

A close-up, high-angle photograph of two women with dark hair, smiling warmly as they look down at a binder of documents. The woman on the right is laughing joyfully, showing her teeth. The woman on the left is also smiling and looking at the papers. The binder is open, showing several pages with text and a small photograph. The overall tone is warm and positive, suggesting a collaborative and happy process.

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 Insurers (ACLI) has prepared this guide to help you know what questions to ask when

you're buying life insurance.

ACLI is a trade association of 383 life insurance companies, backed by an industry with 250 years of experience protecting American families.

Its members collectively provide about 70 percent of the life insurance in the United States.





Getting
Started

Why do I need life insurance? Life insurance provides cash to your family after you die. The money your dependents receive (the death benefit) can be an important financial resource—to help pay the mortgage, run the household, and ensure that your dependents aren't burdened with debt. Having a life insurance policy might mean your family 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. If protection is not your primary goal, you should consider other financial products.

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 (day care, tuition, or retirement) and immediate expenses (medical bills, burial costs, and estate taxes). Your family also may need money to help them readjust...perhaps to pay for a move, or job hunting expenses. Remember, life insurance provides financial protection.

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

What are the different types of insurance? Life insurance generally falls into two categories: term insurance and permanent insurance.

What is term insurance? Term insurance provides protection for a specific period of time, from one to 30 years. It pays a benefit only if you die during the term. Depending on the policy, the premium may remain constant during its term or increase each year. Some term insurance policies can be renewed when you reach the end of the term, but the premium rates will generally increase. 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 policy will remain in force, and 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. Their cash value or cash surrender value, which is not found in 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 toward premiums 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, otherwise your policy may lapse, 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. Cash value is the amount available if you surrender a policy before your death.

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. The cash value grows based on a fixed interest rate set 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 variable policies contain a guarantee that death benefits cannot fall below a minimum level.

What are the advantages and disadvantages of term and permanent insurance?

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.
- It covers needs that will disappear in time, such as mortgages or college expenses.

Disadvantages

- Premiums increase as you grow older.
- Coverage may terminate at the end of the term or become too expensive to continue because of age or health status.
- The policy doesn't offer cash value.

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

Choosing a Company and Agent



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 to an annuity, (an insurance product that provides an income for a person's lifetime or a specific period of time.)
- A provision or “rider” can be added to a policy to give you the option to purchase additional insurance without taking a medical exam or having to furnish evidence of insurability. Other riders waive the premium if you become disabled, or allow you to collect all or part of the death benefit if you become terminally or chronically ill.

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.

After you have considered 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? You can purchase life insurance at an insurance agency, a brokerage firm, a bank, or directly from a life insurance company on the Internet. Most companies have Web sites describing their

products and services, and some can direct you to an agent in your area.

How do I choose a company? Contact your state insurance department for a list of companies licensed to do business in your state, then:

- Ask friends and relatives for recommendations.
- Conduct an Internet search.
- Talk to an insurance agent or broker.
- Research companies at a public library.

Once you've narrowed your search, check the company's financial condition by looking at its "rating." Rating agencies, including A.M. Best Company, Fitch Ratings, Moody's Investor Services, Standard and Poor's Insurance Rating Service, and Weiss Ratings, assess the financial strength of companies. Rating information is available on the Internet or in publications usually found in the business section of your public library.

How do I choose an agent?

Collect the names of several agents through recommendations from friends, family, and other sources.



Find out:

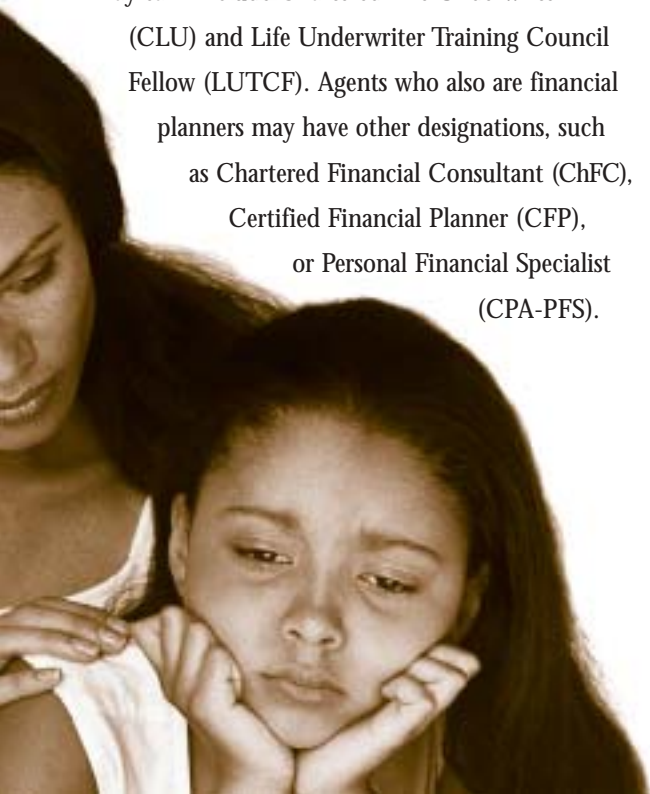
Is the agent licensed in your state? States require agents to be licensed to sell life insurance. Agents who sell variable products must also be registered with the National Association of Securities Dealers and have additional state licenses.

What company or companies does the agent represent?

Some agents are “independent” and sell insurance for several different companies. “Captive” agents have an exclusive arrangement with a particular company and sell only their products and services. 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 Personal Financial Specialist (CPA-PFS).





The
Agent's
Visit

Is the agent a member of a professional association? The National Association of Insurance and Financial Advisors (NAIFA) is a key association for agents. It provides local educational seminars to keep agents up to date. Similar training and services for financial planners are available through the Society of Financial Service Professionals, and the Financial Planning Association.

What can I expect during my meeting with an agent? The agent will begin by discussing 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 needs and 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, consult with 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. At times, a licensed medical professional will make a personal visit.

Always answer questions about medical history and health carefully and truthfully; this information is crucial for the company to evaluate your risk and establish a premium for your coverage. For instance, you will 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 and full payment.

How do I know if a life insurance policy is right for me? The agent will recommend a life insurance policy that 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.



The
Agent's
Recommendation

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?
- Will my premiums increase? If so, when? Annually? Or after 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?

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.

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 the classification shown (i.e., smoker/nonsmoker, male/female) appropriate for me?
- When are premiums due—annually, monthly, or otherwise?
- Which amounts are guaranteed and which are not?
- 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 or investment returns 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 in which to pay the premium without consequence. If you die during the grace period, your beneficiaries would receive the death benefit minus the overdue premium. After the grace period, the policy will lapse. If you own a permanent policy, your company—with your authorization—can draw from your policy’s cash value to keep it in force. 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.

Do I have any recourse if my policy lapses? Some life insurance contracts let you reinstate a lapsed policy within a certain period of time. However, you must provide evidence of insurability and pay overdue premiums (plus interest) as well as any outstanding policy loans.

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 provide a buyer’s guide to explain life insurance terms, benefits, and costs. Ask your agent for a copy.

Tips on purchasing life insurance:

- 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 the policy and 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. Get a receipt.
- After you have purchased a policy, you may have a short “free-look” period—usually 10 days after receipt—during which you can cancel. Read your policy carefully. If you decide not to keep it, the company will give you an appropriate refund.
- Review the application information in your policy. Notify your agent or company promptly if there are any errors or omissions.
- If an agent or company contacts you and wants you to cancel your policy and buy a new one, contact your original agent or company. Surrendering your policy to buy another could be very costly; however, there are times that a switch to a new policy is appropriate.
- If you have a complaint about your agent or company, contact the customer service division of the company. If you are still dissatisfied, contact your state insurance department. Most departments have a consumer affairs division that can be reached by a toll-free number.

- If you have your premiums automatically deducted from your bank account, let your insurer know when you change banks.
- Review your policy periodically—or when your situation changes—to be sure your coverage is appropriate.

Tips on Using the Internet

The Internet is a good resource for learning how life insurers help Americans accumulate, manage, and protect their assets. Company Web sites offer information on products as well as financial planning tools.

- If you are using the Internet, be sure you are on the official company site. Look for logos and seals that companies use such as TRUSTe, CPA WebTrust, BBB (Better Business Bureau) Online, or Verisign.
- If you purchase a policy over the Internet, you should receive e-mail confirmation immediately, as well as mail confirmation if you request it. You should receive your policy in the mail within 60 days of your purchase.
- If your insurer communicates with you or bills you electronically, alert the company of e-mail changes.

In addition to the Internet, you can find information about life insurance and other financial and retirement security products offered by life insurers—pensions, annuities, long-term care and disability income insurance, IRAs, and 401(k), 403(b), and 457 plans—from agents, state insurance departments, and public libraries.

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NATIONAL ASSOCIATION OF INSURANCE AND FINANCIAL ADVISORS



101 Constitution Avenue, N.W.
Washington, D.C. 20001
www.aflcio.com