

## Characteristics of Life Insurance

## Characteristics of Life Insurance

- Life insurance is a contract.
  - Pays a stated death benefit to a named beneficiary when the insured dies
- Creates an instant estate
- Parties to the contract
  - Insurance company
  - Owner
  - Insured

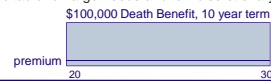


## Characteristics of Life Insurance

- Death benefits
  - Received income tax free by the beneficiary
  - May be subject to federal estate taxes
    - Benefits included in the value of owner's estate

## Characteristics of Life Insurance

- Types of life insurance
  - Term insurance
    - Purchased for a stated period of time
      - 1 year, 5 years, 10 years, etc.
      - Usually renewable and convertible
      - Inexpensive when young and healthy
      - Not designed to last to age 100
      - Builds no cash value
      - Suitable for large needs and low discretionary income

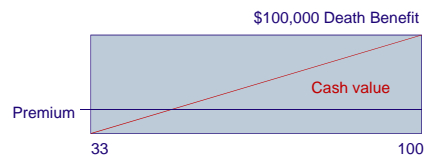


## Characteristics of Life Insurance

- Whole Life
  - Permanent insurance
  - Contract lasts to age 100 or beyond.
    - More expensive
  - Builds cash value
    - Tax-deferred growth
    - Loans must be available after 3 policy years.
      - 100% of cash value available
      - Loan is not taxable as income
      - Not required to pay back loan
  - Endows at age 100

## Characteristics of Life Insurance

- Whole life insurance illustration

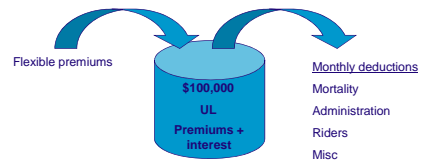


## Characteristics of Life Insurance

- Universal life
  - Permanent insurance
    - Cash value tied to current and guaranteed minimum interest rates
  - Very flexible
    - Flexible premiums
    - Adjustable death benefit

## Characteristics of Life Insurance

- Universal life insurance illustration



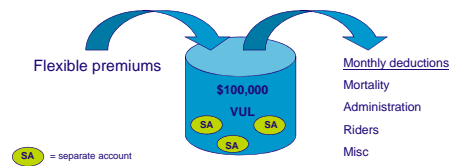
- No guaranteed minimum death benefit

## Characteristics of Life Insurance

- Variable universal life
  - Part insurance, part security
    - Two licenses required
    - Suitability
    - Prospectus delivery
  - Permanent insurance
    - Cash value tied to separate accounts
  - Very flexible
    - Flexible premiums
    - Adjustable death benefit

## Characteristics of Life Insurance

- Variable universal life insurance illustration



- No guaranteed minimum death benefit

## Characteristics of Life Insurance

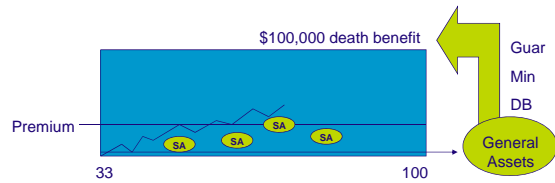
- Must maintain a positive account value
  - 31 days before lapse

## Characteristics of Life Insurance

- Variable Life
  - Part insurance contract, part security
    - Two licenses required
    - Suitability
    - Prospectus delivery
  - Permanent insurance
    - Cash value tied to separate accounts

## Characteristics of Life Insurance

- Variable life insurance illustration



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## Characteristics of Life Insurance

- Other characteristics of variable life

- Charges and expenses
  - From the premium
    - Administrative fee
    - State premium tax
    - Sales load
  - From the separate accounts
    - Expense risk fee
    - Mortality risk fee
    - Investment management fee

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## Characteristics of Life Insurance

- Variable death benefit
  - Separate account performance compared to the Assumed Interest Rate (AIR)
    - Bigger/bigger
    - Same/same
    - Less/less
    - But never less than the guaranteed minimum
  - Variable death benefit is calculated annually.
- Cash value is calculated monthly.
  - 75-90% available for loans

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## Characteristics of Life Insurance

- Contract exchange
  - Variable life to whole life
    - Two years
    - No medical
    - Original issue date
- Free-look
  - 45 days from policy execution or 10 days after delivery, whichever gives more time

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## Characteristics of Life Insurance

- Regulation of variable contracts
  - Federal regulations
    - Securities Act of 1933
    - Securities Act of 1934
    - Investment Company Act of 1940
    - Investment Advisors Act of 1940
  - State regulations
    - Blue Sky laws
    - State regulation of the insurance industry

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