Special Advertising Section

Life Insurance

{ September is Life Insurance Awareness Month }

Mapping It Out

What You Don't Know About Life Insurance — But Should

By Russ Banham

Beyond the primary benefit of life insurance — money flowing to loved ones following your death — life insurance offers a plenitude of financial solutions to many of life's most complex challenges. It can be used to protect a business or give to charity, pay the mortgage and other necessary bills, fund long-term care expenses, and pay estate taxes.

"The sheer versatility of the product and the broad financial security it provides takes many individuals by surprise," says former Oklahoma Governor Frank Keating, president of the American Council of Life Insurers. "Life insurance is much more than a death benefit. It's the cornerstone of a family's financial plan."

Here are ten things you may not know about life insurance that could prove invaluable to protect financial security during your lifetime and preserve wealth for your heirs.

1 Supplement Your Group Life Insurance

Many employees receive group term life insurance as an employer-provided benefit. Often, the amount is modest, maxing out at several times one's salary, depending on the company and the employee's position. Yet, as Damon Bates, vice president in the U.S. Insurance Group at Massachusetts Mutual Life Insurance Company in Springfield, Mass., points out, "even several times one's salary will not provide the same standard of living many families enjoyed prior to the policyholder's death — especially in the case of families with dual incomes where the surviving spouse is likely to stop working."

Bates explains that "People think group life insurance alone will sustain their families in the event of their deaths, which often is far from the case. The capital required to replace a career's worth of income over time, especially for a young family, is huge."

There are other financial drawbacks. Group life insurance is generally not portable, meaning if the employee loses his or her job, the insurance expires. Moreover, if one's health has deteriorated since the group policy was underwritten, the cost of another life insurance policy will be much higher, if available at all.

"We all hope that we will maintain our employment and remain healthy and insurable for a long time, but hope is not a financial plan," Bates says. "There are millions of Americans who relied on group life insurance coverage only and are now uninsured, due to the economy and the Gulf crisis, so their families are unprotected. Group term life insurance is a nice employee benefit, while individually-owned coverage is a planning tool."

A mix of individually-owned permanent and term life insurance oftentimes addresses these problems. As Bates notes, "The key is... you own the insurance, not your employer."

2 Calculate the Right Amount

While both group term life insurance and individual term life insurance are a good start at building a family's financial security, another type of life insurance — whole life (also called permanent life) — has broader utility beyond the customary death benefit. But what often hinders many buyers of whole life insurance is figuring out the right amount to purchase. "It's not uncommon for people to simply opt for round numbers like $1 million or $5 million as the policy's face amount — the proceeds available to the beneficiary upon the policyholder's death," says Glenn E. Stevick, Jr., assistant professor of insurance at The American College in Bryn Mawr, Pa. "Another technique is the Multiple of Income approach, whereby a ballpark figure like 15-times-salary is selected as the face amount. Both approaches, however, fail to account for the buyer's individual circumstances or objectives."

A more refined way to determine how much insurance to buy is the Human Life Value approach, a method of calculating the amount of capital a family would need if the breadwinner passed away today. "The amount represents the economic value of the buyer to his or her dependents," Prof. Stevick explains. "Four metrics are leveraged in the calculation — annual income, expenses, years left until retirement, and the expected value of the dollar at the end of this period, given inflation."

Other methodologies for calculating the face amount of a policy include the Financial Needs Analysis and the Capital Needs Analysis. A life insurance agent or financial advisor can assist in these computations, which can be performed using online tools. "The important thing is to apply mathematical rigor to buying the appropriate amount of insurance protection, as opposed to picking a number out of the sky," Prof. Stevick says.

3 Prepare for Life's Events — Both Good and Bad

Most everyone knows that the primary purpose of life insurance is to financially protect dependents from the loss of income caused by an earner's death. But whole life insurance does not wait for the policyholder to die to provide value. As the cash value of the policy builds, this money can be drawn upon to defray the cost of untold, unforeseen events.

Consider the sudden loss of employment. When other invested assets like stocks and bonds suffer a decline in value, the cash value of a life insurance policy can be tapped instead to pay immediate costs such as the mortgage, car lease, tuition, health care and other bills. Life is not static, so it's prudent to evaluate the amount of life insurance each year to ensure it addresses ever-changing needs.

"Life insurance is a personal product, hence everyone's needs are different," says Michael Burns, senior vice president of life product management at insurer Lincoln Financial Group in Radnor, Pa. "A married couple with three young children, for example, will incur financial responsibilities down the line like college tuitions that a couple with no children sidestep. Dual-income families have different needs than those families with a stay-at-home parent. Similarly, someone with sizable assets will confront estate tax concerns that individuals of lesser means will avoid."

Take the case of Michael Ferik, senior vice president of life insurance at The Guardian Life Insurance Company of America in New York. "I recently had a child who is nine months old now," Ferik says. "I owned some life insurance and bought a lot more in the last nine months to provide for my family in case something happens to me. Twenty years from now, assuming I've earned and saved enough money, my needs will be different. At that time, I may want to use my life insurance to give to charity, pay my estate taxes, or borrow from it to invest in a business or pay off my mortgage. The great thing about life insurance is its flexibility."

To address the full spectrum of life events that may adversely affect a policyholder's standard of living, Burns touts the services offered by financial planners and insurance agents. "They can undertake a full 'needs analysis' to ensure there is enough life insurance in place to cover anticipated future expenses," he says. "Even first-time buyers should take this tack."

4 Use It to Pay Estate Taxes

Although the federal estate tax this year is on hiatus, it is expected to return on January 1, 2011, when a levy of up to 55 percent will be imposed on estates worth more than $1 million. Many people will be vulnerable to this hefty tax penalty, in what will arguably be a still-dicey economy. In some cases, an estate may need to be liquidated to pay the tax to the Internal Revenue Service. Doing this at a time when asset values are depressed reduces the legacy left to heirs. Cashing in the assets also invites capital gains taxes on top of the estate tax.

There is another strategy — using the proceeds of a life insurance policy to pay the estate tax. "If this is done properly, with the life insurance policy placed into an irrevocable trust outside the estate, the death benefit is income tax-free and there is no estate tax on the proceeds," says Mark Hug, chief marketing officer of individual life insurance at The Prudential Insurance Company of America, based in Newark, N.J.

Continued

Illustrations by Peter and Maria Hoey

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Mapping It Out

Continued

"You avoid having to liquidate other assets when they may be depressed, thereby preserving the depressed assets for a rebound in value. And you preserve the original intent of the assets to go to one's heirs."

There may be another advantage to this strategy. "Life insurance and estate taxes happen at the same time," notes Ferik. "At the precise moment the estate tax is due, the life insurance creates money to pay it."

Since the IRS insists on cash, one's heirs are effectively in a fortuitous position to pay the tax. Says Burns, "It makes things easy from a liquidity perspective."

5 Create a Tool for Charitable Giving

As one ages, thoughts often turn to leaving a legacy of some sort. Perhaps the Boy Scouts were a factor in building the character traits that led to success or the old alma mater navigated the right career path. While some people build a sizable portfolio of assets that is figuratively put in a shoebox for the grandkids, others may want to leave at least a portion of their wealth to charity.

Cashing in equities to make a charitable donation or otherwise provide a legacy is one way to leave an imprint. If these assets are underwater, however, now may not be the best time to liquidate them — no pun intended. Life insurance offers an alternative, one with potential tax benefits. "If you buy a life insurance policy, name the charity as the beneficiary and pay the premiums, the life insurance proceeds flow to the charity when you die, but your premium payments are not tax-deductible," Prudential's Hug says. "On the other hand, if the charity owns the policy and you pay the premiums, you can benefit from a charitable tax deduction. It's a sensible way of giving to a favorite cause." To assure optimum tax treatment, make sure to secure counsel from competent legal and tax advisors, he adds.

6 Access Funds for Long-Term Care

Twelve million older Americans will need long-term care by 2020, according to the U.S. Government's Medicare program. Meanwhile, a study by the U.S. Department of Health and Human Services indicates that anyone who reaches the age of 65 years has a 40 percent chance of entering a nursing home, with a 20 percent chance of staying there for at least five years. The related cost in many large cities exceeds $100,000 a year.

The statistics are sobering, to say the least. While long-term care insurance is the primary way to pass on these substantial expenditures — government programs like Medicaid require a person to be indigent before picking up the tab — individuals who believe they will not need long-term care often forego the insurance. They figure they're healthy now and will remain that way, so why spend money on an insurance policy they'll never use? The data indicates otherwise, of course.

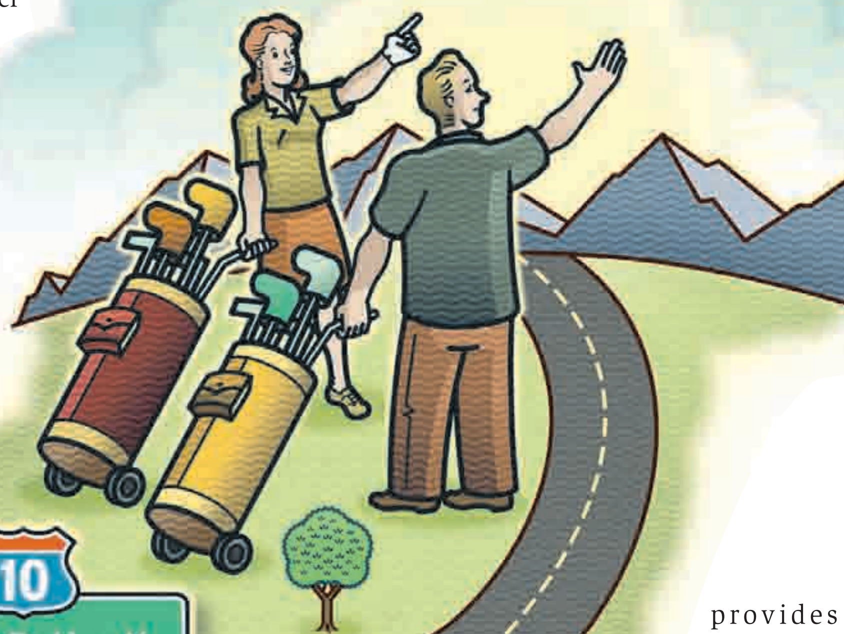
In response, the insurance industry unveiled a combination life insurance/long-term care insurance product that combines traditional cash value insurance with a rider allowing policyholders to draw dollars from the policy to absorb the costs of long-term care. "It's essentially a pre-payment of the death benefit when the policyholder needs access to this money for nursing home or other long-term care expenses," says Andrew Shapiro, director of advanced sales at Columbus, Ohio-based Nationwide Financial Services. "The rider is attractive to clients who are not in a position financially to afford a full-blown long-term care product, or are uncomfortable with the 'use it or lose it' coverage that traditional long-term policies entail."

The rider can be structured to reimburse long-term care expenses as they are incurred, with the remaining cash value of the death benefit preserved for the beneficiary. There may be some tax benefits to this approach, too. Thanks to the Pension Protection Act of 2006, the distribution of the policy proceeds to cover long-term care expenses is tax-free.

Safeguard Your Business

In this era of discouraging unemployment figures, many young people launching their careers, and those downsized out of their jobs, are starting their own businesses. Take the case of my brother-in-law, Rick. After a quarter century at an advertising network, he was politely shown the door. He has since invested his severance pay in an office cleaning franchise.

Now if Rick had a partner in the business, he might want to consider a term life insurance policy naming the co-owner as the beneficiary — and vice versa. In the event one of them dies, the other partner could tap the policy's proceeds to buy the deceased person's share of the company from his or her estate.



Why is this important for a business owner? For one thing, liquidating equities or other invested assets in a down market to acquire a deceased partner's ownership share isn't financially sensible. Additionally, many businesses often fail following the death of a co-owner. Leadership issues may arise when the deceased partner's spouse or children expect to share in decision-making.

"A more prudent alternative to these scenarios is term life insurance," says Prof. Stevick. "It's a cost-effective way to keep a business going following the loss of a partner or other key employee."

Tailor for Your Needs

"Life insurance comes in many guises designed to meet individual needs," explains Lincoln Financial's Burns. "There's inexpensive term insurance then there's permanent forms of life insurance that include universal life, whole life and variable universal life. Like all financial planning tools, each has its pluses and minuses."

Here's a brief, but by no means thorough, primer.

Term life offers an income tax-free benefit, has fixed premiums and no investment risk. The younger one is, the less expensive the premiums. Since the policies have a pre-determined expiration date, they must be renewed to continue to provide value. Whole life insurance also provides an income tax-free death benefit and generally has fixed premiums. The primary difference is the permanent, lifetime coverage afforded by whole life insurance — there's no expiration date — and cash values that build up over time can be accessed by the policyholder.

"Newer universal and variable life insurance products similarly offer income tax-free death benefits and cash values that build up over time. But, unlike insurers of whole life policies that absorb the investment risks of the invested premiums, the policyholder takes on the majority of this financial exposure," notes MassMutual's Bates. An increase or decline in the value of the invested premiums will affect the policy's cash value — up or down.

Each type of life insurance policy offers various tax benefits, and it is best to discuss these with a financial advisor, insurance agent or tax attorney.

Choose Riders to Optimize Coverage

Many life insurers offer a range of optional riders or coverage enhancements that provide the insured supplementary and/or expanded benefits and allow people to customize coverage to meet specific needs. Among the most popular is the Accidental Death Benefit rider, which gives the beneficiary a pre-determined, additional amount of money in the event of the policyholder's death due to an accident. The amount is negotiable, although customarily the proceeds are doubled (hence the title of the movie, *Double Indemnity*).

Another rider allows policyholders to cash in part of the policy to pay for long-term medical care, confinement in a nursing home or at-home care — the aforementioned combination long-term care/life insurance product. A Guaranteed Insurability rider allows a policy owner to buy additional life insurance coverage in the future without providing evidence of insurability. This makes sense if the buyer anticipates his or her health may worsen in the future, given family medical history. A Waiver of Premium rider essentially forgives payment of premiums by policyholders who are disabled for a minimum of six months. For as long as the insured is disabled, he or she will not have to pay the premiums.

The advantage of riders is that they give the buyer the flexibility to modify the life insurance contract to his or her specific needs. "If you determine that you need substantially more in the death benefit for a short period of time, you can add on a Term rider that drops off after a specified number of years," says Shapiro from Nationwide. "If you're concerned about the ability to pay premiums in the event you're disabled, there is a rider for that." Or if you like the idea of life insurance on your children because of the potential risk of having to take time off from work if they are ill, this, too, can be addressed through a Child Term rider.

There is a posse of other riders, and in all cases purchasers are advised to discuss the nuances of each with an insurance agent or financial advisor, as the price and contracted terms and conditions may vary, depending on the insurer.

Don't Retire It When You Do

Just because the kids are all grown up, the mortgage is paid off, and there is enough capital squirreled away to take care of life's necessities doesn't mean you no longer need life insurance. "Life insurance is for the living, and can be an important emergency savings fund to provide immediate cash when financial challenges arise at any age," says ACLI president Keating.

Such challenges are obvious and acute, at present. "The reality in today's financial marketplace is that each of us has to take care of ourselves," Keating asserts. "Most people don't have pensions and many don't have 401(k) retirement plans. Invested assets have declined, as the cost of living continues to rise. For all these reasons and many more, life insurance is a blessing. It's like an uncle with a checkbook in hand to assist you if something bad happens — an instant, dramatic savings account that can be drawn upon in times of need."

Russ Banham is a veteran business journalist.

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"Obsolete" Approach to Wealth Preservation Makes a Comeback

By Joe Mullich

After spending a lifetime building up assets to bequeath to your children or other heirs, the notion of what might happen to those assets after your death can be distressing — your children might need to dispose of the family home or family business quickly at a "fire sale" price to pay the estate tax.

The desire for wealth preservation, changes to the tax laws and the economic downturn have combined to revive an estate-planning strategy that some branded as "obsolete" only a few years ago — "survivorship insurance," also known as "second-to-die insurance."

As the name suggests, second-to-die insurance insures two lives — normally a husband and wife. Unlike traditional life insurance, the death benefit is only paid after the second person passes away. The most common purpose of the insurance is to pay the estate tax for illiquid assets, like property, and preserve wealth for subsequent generations.

"We are starting to see a trickle of interest in second-to-die insurance, and expect that to become a flood," says Matthew Tuttle, a certified financial planner in White Plains, N.Y., and author of *How Harvard & Yale Beat the Market.* "The only reason it's been a trickle is because people are in disbelief that Congress has not acted on the estate tax laws."

In 2009, the law exempted $3.5 million of an estate from taxation with a maximum tax rate of 45 percent. The estate tax was repealed for 2010. Next year, the exempted amount is scheduled to drop to $1 million with a 55 percent maximum tax rate.

"At the moment, second-to-die insurance should be of interest to anyone with an estate of at least $1 million, which, where I live, is anyone who owns a house," Tuttle says. "If we get into 2011, and the law has not changed and the estate tax exemption drops to $1 million, second-to-die insurance will become as popular with older married couples as the Jonas Brothers are with teenage girls."

Experts believe second-to-die insurance will continue to benefit those with larger estates even if the law is revised. Second-to-die has several advantages over traditional life insurance. Because the policies are based on the joint life expectancy of two people, the cost is usually less than two individual policies that provide the same total benefit.

It can also be an option for a couple that wants to leave an inheritance but may have challenges because one spouse is older or in poor health. In those cases, where one spouse is considered "uninsurable," the cost of traditional life insurance could be prohibitive.

In addition to paying the estate tax, second-to-die insurance can be used to build wealth and guarantee that a specific amount is available for heirs. Because of this, it is often suggested for families who have children with special needs or disabilities.

Experts say the current environment of low-interest rates also contributes to the growing interest in second-to-die insurance. "The overall internal rates of return (IRR) can vary based on age, health condition at time of underwriting and death of both of the insured, but on average, the IRR is a tax-free six percent, which looks very attractive in the current financial environment," says Scott Golden, owner and CFO of the health benefits firm Golden & Cohen in Washington, D.C.

> *"At the moment, second-to-die insurance should be of interest to anyone with an estate of at least $1 million."*
>
> — MATTHEW TUTTLE

While second-to-die insurance is a straightforward concept, estate planning can be a complex process that may require a lawyer, financial planner and other professionals to provide advice for your specific circumstances. "The insurance isn't that complicated, but you should consider several variables which might affect how you fund the insurance and the cost of it," Golden says. "You really need a team to guide you."

Joe Mullich has written for Reader's Digest, Men's Health *and numerous other publications.*

3 important ways life insurance can help complete your financial plan.

The primary purpose of life insurance is to provide cash to your beneficiary if you die. This can be used to help replace income you would have earned or to help pay off debts or expenses. However, there are other roles you may not be aware of.

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Life Insurance After Retirement ...

By Grace W. Weinstein

Once upon a time, life insurance was purchased primarily by young parents to provide financial security for their spouses and children in the event of untimely death. Life insurance can create an "instant estate" for people, young or otherwise, who have not built other significant assets.

But the need to provide additional income for surviving family members does not necessarily end because you reach a certain age. The kids may be finished with college and the mortgage paid off, but your spouse may still need financial help to maintain your current lifestyle. Remember: With today's longer life expectancies, he or she could outlive you by 20 or even 30 years. Moreover, Ralph Engel, a trusts and estates attorney at Sonnenschein, Nath & Rosenthal in New York, points out that "more capital is needed today to produce the same income, so you may need insurance that you didn't think you would need."

What to Consider

There are many considerations and choices about what to do with existing life policies as you age. People are living longer. Other assets have diminished in value in the recent economic downturn. Survivors' benefits, as a result, may still be important to your family. And your estate may need additional liquidity.

In fact, life insurance can do a great deal to enhance financial security in the retirement years. So you may want to keep existing policies in force, exchange them for new and different policies, or buy additional insurance. Depending on your personal needs, you have several options.

First off, review your entire financial picture and project it into the future. Will life insurance help your survivors replace your current income, including a salary (if you are still working) or a pension? Will it help your family hold on to illiquid assets such as real estate and prevent liquidation of those assets in what may be a forced sale to raise necessary cash?

If you know the need for extra cash will be limited — perhaps a real estate investment will mature or a dependent spouse expects to come into a sizable inheritance within a few years — then a new term policy for the specified period could meet the temporary need. Term insurance does not build cash value and usually cannot be renewed indefinitely but can make abundant sense to fill a short-term gap. This is especially so since today's term policies — unlike earlier ones that typically expired by the time a policyholder reached age 70 or 75 — can extend into a policyholder's eighties.

If you expect the need to be life-long, however, you will want insurance that is permanent. If so, Engel suggests comparing the cost of converting your current term policy to buying a new policy. "If your health has deteriorated," he notes, "converting may be a better option. If you are in great health, buying new insurance might be better despite your age. Ask an insurance professional to compare the options."

Understand the Options

Life-long life insurance can be purchased in the form of whole life, universal life and guaranteed universal life policies. (Another choice, variable life, is less popular these days because its benefits depend on underlying equity investments.)

Whole life policies offer fixed premiums and a fixed death benefit. You know exactly what you pay in over time and what your beneficiaries will receive. These policies build cash value slowly over a long period and therefore may not be an appropriate purchase once you have reached the retirement years.

Universal life policies are more flexible and offer higher early cash value. Subject to certain limitations, you can adjust the premium payments of a universal life policy as your financial situation changes. The trade-off for this flexibility is that the interest rate is not fixed, although there is typically a guaranteed floor on the interest to be paid. This type of policy may also be more attractive to younger purchasers with decades of potential growth and many possible changes to their financial picture before them.

Guaranteed universal life (GUL) may be a more appealing purchase for the older buyer seeking a new policy. With GUL, premiums can be lower and the death benefit is guaranteed, but there is little to no cash value. GUL policies resemble term policies with the significant exception that the benefits are life-long. Brian Peterson of NextGen Advisor in Charlotte, N.C., notes that "there is a huge rush to these products, partly because of market volatility and partly because people want guarantees."

In short, permanent insurance can serve both long-term investment needs as well as provide valuable death benefit protection. The right policy for you depends on many factors including whether you are most interested in building cash value for future use or in creating a larger death benefit. Whole life can produce more cash value over time. Universal life may yield greater early cash value. Guaranteed universal life can be structured to create a larger death benefit.

Tax-Free Trusts

Because the proceeds are immediately available at death, life insurance can be a very useful estate planning tool for high-net-worth individuals whose assets may be illiquid and who may face federal

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Why You Need It In Your Later Years

and/or state estate tax.

The proceeds can augment your financial support system for surviving family members. They may be applied to any federal or state estate taxes that may be due. (There is no federal estate tax in 2010 but unless Congress takes action, a tax as high as 55 percent could hit estates in excess of $1 million in 2011.) Meanwhile, many states now impose their own taxes at death.

If you own the policy on your life, proceeds will be subject to estate tax. The solution is to have adult children or an irrevocable life insurance trust buy the policy or — if you already own the insurance — to transfer ownership at least three years before your death.

Trusts must conform to stringent rules to make the proceeds tax-free, so it's important to consult an experienced attorney to draw up the documents. For example, even if this is your intent, the trust cannot say that proceeds are to be used to pay estate taxes. Instead, Lawrence Brody, an estate planning attorney with Bryan Cave LLP in St. Louis, notes, "the trust wording must give the trustees the discretion to lend money to the estate or buy assets from the estate."

A possible downside to trust ownership, Brody continues, is that you will not be able to access the cash value to boost retirement income. "There is no way to safely try to keep the insurance proceeds out of your estate" Brody says, "and also have access to the money during life."

Life insurance can also provide a legacy for children and grandchildren. "I purchased new insurance at age 72," notes Ben G. Baldwin, author of *The New Life Insurance Investment Advisor.* "We had money available and wanted to leave an inheritance for our kids. At the same time, we were not sure that my wife and I wouldn't need the money at some point. Life insurance gave us a way to store it."

Strategic Decisions

If you've owned whole life insurance for many years, you probably have substantial sums built up in the policy's cash value. That money can be tapped to augment retirement income. If you no longer need the insurance, you can cash the policy in, take a loan against its cash value or use the cash value to convert the policy to paid-up status so that you will keep it in force but owe no more premiums.

There may be costs associated with cashing in a life policy. In an example provided by Lee Slavutin of Stern Slavutin 2, a life insurance and estate-planning firm in New York, you might have $300,000 in cash value accumulated in a policy for which you paid $150,000 in premiums over the years. If you cash in the policy, you will owe income tax on the gain: the difference between the $300,000 you receive and the $150,000 you paid. That could be a hefty bite in federal and state taxes.

You can bypass the tax bite — if you are sure you no longer need life insurance and if you (and not a trust) own your life insurance policy — by making a tax-free exchange into an annuity. Tax-free exchanges are permitted under Section 1035 of the Internal Revenue Code.

Two things to consider: Annuities may come with associated costs. With a straightforward fixed annuity, these should be minimal. As you examine costs, says Baldwin, compare the costs within the life insurance policy (mortality expenses, fees, etc.) against the costs of the annuity.

Also, make sure there is no longer a surrender charge on your life insurance policy. Most surrender charges end once a policy is held for 15 years. In any case, if the annuity and life insurance policy are issued by the same insurer, there probably won't be a surrender charge; if you switch companies, there may be. Also, with an annuity, some portion of every payment is taxed as ordinary income. This is not the case, Brody notes, when you tap the cash value of an existing life insurance policy.

Grace W. Weinstein is a former columnist for The Financial Times *and has written for* Money, Kiplinger's Personal Finance *and* Business Week.

Five Questions Retirees Should Ask Their Advisors

1. *When should I retire?*

Typically, people make the decision to retire five years before they actually retire. The decision should not be made without considering all of the financial implications, including health care coverage and other benefits, current financial obligations and how those obligations will be met. Pre-retirees also should have a contingency plan in place in case of unforeseen events such as a layoff or illness.

2. *How do I plan for my expenses and income?*

Advisors can help their clients identify monthly and annual expenses, as well as possible additional unplanned expenses they will have in retirement. Advisors will help develop a strategy to create income sources (pension, savings withdrawals, Social Security benefits, annuity payouts, etc.) that will pay for the expenses while protecting their clients' long-term financial security.

3. *Which funds should I draw from first?*

Most people understand the importance of diversifying their financial portfolio, but when it comes to deciding how to convert their savings into income, many need advice to ensure they are making wise choices — considering tax implications and long-term investment strategies.

4. *What required minimum distributions do I need to perform and when?*

As part of their financial portfolio, many retirees invest in various types of annuities to continue to grow their savings. But some annuities have required minimum distributions so it's important to know when these distributions need to occur to avoid certain penalties and adjust your finances to minimize the amount of taxes needed to be paid.

5. *What risks should I plan for when I retire?*

LIMRA research has shown that retirees aren't always aware of all the possible risks they face in retirement. Advisors can help their clients protect themselves against risks like longevity, illness, inflation and market volatility that could compromise their financial security.

Source: LIMRA

"As I cradled her in my arms in those first few minutes, I made her a promise I'd always protect her. Even long after I can't."

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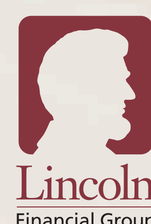

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Special Advertising Section

Accelerating Life Insurance Benefits

Answers from the American Council of Life Insurers

Q: What are accelerated benefits?

A: A life insurance policy ordinarily pays benefits to a beneficiary after a policy owner dies. Those benefits are accelerated if they are paid directly to a chronically or terminally ill policy owner before he or she dies. Provisions for accelerated or "living benefits" may be included in a policy when purchased or attached as a rider.

Q: When can I request early payments?

A: Certain medical circumstances can trigger eligibility for early payment of all or a portion of your policy's proceeds, including:

- Terminal illness, with death expected within 24 months.
- Acute illness, which would result in a drastically reduced life span without extensive treatment.
- Catastrophic illness requiring extraordinary treatment, such as an organ transplant.
- Long-term care needed because you cannot perform a number of daily living activities, such as bathing, dressing, or eating.
- Permanent confinement in a nursing home.

Q: Can my beneficiaries collect any death benefit if I receive an accelerated benefit payment?

A: The amount paid to your beneficiary is reduced by the amount you received as an accelerated benefit. If your policy's proceeds are entirely depleted, no benefit is paid after your death.

Q: How do I pay for the accelerated benefits option?

A: The cost may be included in your insurance premium or added to the policy for a small amount, usually a percentage of the base premium. Some companies only charge you for the option if you use it.

Q: What types of policies offer them?

A: A permanent individual life insurance policy of $25,000 or more usually provides for accelerating benefits, as do some term life policies. Check with your insurance agent or company to see if your policy includes or offers the option. Group policies for term or permanent life insurance may also provide accelerated benefits; check with your benefits administrator.

Q: Will my insurer cancel my life insurance policy if it's known that I'm ill or disabled?

A: No, your policy cannot be canceled as long as you pay the premiums. You may even be able to add an accelerated benefits rider after you become ill or disabled.

Q: Do accelerated benefits replace long-term care insurance?

A: No. A long-term care policy keeps you from having to deplete your life insurance benefits or other savings to pay for long-term care services.

Q: How much of my life insurance policy can I collect early?

A: In general, accelerated benefits can range from 25 to 95 percent of the death benefit. The payment depends on your policy's face value, the terms of your contract, and the state you live in. Some companies will permit you to accelerate 100 percent of your policy's face value, but will reduce the amount of your benefit to compensate for the interest it loses on early payout. The amount of your benefit will also be reduced by any outstanding loans against your policy. Additionally, there may be a small service charge. Ask your insurer to provide you with a quote before you exercise your accelerated death benefit claim. In addition to adjustments made by an insurer, some states may limit the percentage and amount that can be accelerated. Check with your state insurance department to determine limitations.

Q: How are accelerated benefits paid out?

A: Each policy or rider specifies the method. Sometimes payments are made monthly; others are paid in a lump sum. Some policies allow you to choose the method of payment.

Q: Will I have to pay taxes on accelerated payments?

A: In most cases accelerated benefits are not subject to federal income taxes. Under the federal tax code, a terminally ill person (defined as a person having only 24 months to live) would not have to pay taxes on accelerated benefits. A chronically ill person is usually exempt but may have to qualify for the exemption by being certified each year. To ensure compliance with current tax laws, check with a local tax advisor.

Q: Are there better ways to cover high costs of illness and health care?

A: Accelerated benefits are limited and are meant to alleviate end-of-life financial hardship. They do not replace comprehensive health or long-term care insurance, which are designed to cover medical and long-term care costs.

Q: If I receive accelerated benefits and do not die, do I have to pay the money back?

A: Once your insurer accepts and pays your accelerated death benefits claim, you don't have to return the money if your health improves. However, filing a false claim or concealing information to obtain a benefit under an insurance policy is considered fraud in many states and subject to criminal or civil penalties.

Q: What if I bought a life insurance policy to cover someone else? Who would be eligible for accelerated benefits?

A: When the policy owner is not the insured, it is the insured who must be terminally or chronically ill; the policy owner can claim and receive benefits on the insured's behalf.

For more information about accelerated benefits and other aspects of life insurance, visit ACLI's website at www.acli.com.

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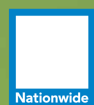

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