state insurance department; some have toll-free numbers.



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