Life Insurance

Shopping Guide

Insurance Broker
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Introduction

Today consumers have so many options when it comes to life insurance that finding a policy that best fits your needs can be challenging. Before you begin exploring your options, it's important to have a clear understanding of what life insurance is, how it works, and why you need it.

Life insurance is a layer of financial protection for the people who will still depend on you when you are no longer there to provide for them. It is there to cover your final expenses such as funeral and medical costs and replace your income when you die.

Life insurance cannot replace you and more importantly, it will not take away the emotional pain your loved ones will experience when you are gone. What it can do is make sure that your family is spared any financial hardships in the weeks, months, and years after your death. Life insurance is security for your family during their time of need. The day that they need you the most and you are no longer there for them, the life insurance you put in place will play a critical role in their financial future.

When choosing a life insurance policy, there are a few important questions you should ask yourself:

- What type of policy will best fit my unique situation?
- How much life insurance do I need to put in place?
- Of the additional benefits available, how do I know which to select?
- What advantages/disadvantages come with each type of policy?
- Should I work with a insurance agent or insurance broker?

While this overview cannot address the specifics of your unique situation, it can provide you with the insight necessary to make informed decisions. Please consult with a licensed agent who can help you answer these questions and others to find the right solution for your family.

One very important thing to understand is that life insurance can offer much more than a death benefit. There are many things your policy depends on the type of plan and any additional features you select can help with while you're still alive. Examples:

- Cash Value – Accessible through withdrawals or policy loans
- Long-term care, chronic illness, or disability benefits
- Tax benefits
- Estate, asset, and business liquidity
- Ability to become your own bank
- Tax-Free Retirement Accounts

We will cover some of the benefits above and a few others throughout this overview.

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How Much Life Insurance Do I Need?

The answer to this question is different for everyone. The amount of life insurance you will need will depend on your unique situation and financial goals. There are a number of factors to consider here. Most importantly, think about what your family will need in the weeks, months, and years after your death. Aside from your final expenses, the benefits from your policy can provide the money they will need to:

- Pay next month's bills after you die; keep them current on home, car and personal loan payments
- Maintain current lifestyle
- Replace your income
- Help children with college tuition
- Handle any unforeseen financial emergencies
- Cover any additional living expenses and/or debt

Trying to decide how much life insurance you need can be overwhelming, but the answer is vital to the financial stability of the loved ones you leave behind. Having an idea of how much coverage you need can also help determine the type of policy that will best suit your needs.

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Types of Life Insurance Policies

There are a number of ways in which you can have a life insurance policy designed to meet your specific needs with different features, riders, and other options. Even the insurance carrier you choose can have an impact on your policy and the benefits it provides. This is why many people find it critical to seek the advice of a professional broker, agent, or financial planner when searching for their policy.

All life insurance comes in two basic categories, and each can be customized in different ways depending on your unique situation. The two types of insurance are **Term Life Insurance** and **Permanent Life Insurance**. The best kind of insurance of the two is the insurance that helps you best meet your needs from the options that are available to you.

Term Life Insurance

Term life insurance provides temporary coverage that *goes over a predetermined time period* which is the duration of the policy. Terms are typically set up for 10, 15, 20 or 30 years. If the policyholder dies during the specified term, the insurance carrier will pay the death benefits to the beneficiaries. If the insured outlives the term the policy terminates. Many term policies have options to renew or convert to another type of policy however there are increases in premium rates when these events occur.

Term policies have low initial premium rates, making them one of the least expensive life insurance policies in the market. Term policies however do not build cash value.

Term is perhaps the simplest of the two categories and is typically best suited for those who need nothing more than the death benefit that comes with the policy or someone in need of temporary coverage. You have to carefully weigh the advantages, disadvantages, and different variations of term insurance before deciding if this is the right choice for you.

The most common variations of term insurance are:

- Renewable Term Life Insurance
- Decreasing Term Life Insurance
- Level Term Life Insurance

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Types of Life Insurance Policies

Renewable Term Life Insurance

This provides a level death benefit, but premiums typically increase if/when the policy is renewed. The policyholder may be required to undergo additional medical screenings for the renewal period. These are best suited for those who only need temporary life insurance coverage.

Decreasing Term Life Insurance

This type of policy offers level premium rates, but the death benefit decreases in value over the course of the term period. This may be a good option if you're buying life insurance to safeguard your family from debt that will decrease over time, such as a home mortgage.

Level Term Life Insurance

Like renewable term life, a level-term life insurance policy provides a level death benefit. Unlike renewable term life, these policies can be put in place for longer time periods like 10, 20, or 30 years depending on the age of the insured. Premium rates also remain level during the term period but will increase each year after the policy is renewed. Most level-term policies do not require any additional medical screening for the renewal period.

Return of Premium Rider

Depending on when you purchase a term policy and how many years you select for the term period you might want to consider a return of premium rider. This is a policy customization that allows you to receive a check if your beneficiaries do not. Life other policies, this will provide your family with a death benefit if you die during the term period. However, if you keep the policy in effect for the entire term and outlive it, all the money paid into the policy will be repaid in full to you.

Policies that include a return of premium rider are often more expensive than standard term policies. If the policy is canceled early, normally you will lose some or all of the money that would otherwise be received from the return of premium rider.

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Permanent Insurance

Just like the name suggests, permanent life insurance provides lifetime protection to the policyholder and will not expire as long as premiums are paid and the policy remains active. It is also referred to as “Cash Value Life Insurance,” this is a very broad category of life insurance that is flexible enough to meet a variety of different needs and situations.

In addition to providing a death benefit, permanent policies also build cash value on a tax-advantaged basis. The savings element allows the policyholder to take out loans or withdrawal funds from the cash value of the policy. While more expensive than term policies, permanent life insurance offers far more coverage options and can also be used to help meet a variety of personal goals, such as replacing income, paying for our child’s college tuition, or setting up a retirement nest egg.

The most common types of permanent life insurance are:

- Guaranteed Issue Life Insurance
- Whole Life Insurance
- Universal Life Insurance
- Indexed Universal Life Insurance (IUL)

Guaranteed Issue Life Insurance
Guaranteed issue life insurance, or guaranteed acceptance life insurance, is a type of whole life insurance policy that does not require you to answer health questions, undergo a medical exam, or allow an insurance company to review your medical and prescription records. These policies are ideal for people who have serious medical conditions that prevent them from getting any other type of coverage and because the coverage is guaranteed you will pay a higher premium for the coverage than someone would who is healthier.

Just because you have been turned down for life insurance in the past doesn’t mean that you necessarily need a guaranteed issue policy and even if you do speaking with your insurance broker would be best to help you identify if this is the best option for you.

Whole Life Insurance
A whole life policy provides the policyholder with guaranteed lifetime protection, assuming the premiums are paid, and the policy remains in effect. They offer fixed premiums, level death benefits, and guaranteed cash values, along with several living benefits. It is the only life insurance product that can offer the comfort of predictability to the policyholder. Additionally, a whole life policy may have annual dividends that can be used to lower your monthly premiums, increase death benefits, or compound the cash value account.

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Permanent Insurance

Universal Life Insurance
This also provides lifetime coverage but offers more options and flexibility than a whole life policy. Universal life insurance policies allow you to raise or lower your premiums as needed, as long as the minimum requirements set by the contract are met. You also have the option to set a level or increasing death benefit when the policy is purchased. The cash value of a universal life policy grows based on current interest rates, typically with a minimum guarantee.

Indexed Universal Life Insurance
This type of policy is very similar to universal life insurance in that it provides lifetime coverage and offers flexible premiums and options for either level or increasing death benefits. Where universal indexed life insurance (IUL) differs from universal is how the account builds cash value. An IUL policy grows in value based on stock market indices (S&P 500, Dow Jones, NASDAQ) and includes a guaranteed minimum interest rate to protect the existing value against poor market performance.

Permanent Insurance

Accelerated Death Benefits

An accelerated death, or “living benefits” rider allows the policyholder to receive a portion or all of their death benefits while still alive. Should you be diagnosed with a terminal illness, this can provide the money for treatments, care, and any other assistance you may need to remain as comfortable as possible. Some policies automatically include living/accelerated death benefits, while others may require the rider to be written into the contract. Situations that qualify for accelerated death benefits include:

- The diagnosis of a terminal illness with death expected to occur within a specified amount of time, typically two years or less.
- An extended or permanent stay at a nursing home, long-term care facility or hospice.
- Condition or illness that requires an organ transplant.
- Certain home-health or assisted living care.
- Critical illnesses like heart attack, cancer or stroke.

While most of the money received from accelerated death benefits is usually tax exempt, there are limitations that may require you to pay income tax on a portion of those benefits. Additionally, receiving accelerated death benefits could affect your eligibility for SSI and/or Medicare.

Additional Options

Most permanent life insurance policies can be customized and enhanced to better fit your needs through different benefit options, riders, and policy add-ons. Below is a brief list of options you may want to consider. Keep in mind that availability, restrictions, and details involved with each may differ depending on your insurance carrier and other factors. Before making any decisions on policy additions, speak with your insurance broker.

Accidental Death Benefit Rider
Automatic Premium Loan Rider
Child Protection Rider
Cost of Living Rider
Critical Illness Rider
Disability Income Rider
Family Income Rider
Guaranteed Insurability Rider
Long-Term Care Rider
Other Insured Rider
Option to Purchase Additional Insurance
Paid-Up Additions Rider
Payor Benefit Rider
Return of Premium Rider
Spousal Rider
Term Conversion Rider
Term Insurance Rider
Waiver of Premium Benefit Rider

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Cost of Coverage

There are a number of factors that go into determining how much coverage will cost. The type of coverage, duration of coverage, and combination of riders are just a few elements that go into the cost of coverage. However, the two most important elements that impact the cost of coverage more than anything else for a policyholder are your age and health.

All things being equal a 40-year-old male will pay less for the same policy as a 60-year-old male. It should however be noted that these two people probably have very different needs and the coverage that would best fits those needs for each of them could lead to different types of policies for each.

Another factor is health. Now using the same example: You have a 40-year-old male who is as healthy as the average person his age, he will pay less than the 40-year-old male who is not as healthy as someone his age. Conversely, if you have a 40-year-old male that is not as healthy as the average person his age, he will pay more than the 40 year old male that is as healthy as the average person his age.

It should be noted that your age and health also play a vital role in the type of life insurance you can qualify for. Purchasing life insurance is not buying most goods because you must be offered the insurance by the insurance carrier. Working with an insurance broker allows you to understand what type of insurance options are available to you based on what you actually qualify for.

There is also a point in most term policies where term policies can become just as expensive or more expensive than a permanent policy. It is important to speak with an insurance broker to navigate which policy is best suited for you.

Difference Between Simplified Issue Life Insurance and Fully Underwritten Policies Requiring Medical Exams

When selecting a life insurance policy, it's important to understand the distinctions between *simplified issue life insurance* and *fully underwritten policies that require medical exams*. Each type has its own benefits and considerations.

Simplified Issue is like a *straight line* while fully underwritten typically has a *couple of twistest and terns*.

Simplified Issue Life Insurance

- **No Medical Exam Required:** As the name suggests, simplified issue policies do not require a medical exam. Instead, applicants typically fill out a health questionnaire.
- **Faster Approval:** Because there is no need for a medical exam, the approval process is much quicker, often taking just a few days.
- **Higher Premiums:** These policies generally have higher premiums compared to those requiring a medical exam, as the insurance company assumes a higher risk.
- **Lower Coverage Amounts:** Simplified issue policies usually offer lower coverage amounts due to the increased risk taken on by the insurer.
- **Ideal for Certain Individuals:** This type of insurance is ideal for those who need coverage quickly, have minor health issues that might complicate a traditional application, or prefer to avoid the hassle of a medical exam.

Fully Underwritten Life Insurance Requiring Medical Exams

- **Comprehensive Health Evaluation:** These policies require a thorough medical examination, including lab tests, measurements, and a detailed health history.
- **Lower Premiums:** Fully underwritten policies requiring a medical exam often have lower premiums because the insurer can more accurately assess the applicant's health risk.
- **Higher Coverage Amounts:** Insurers are typically willing to offer higher coverage amounts to applicants who pass the medical exam, as there is more certainty about their health status.
- **Longer Approval Process:** The approval process can take several weeks due to the time needed to schedule the exam and process the results.
- **Preferred for Healthy Individuals:** These policies are ideal for individuals in good health who seek the most affordable rates and higher coverage amounts.

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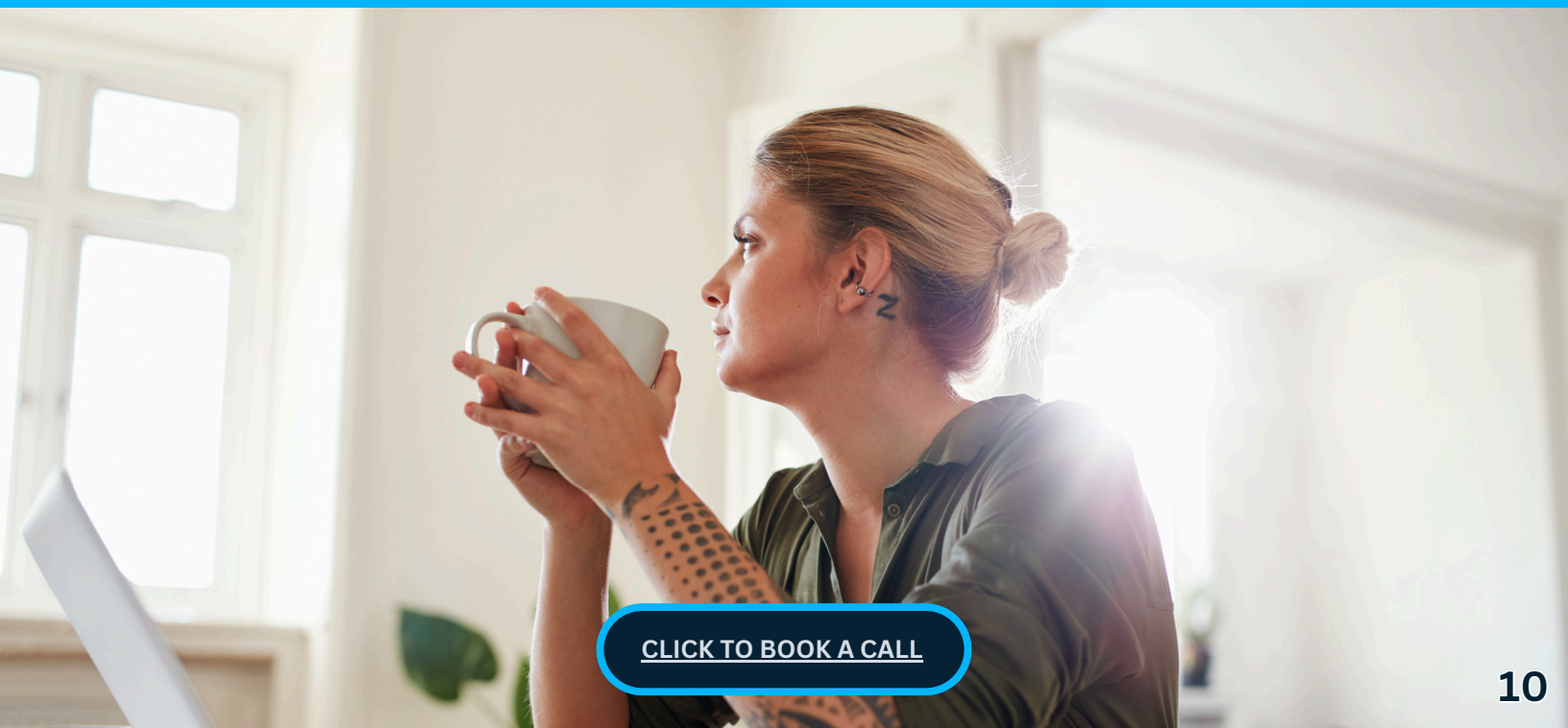
Difference Between Simplified Issue Life Insurance and Fully Underwritten Policies Requiring Medical Exams

Key Considerations

- **Age and Health:** Your age and health status can significantly influence which type of policy is best for you. Younger, healthier individuals might benefit more from fully underwritten policies requiring a medical exam, while older individuals or those with health issues might prefer the convenience of simplified issue policies.
- **Urgency of Coverage:** If you need immediate coverage, a simplified issue policy can provide quick protection, whereas fully underwritten policies requiring a medical exam will take longer to activate.
- **Financial Goals:** Consider your financial goals and the amount of coverage needed. Simplified issue policies may suffice for those looking for smaller death benefits, while those needing substantial coverage might opt for a fully underwritten policy requiring a medical exam.

Both simplified issue life insurance and fully underwritten policies requiring medical exams offer valuable options depending on your personal circumstances and coverage needs. Having the assistance of a professional to help you understand the differences can help you choose the best policy to protect your loved ones.



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Benefits of Working with Insurance Brokers to Shop for Coverage

When shopping for life insurance, navigating the myriad of available options can be daunting. This is where *insurance brokers play a crucial role*. Here are some key benefits of working with an insurance broker:

Expert Guidance: Insurance brokers are knowledgeable about various insurance products and can provide expert advice tailored to your unique needs. They help you understand complex terms and conditions, ensuring you make informed decisions.

Access to Multiple Carriers: Unlike agents who typically represent one insurance company, brokers have access to multiple carriers. This allows them to compare different policies and find the best coverage at the most competitive rates.

Customized Solutions: Brokers can help design a policy that fits your specific requirements, incorporating various riders and benefits that align with your financial goals and life situation.

Advocacy and Support: An insurance broker works on your behalf, not the insurance company. They advocate for your best interests, assist with claims, and provide ongoing support throughout the life of your policy.

Time and Effort Savings: Shopping for insurance can be time-consuming and overwhelming. Brokers handle the legwork, from gathering quotes to handling paperwork, making the process seamless and efficient for you.

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The Agent Broker Difference

Understanding the difference between an insurance agent and an insurance broker is essential when seeking insurance coverage.

Insurance Agent

Represents One Company: An agent typically works for a single insurance company and offers products from that specific insurer.

Limited Product Range: Agents can only sell policies from the company they represent, which may limit your options.

Direct Relationship: The primary role of an agent is to sell and manage policies for their employer. They have a direct relationship with the insurance company.

Insurance Broker

Represents Multiple Companies: Brokers are independent and work with multiple insurance carriers, providing a broader range of products and options.

Unbiased Advice: Since brokers are not tied to any one company, they can offer unbiased recommendations based on your needs.
Client Advocate: Brokers work for you, not the insurance companies. They prioritize your interests and help navigate any issues that arise, including claims and policy changes.

While agents provide a direct link to one insurance company and its products, brokers offer a wider selection and advocate for the best interests of their clients, making them a valuable resource in finding the right insurance coverage.

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Life Insurance
At A Glance

Term

- Less expensive than other policy types
- Potential for renewal, but this may require additional medical screenings
- Premiums remain level during the term period but may increase at renewal
- Good for short-term or disappearing needs
- Does not build cash value; no savings component
- Limited options/flexibility
- No living benefits
- May offer policy dividends

Permanent

While the three main types of permanent life insurance each have their own advantages and disadvantages, they also share several features that should be taken into consideration when shopping for your policy.

- Guaranteed lifetime coverage
- Tax-advantaged cash value growth (savings element)
- More flexibility & options
- Accessible cash value via policy loans and/or withdrawals
- Policy enhancements, riders & add-ons
- Living benefits
- May offer policy dividends

Whole Life

- Guaranteed level death benefits
- Guaranteed cash value
- Cash value growth is lower than other premium policies and may struggle to keep up with rising inflation rates
- Little-to-no premium flexibility

Universal Life

- Ability to raise, lower premiums based on changing financial needs
- Option for level or increasing death benefits
- Cash value growth is based on current interest rates w/ a minimum guarantee
- Premiums may increase over time

Indexed Universal Life

- Ability to raise, and lower premiums based on changing financial needs
- Option for level or increasing death benefits
- Cash value growth based on equity markets means the potential for higher earnings
- Cash value account is vulnerable to poor market performance, but protected by guaranteed minimum interest rates

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Need Some Help Selecting the Best Life Insurance Option for You and Your Family?

Schedule a Call with Charles P. Taylor
For More Information About How Life Insurance Can Best Serve Your Retirement

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