



## CH. 8 | INSURING YOUR LIFE

1

### KEY CONCEPT OF INSURANCE IS RISK

- Risk is defined as uncertainty concerning a potential economic loss
- The simplest way to deal with risk is to avoid the act that creates it.
- Risk Avoidance: avoiding an act what would create a risk.
- There is RISK in everything you have a financial interest: Life, Health, Home, Car, Business, Everything

2

## LIVING WITH RISK

- Unless you live in a bubble, you have to assume risk
- Risk assumption: The choice to accept and bear the risk of loss.
- Loss Control is any activity that lessens the severity of loss once it occurs: wear seat belts, don't drink and drive, eat a healthy diet, do not smoke, etc.
- Insurance: You transfer some of your risk of loss to the insurance company.
- But you cannot transfer 100% of risk—your actions matter.

3

## PURPOSE OF LIFE INSURANCE

- Life insurance protects you and your family from the financial consequences of losing assets or income when an accident, illness, or death occurs.
- Insurance should be used only to protect against potentially catastrophic losses, not for small-risk exposures. It should cover losses that could derail your family's future.
- It balances the relatively small, certain loss of ongoing premiums against low-probability, high-cost risks. Premature death is clearly a catastrophic loss that could endanger your family's financial future.

4

## BENEFITS OF LIFE INSURANCE

- Financial protection for dependents—people who rely on you for financial resources
- Protection from liability—Able to pay off mortgage
- Tax benefits—proceeds from life insurance not taxable
- Vehicle for savings, though not the best vehicle

5

## DO YOU NEED LIFE INSURANCE?

- Yes IF:
  - ✓ Dependents count on you for financial support.
  - ✓ You have debts such as home mortgage.
- No IF:
  - ✓ No one depends on you for financial support.
- Maybe yes for funeral costs and other end of life expenses.

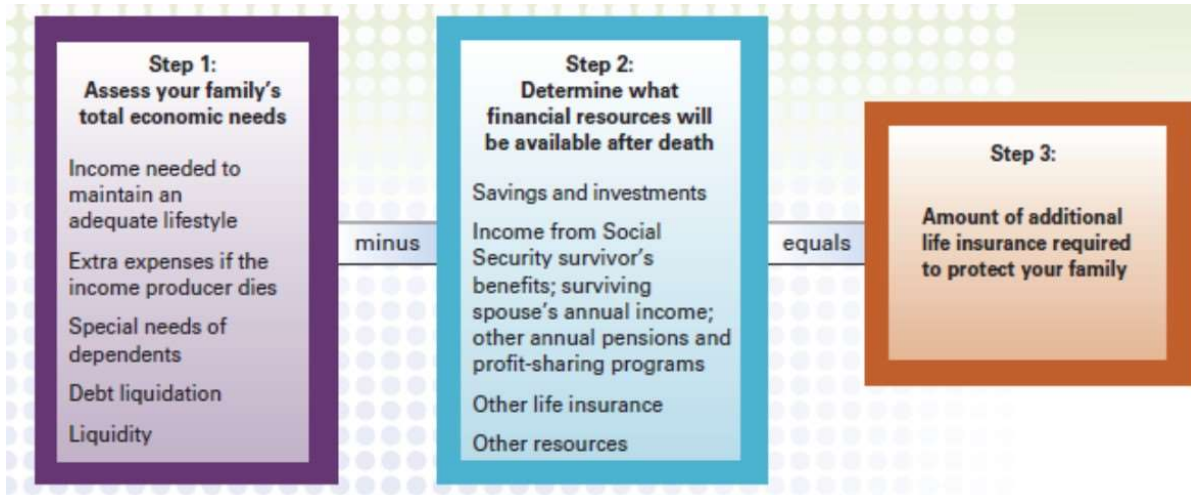
6

## LIFE INSURANCE

- How much life insurance do you need?
  - ✓ Multiple-of-Earnings: Multiply annual earnings by an arbitrary number, rule of thumb 5 to 10 times annual take-home pay.
  - ✓ Needs Analysis: Estimate needs and examine available resources
- Social security survivor's benefits should be factored into your life insurance plans if you have a dependent spouse and/or minor children.

7

## LIFE INSURANCE



8

## TERM LIFE INSURANCE

- Term insurance provides nothing more than a stipulated amount of death benefits and, as a result, is considered the simplest form of life insurance.
- Benefit paid if insured dies during that time; otherwise, no benefit paid.
  - ✓ Straight Term: Coverage remains the same while premiums can increase as insured ages.
  - ✓ Decreasing term: Premiums remain the same while coverage decreases.
- Group Life Insurance: Usually, term insurance offered through employers. Premiums usually lower than individually purchased policies

9

## TERM LIFE INSURANCE

- Renewability: Ability to renew policy without evidence of insurability
- Convertibility: Convert to whole life policy without evidence of insurability
- Representative Renewable Term Life Insurance Premiums, Nonsmoker, \$100,000:

Age	10 Year	15 Year	20 Year	30 Year
	Male/Female	Male/Female	Male/Female	Male/Female
25	\$106/\$102	\$116/\$110	\$128/\$116	\$161/\$143
35	108/\$102	117/\$112	134/\$125	175/\$152
40	122/\$115	135/\$129	157/\$145	222/\$185
50	203/\$171	250/\$199	298/\$233	475/\$341
60	403/\$300	539/\$373	669/\$502	Not available

10

## TERM LIFE INSURANCE

- **Advantages:**
  - ✓ Economical way for young families to purchase large amounts of life insurance
  - ✓ Provides for needs that disappear over time
- **Disadvantages**
  - ✓ Premiums become too costly as you get older
  - ✓ Does not build cash value

11

## WHOLE LIFE INSURANCE

- Provides insurance during individual's entire life.
- Cash value: Provides death protection plus a savings feature.
- Nonforfeiture right: Right to cash value when canceled prior to death.

Age	Annual Premium		Premiums Paid through Year 20		Total Cash Value at Year 20*
	Male	Female	Male	Female	Male/Female
25	\$603	\$525	\$12,060	\$10,580	\$10,670
30	727	683	14,540	12,760	13,518
35	891	775	17,820	15,500	16,908
40	1,078	931	21,560	18,620	20,518
50	1,590	1,367	31,800	27,340	29,796
60	2,418	2,050	48,360	41,000	41,796

12

## WHOLE LIFE INSURANCE

- **Advantages**

- ✓ Savings vehicle
- ✓ Borrow against cash value
- ✓ Premiums remain constant
- ✓ Cash value accumulates tax-free until redeemed

- **Disadvantages**

- ✓ Less death protection for young people
- ✓ Low return on savings
- ✓ Tax penalties possible on early withdrawal
- ✓ Outstanding loan subtracted from face value of policy upon death

13

## UNIVERSAL LIFE INSURANCE

- Permanent cash-value insurance that combines term insurance with tax sheltered saving account.
  - ✓ Guaranteed universal: It is the most like whole life insurance in that the cash value grows at a slower, more predictable rate.
  - ✓ Indexed universal policy: your cash value is tied to a specific market index, such as the S&P 500.
  - ✓ Variable universal policy: It allows you to choose investment sub-accounts.

14

## VARIABLE UNIVERSAL LIFE INSURANCE

- Variable life insurance provides lifelong coverage, as well as a cash value account that you get to decide how to invest. Hence, variable life insurance policies have higher upside potential than other cash value policies, such as whole life insurance.
- However, variable life insurance policies typically do not guarantee a rate of return.
- The downside to variable life insurance is that its fees tend to be the highest.

15

## BUYING LIFE INSURANCE

- Compare costs and features.
- Select a large, highly rated, financially secure company that is assigned ratings by at least two of the major rating agencies and are consistently rated in the top two or three categories.
- Choose a reputable agent.

16



## SUMMARY COMPARISON

Type of Policy	Advantages	Disadvantages
Term	Low initial premiums Simple, easy to buy	Provides only temporary coverage for a set period. May have to pay higher premiums when policy is renewed.
Whole life	Permanent coverage Savings vehicle: cash value builds as premiums are paid Some tax advantages on accumulated earnings	Cost: provides less death protection per premium dollar than term. Often provides lower yields than other investment vehicles. Sales commissions and marketing expenses can increase costs of fully loaded policy.
Universal life	Permanent coverage Flexible: lets insured adapt level of protection and cost of premiums Savings vehicle: cash value builds at current rate of interest Savings and death protection identified separately	Can be difficult to evaluate true cost at time of purchase; insurance carrier may levy costly fees and charges
Variable life	Investment vehicle: insured decides how cash value will be invested	Higher risk