

Life Insurance 101

The Facts about Life Insurance:

Or, everything you ever wanted to know about life insurance,

but might have been deceived about or disinclined to ask.

Facts which can make you much smarter, more confident, and much more secure,

and, which are all right now right at your fingertips. (Please respect our copyright. No copying of this document is permitted; short quotes can be made with appropriate reference to BreadwinnersInsurance.com. Encourage friends and others to obtain their own copy from our website. Thank you.)

Breadwinners' Insurance

R. Brian Fechtel, CFA & Agent

1 Chatsworth Avenue #47

Larchmont, NY 10538

Brian @BreadwinnersInsurance.com

914-457-0110

©2012 Brian Fechtel

Table of Contents

Introduction.....3

Life Insurance is Actually a Simple Product.....4

Life Insurance Coverage for More Than One Year and The Underwriting Process.....6

Policies with Annually Increasing Premiums.....7

Level Premium Term Policies.....7

Introducing Cash Value Policies.....8

A Most Important Fact – Do Not Buy or Evaluate Cash Value Policies Strictly Based on
Their Illustrations, and Other Related Wisdom.....10

Two Important Cash Value Policy Characteristics: The Amount of Insurance Gradually Declines
and The Annual Premium is NOT the Annual Cost.....10

Another Cash Value Policy Characteristic – Their Tax Privileges.....11

The Beneficial Consequences for Policyholders of a Cash Value Policy’s Tax Privileges.....12

An Aside: A Few Words About Tax Privileges, Historic Disclosure Practices, Economics,
and Public Policy.....12

How to Assess the Performance of a Cash Value Policy – A Very Brief Introduction.....13

The Various Varieties of Cash Value Policies: Short Introductions.....14

Universal Life (UL).....14

Whole Life.....15

Two Important Notes: 1) Cash Value Policies Do Not Lock in a Level Annual Cost for Life,
and 2) Obtain Help If You’ve Been Deceived.....15

Insights Gained From Understanding a Whole Life Policy: The Importance of Participation.....16

An Implication Arising from a Structural Difference between Universal Life and Whole Life.....18

A Special Form of UL Policy, It Doesn’t Lapse Even If Its Cash Value is Zero
That Is, It has a No Lapse Guarantee (NLG).....19

Single Premium Life Insurance.....20

Variable and Equity-Indexed Policies: An Intro.....21

An Important Observation.....21

Return of Premium Term Policies and An Addendum about Level Premium Term Policies.....22

Policies Insuring Two Lives, a.k.a. Survivorship Life Insurance or Second-to-Die Policies.....23

Group Life Insurance Policies.....23

Concluding Remarks.....24

Appendices (forthcoming)

A Life Insurance Buyer’s Guide (separate article – see web site)

A List of Frequently Asked Questions (FAQs)

Intro (page 26) Assessing Needs (page 26) About Term (page 28) About Cash Value Policies
(page 29) About Applying for Coverage and General Policy Info (page 30) About Comparing Products
(page 31) About Sales/Agent Misrepresentations (page 31) About Business Insurance (page 32)

Index (forthcoming)

Introduction

We want you to be a very smart life insurance consumer. While this introduction is longer than the typical sound bite or the 400 word summaries about life insurance found on many websites, it is much more valuable – as you'll readily recognize - than such abridged summaries for many, many reasons. A primary reason is that we provide the correct conceptual framework so that you can understand any and all purportedly different types of life insurance. While it's true that one doesn't need to understand everything about an automobile, to drive a car; in our years as agents, we have found that most consumers want to have at least some understanding of life insurance, to know a few basics, before they are really comfortable assessing their own needs or evaluating their alternatives.

The information below can be useful to everyone. It will be especially useful if you: 1) are currently thinking of buying a policy, or 2) have an existing policy and are wondering whether it's a good deal or to discontinue and possibly replace it, or 3) have ever advised anyone about life insurance.

We at Breadwinners' view our work as being our clients' life insurance doctor. Before a good doctor asks someone to take medicine or undergo a treatment, or recommends that one continue with the medicine or treatments that span a long time, much information about such medicines or treatment is normally provided: 1) to make sure the choices are understood, and 2) so that unfolding future developments, either progress or setbacks, can be understood. Like a good doctor, we first assess the situation and provide the information so that you can be completely informed and confident.

This article provides the conceptual framework so that you can readily understand any and all life insurance policies. As you'll see, life insurance is actually a simple product. And yet, the marketplace is full of a multitude of different policies, or what some refer to as different types of policies. Such apparent complexity leads many – even individuals who are otherwise financially savvy or have a cadre of advisers - to feel inclined to throw-up their hands in resignation that they might never be able to understand all the products or different choices. The sheer multitude of policy types or choices can seem overwhelming, especially without having the correct conceptual framework in mind.

Indeed, without a correct conceptual framework, one unfortunately can either be lead to believe or think all sorts of incorrect things. Incorrect ideas and concepts can, of course, be major obstacles to reaching wise decisions. Just recall what people over the ages without good information and the proper conceptual framework have thought: that the sun revolves about the earth, that mystical spirits cause diseases, or that Madoff could consistently produce a 12% annual return! To understand anything properly, one needs to know the subject's basic facts, and to know how those basic facts fit together in a coherent and correct conceptual framework. Such understanding will take a few

moments, but the few minutes spent acquiring this knowledge now could be worth a fortune to you and your family.

Moreover, the life insurance industry has never provided appropriate disclosure, and its agents have a reputation for being commission and quota driven hucksters who are typically inadequately trained. So without a coherent and correct conceptual framework, there can also always be much doubt about whether any information that one receives from such an industry is good, accurate, and reliable. There can also always be a question of whether the information obtained from an agent, or from anyone for that matter, is information that can be relied upon. What are the speaker's biases that might result in less than objective and sound advice? Even if a speaker doesn't have an obvious personal or financial bias, does someone offering advice about life insurance really know enough to do so? Many unfortunately do not; their flawed advice actually proves that they are woefully lacking of the necessary insurance and financial knowledge, although the obvious flaws in their advice are often only apparent to those who truly understand the subject. Again, because: 1) the life insurance marketplace has been a swamp full of deceptions, half-truths, and worse, and 2) a smart and informed consumer ought to be immune to the pervasive misrepresentations, the few minutes spent reading this article will be in your best interest.

In summary, you will learn: 1) a good and basic understanding of life insurance, in all its varieties, and thereby be able to sort through the product choices, 2) to avoid being deceived by the industry's rampant pervasive deceptive practices, 3) to ask the necessary questions as you will understand what makes a good life insurance policy versus a bad life insurance policy, and 4) to evaluate any existing life insurance that you may have, as many existing policies provide very poor value and should be replaced?

Life Insurance is Actually a Simple Product

Life insurance is actually a simple product. The correct and coherent conceptual life insurance framework begins with the following two facts. Fact #1: All life insurance is comprised of term insurance, and Fact #2: as one ages the annual cost of life insurance increases. And, as we'll explain below, any policy or circumstance or sales presentation that might seem to contradict these two basic facts warrants very special attention and investigation.

Eighty year-olds die at a greater rate than 60 year olds, 60 year-olds die at a greater rate than 40 year-olds, and so on. That is, if you have two groups, one of a 1,000 80 year-olds and the second of a 1,000 60 year-olds, then more of the 80 year-olds than 60 year-olds will die in the next year. Life insurance is a product based on risks and probabilities, namely the probability of the insured dying in the next year. This observation is obvious to everyone who thinks about it, but, believe it or not, the role of the probability of death as one ages and the implications of this basic fact, unfortunately, quite often get ignored, forgotten, distorted, or misrepresented. There is no way to avoid the financial impact of the reality arising from the basic probabilities of life. The age at which one buys or bought a policy does not change this reality, or somehow avoid the impact of the fact that the annual costs of life insurance

increase as one ages. (This last statement is worthy of repetition because there are such misconceptions and misrepresentations about such.)

Let's put some simple numbers in this discussion. Suppose, hypothetically, that in a group of 1,000 healthy 40 year olds, approximately 1 will die before the age of 41. While at age 60 perhaps 5 per thousand might die before their next birthday. For a moment we will leave aside factors such as these individuals' health, gender, family medical history, avocations, etc. Such variation can be readily taken into account once one understands the conceptual framework. (A sample mortality table, showing the rates at which men and women of all different ages die can be found at <http://www.ssa.gov/oact/STATS/table4c6.html> .)

If every individual in the group of a thousand 40 year-olds wants a million dollar policy, and in this presentation we'll simply use a hypothetical \$1 million policy just because it's a nice round number, that's easy to work with. (At Breadwinners' Insurance we have clients who have smaller policies and others who have bigger policies. This \$1 million figure is, again, simply a face amount that will permit us all to do some of the easy math in the examples that follow; it is intended only to be useful in this example, not to intimidate or insult anyone. Again, life insurance is a product built on math and simple related financial concepts, it is simple to either scale up or down all these figures, but our purpose here is to understand concepts, not to get distracted by specific numbers, and not to assess any individual's need for life insurance - that's a separate matter.)

For a very brief moment, let's further assume that a life insurance company's only costs were claims, which of course is not the case, as life insurers have other costs that we'll shortly discuss. But if claims were their only costs, then each of the 1,000 40 year-old individuals would have to pay \$1,000 so that the insurer would have a million dollars to pay that year's claim. An insurer must charge each of these 1,000 individuals at least as much as the expected cost of his or her claim. Not to get complicated, this is simply expressed in a formula as: Probability of Claim for that year X Amount of the Claim = Expected Annual Cost of the Claim. The insurer needs to collect or to at least collect this total [$1/1000 \times \$1,000,000 = \$1,000$] from each of the 40 year-olds. In doing so, this life insurer would then have enough money on hand - or as they say in the industry, in its reserves - to be able to pay its claim(s).

Of course, in addition to the costs of paying claims, an insurer has other costs, such as sales, administrative costs, and profits, etc. So an insurer must also collect enough in premiums to be able to pay all those other costs and have enough in its reserves to pay the claims.

Now, if we had a group of 1,000 60 year-olds, where 5 will die before celebrating their 61st birthday (and in these simple examples we are leaving aside for the moment the possibility that there could be any variations in these death rates, that it's exactly 5, not 4 or not 6 or any other number, for deaths in a group of 1000 60 year olds), then the insurer would need to collect more than \$5,000 from each policyholder who might be potential million dollar claimant. And, as the rate gradually increases each year as one ages, for a group of a 1,000 50 year-olds, the rate of death might be \$2, 000 for a million dollar policy or \$2 for every thousand dollars of coverage, somewhat greater than the rate at age 40 and less than the rate at age 60. Annual costs of claims generally do not generally change radically

from one year to the next, at least over a relatively short duration, but just gradually increase with each passing year.

So, you see, the annual costs of life insurance can really be quite simple and basic. They are based on the insurer's expected annual claim costs, and these costs inevitably increase as the insured ages. And again, in addition to claim costs, there are other costs such as sales, administration, and profits.

In fact, one of the nice things about life insurance is that it is such a simple product, that is, unless it is made complicated by an agent or by the industry that has never wanted to properly disclose this product (its costs, its operations), the value of a life insurance policy can be very readily measured. In contrast with other insurance products, for example health, house, or auto insurance (where there can be disputes about necessary treatments or the best way to cover damages or even whether the damage was covered), with life insurance there really are virtually no claims disputes. When Cleo or Claude is insured for \$1 million, and if you'll accept a colloquial expression, "Goes toes up," that is, dies, there's really nothing to dispute. Indeed, once the life insurance business has been cleaned up of its deceptive and problematic sales practices that make it a swamp of half-truths and outright deceptions, consumers will no longer have any reason to view or classify life insurance as just another terrible and unnecessarily evil money-making racket. In fact, life insurance is a business where good disclosure will transform it into a business that provides extraordinary value to its policyholders, its consumers.

Life Insurance Coverage for More Than One Year and The Life Insurance Underwriting Process:

So far, we've looked at coverage for just one year, but of course individuals generally want to be insured for longer than 1 year. Life insurance policies are typically needed for many years, and coverage can be purchased for different durations. A policy can be for a particular duration, say 10 years, or indefinitely – that is, as long as one lives, or until some age, for example, age 75, at which time the policy expires. (Keep in mind: although a policy might be renewable for 20 years, that does not require one to keep it for all those years, one can drop a policy at any time, although the decision to do so is a separate discussion topic.) And also note that while some policies might specify a limited coverage period, say 20 years or until age 75, they typically provide an option that allows one to convert the coverage into a policy that can be kept for life. (Whether or not exercising a conversion privilege is a good decision is also a separate discussion; see FAQs.)

When a life insurer receives an application for coverage, it begins its own process of assessing whether or not it will accept the risk, and if so, into what health class or risk class it will place the insured. This is known as the underwriting process, an expression that arose from the days of the original Lloyds shipping insurance operation in London where an individual willing to accept a risk wrote his name under the name of the ship seeking insurance; he underwrote the risk. When a life insurer accepts the risk, approves the application, and issues the policy, the insurer has completed the underwriting process that essentially involves classifying the riskiness of the applicant. In other words, the insurer decides whether the applicant is in excellent health or less than excellent health and considers risk related factors such as participation or history in adventuresome avocations (i.e., drives

race cars for a hobby) and other risk factors (i.e., occasionally ticketed for driving as if on a racetrack). As you can readily sense, the health/risk profile of applicants spans the health/risk spectrum. Consequently life insurers have different health classes; also sometimes called risk classes, with some insurers having 10 to 12 risk classes: from 'excellent' to 'slightly less than excellent' to 'has some medical issues' all the way to 'unacceptable,' that is, the insurer 'declines to accept the risk'. Insurers can also distinguish their health classes based on gender and smoking status. When a life insurer classifies Applicant Adam as being in its best non-smoking health class for males, Adam retains that health classification as long as he keeps his policy. That is, in contrast with auto or homeowners insurance, a life insurer cannot unfavorably change an insured health class once the policy has been issued nor can the life insurer choose to suddenly not renew or terminate the policy (the right to renew the policy is guaranteed for many years, in fact, often for life.) Because of the fact that the life insurer may have to bear the risk forever (or at least for many years) the underwriting process is one where the insurer seeks and reviews information relevant to assigning the applicant to a particular health class because it is on the basis of that health class assignment that the insurer's costs for the policy in future years will be determined. That is, the policy's costs can change in future years, but these costs can only be changed the same for all individuals insured in the same health class. Applicant Adam who was classified as being in the best health when he bought the policy at age 40, will keep that health class for all future years regardless of any changes in his own individual health. Again, this contrasts markedly with auto insurance where an individual can be reassigned to a different risk class, or even have his policy suddenly terminated, after future accidents or tickets. Different health classes naturally have different costs, where the typical differences in costs from one health class to a higher or lower health class can be approximately 25%, but that figure is a very, very rough estimate (just to provide some perspective and background) as there are many different ways that insurers partition the health risk spectrum and build their own, company specific, health classes. For more information regarding health classes, see FAQs: What is the underwriting process? What can one do to improve one's health class? What to do if one insurer offers coverage in a health class that you don't think is good enough?

Policies with Annually Increasing Premiums

If a 40 year-old wanted to purchase a policy that would provide coverage until age 70, as you might intuitively sense from the figures in the two examples above, the policy could have a premium that increases slightly each year as the risks increase. As the probability of dying increases as the policyholder ages, so does the annual life insurance cost. Such a policy is a term policy with an annually increasing premium. Working with the above example's claim costs of \$1000 at age 40 and \$5000 at age 60, an annually increasing premium term policy might have a \$1400 or a \$1500 premium at age 40 (sales and policy set-up costs being charged for in this examples' first year or years, that is, when they were incurred), that might have to climbed to approximately \$2200 by age 50, possibly \$53 or \$5400 at age 60, and of course still higher by age 70.

Level Premium Term Policies

There are, of course, also term policies with level premiums for 10 or 20 or 30 years, that could be thought of as a kind of average of the years' slightly different annual costs. For example, a 10 year

level premium term policy on a 40 year-old, using the numbers above where the insurer's claim costs over time would rise from \$1,000/year to approximately \$1,900/year at age 49, could have a level premium of, for example, \$1,575/year. Similar sorts of "average" premiums could be calculated for level premium policies with level premium durations of 20 years, or for that matter, for any other duration. (At the end of a policy's level premium payment period, insurers often significantly increase the premium, but such unique occasions are the exceptional case and raise a separate subject, discussed in FAQ: What happens at the end of the level premium duration of a level premium term policy?)

We'll refine this concept of "average" below after we examine another idea or two, but at the moment, this "average" perspective provides a relatively simple and not that materially inaccurate perspective for coverage over short durations. These level premium term policies are also an instance where the consumer can have a level annual cost of coverage despite the basic fact stated above that the costs increase as one ages. But as we mentioned above, such circumstances warrant further investigation, and this is a subject that we will return to below after first explaining a few other facts.

Introducing Cash Value Life Insurance Policies

So far, the policies that we have discussed can be classified as term insurance or as we at Breadwinners' like to say pure term policies. Some life insurance policies, though, as you probably no doubt know, have a cash value or a savings component.

In the above examples, the part of the premiums that the insurer uses to pay the claim costs, the part that the insurer initially retains after having paid sales, administrative costs, and any other expenses and charges, the insurer actually invests until an actual claim is received. These are funds that comprise the life insurer's reserves.

If or when a policyholder pays more than enough to cover the insurer's total annual costs, much larger reserves arise, that is, much larger than the small reserves the insurer would hold for the above mentioned pure term policies. And when a life insurer with such larger reserves grants its policyholders access to these reserves, or a part of these reserves, a policy has cash value; it is then a cash value life insurance policy. A natural question is: Why anyone would pay more than a minimum amount, more than enough to cover the insurers' annual costs? As you'll see, the cash value within a policy has some ramifications and enjoys tax privileges.

But first before explaining these ramifications and privileges, let's note that there are lots of opinions about cash value policies, and many of those opinions – on both sides of the issue, pro and con - are based on terribly incorrect understanding or analysis. For the record, there are lots of terrible cash value policies. Perhaps over the past forty years, 95% of the cash value policies sold, no informed consumer would have ever bought. But that fact, as startling as it might be, doesn't mean that every cash value life insurance is a bad deal. Whether or not or why a cash value policy could possibly be a good purchase is a separate discussion. This educational presentation is not intended to examine all such opinions. It is, though, intended to provide a general conceptual overview. For, again, it is only when one has a sound general overview of a subject that one can properly understand and insightfully examine or investigate it.

While a pure term policy typically has a constant or level death benefit, a cash value life insurance policy can have a death benefit that changes slightly each year. It can also have a death benefit that does not change. Whether or precisely how such changes in a policy's death benefit occur is a minor matter best understood only after one understands a few very important ramifications of cash value. (See FAQ: How does a cash value policy's death benefit amount change?) In this example, we'll work with the basic case of cash value policy with an unchanging, level death benefit.

Suppose a 40 year old chooses to pay some amount between \$10 and \$20,000 per year for a \$1 million policy, significantly much more than the above annual term costs mentioned above. For example, let's say the policyholder chose to pay a \$15,000 premium annually. Clearly, the amount above the cost for that year's coverage (sales, administrative and claim costs, and insurer profits) can be invested by the insurer. Our article, "Policy Disclosure – Press Release," shows the actual annual costs for a real \$250,000 whole life policy; see Table 2 on Page 4 of the article, Table 3 also estimates the costs for sales, administration, taxes, etc. for this product. At this moment, though, our focus is not upon those specific numbers; our focus is upon the concept, upon correctly understanding the life insurance's conceptual framework.

As a result of these premium payments above the policy's annual costs and the investment returns on such, shown in the accompany chart, when the insured becomes age 60, there will be some cash value in the policy. There could be a few hundred thousand dollars, perhaps \$300,000, \$500,000, or some other amount. For this example, let's just assume that there is \$400,000. (And, again presently let's just briefly note, that whatever the actual value actually is, it would be a consequence of a series of actual annual expenses over the 20 years that the policy has been in-force and a series of investment returns that would have been credited by the insurer based on its own investment returns and its practices of distributing such to its policyholders. We'll return to the details of exactly how the cash value builds-up below.)

Cash values, as you may recall, are really just part of the life insurer's reserves that it creates to be able to pay the death claim. They are the part of the insurer's reserves that the insurer allows the policyholder to access. (See FAQ: How can a cash value policy's cash values be accessed for the rules about such.) Take a look at the accompanying chart [chart not yet embedded] of a policy's death benefit and cash value. When a policy has a non-changing, level death benefit and a growing cash value, the policy's actual amount of insurance declines annually because the insurer can use the policy's full reserves to pay a possible death claim. The insurer's declining risk in the policy, called the "amount-at-risk," is the annual difference between the \$1 million level death benefit and in this case's 20th year, the \$400,000 cash value. So, one ramification of cash value in a policy is that it reduces the policy's at-risk amounts, which leads to a still further ramification.

Since you probably recall from the numbers in the example above, an insurer would need to collect approximately \$5000 from each insured to be able to pay a possible \$1 million claim on a 60 year-olds' policy. However, when the policy has \$400,000 of reserves, the insurer only has \$600,000 at risk in this policy (again, the difference between its death benefit and cash-value or reserves) or 60% of the amount of the risk of the million dollar policy, and so correspondingly, the insurer only needs to

charge \$3,000 (60% of the \$5000) to cover this smaller risk. Alternatively, you may recall, the insurer needed to charge \$5 for every thousand dollars it has at risk to a 60 year old, so in this cash value policy the insurer only needs to charge this insured approximately \$3,000 ($\$5/1000 * 600,000$) to cover the possible cost of a claim during the year when the insured is 60 years-old.

Regarding one of the many misrepresentations about cash value policies: that cash value policyholders lose their cash value upon death, that is absolutely a misleading distortion as policyholders' beneficiaries actually receive the cash value plus the policy's at-risk amount. (For more information about such, see FAQ: Why is it misleading to represent that a cash value policyholder loses his or her cash value upon death?)

A Most Important Fact – Do Not Buy or Evaluate Cash Value Policies Strictly Based on Their Illustrations, and Other Related Wisdom

The Society of Actuaries nearly 20 years ago stated, "Sales illustrations should not be used for comparative policy performance purposes." That is, illustrations should not be used to compare policies. Albeit a very brief quote, this is a very important quote because almost all agents and others currently recommend, analyze, sell, buy, and/or manage cash value life insurance policies based on serious misunderstandings about the inherent limitations in illustration. A policy or sales illustration is not a forecast or projection of future performance. Therefore, illustrations do not provide the information necessary for evaluating a life insurer's investment earnings and the distribution of such to policyholders and others. Illustrations also are not meant to be treated as having been built upon credible cost estimates of future years. Illustrations are a woefully inadequate basis for making a decision on a policy (either a decision to buy or a decision to keep and renew a policy). For more information, see FAQ: What are the problems with making decisions based on sales illustrations?

Two Important Cash Value Policy Characteristics: The Amount of Insurance Gradually Declines and The Annual Premium is NOT the Annual Cost

From this very brief example, we learn two important things. First, we note that the cash value reduces the amount at risk in the policy and that this reduces the policy's annual costs for claims from what they otherwise would have been if the policy had not had any reserves or cash values. As the cash values build from investment earnings and ongoing premium payments, the amount of insurance typically declines gradually.

Second, this example also demonstrates the fact that for a cash value policy, its annual premium is not its annual insurance cost. In this example, although the insured may at age 60 still have written a premium check for \$15,000, most of that amount, approximately \$12,000 could have gone into the policy to grow the insurer's reserves and the policyholder's cash value, because only \$3,000 was needed to pay the possible claims costs. At any time, a cash value policyholder can end or surrender the policy, (the technical expression for terminating one's coverage), and the insurer will send the policyholder the policy's cash value. So such dollars which are available whether the insured lives or dies cannot be considered part of the costs of life insurance. (A policyholder can also access a policy's cash values by a few other mechanisms (loans, partial surrenders, dividends or withdrawals), but these are all tangential

matters one can understand best only have one understands the policy's conceptual framework; see FAQs: How can a policyholder access a policy's cash values?)

So while, in one sense, writing a check for \$15,000 is a big outlay, in another sense, and when properly financially analyzed, the insurance expense has not been the simple annual premium – as unfortunately so many industry critics wrongly assert - the annual insurance costs are what is or has been expensed from the annual premium or from the policy itself.

Very briefly, the proper economic/financial framework for analyzing the cost of cash value life insurance policies is almost exactly analogous with how one analyzes the cost of a mutual fund or a mortgage. When a breadwinner pays \$1500/mo. towards the family's mortgage, the annual cost is not \$18,000 because part of one's typical mortgage payment goes to reduce the mortgage debt. The annual cost of the mortgage is determined by the interest rate and the amount of debt one owes; the cost, again, is not the full mortgage payment, but the part that the tax man allows one to deduct, because again it is only that part that was truly expensed that is one's cost. The part of the payment that went to amortize the debt is actually counted by economists as savings.

Similarly, when shopping for a mutual fund, one doesn't evaluate the mutual fund's expense by the size of the check one writes to buy the funds, but rather by what is expensed out of the payment. This is precisely what mutual fund disclosure has required for 70+ years. The life insurance industry, however, has yet to adopt such regulations. (If you're like me, you may want to with tongue-in-cheek say, "Bravo, Insurance Commissioners, Bravo! Certainly, I encourage you to do so loudly to other public authorities. Perhaps, one day someone will hold them accountable. But we're not going to talk about the incompetence and possible crimes of insurance regulators in this presentation. Let it just be noted: 1) that the policy disclosure comparison indices that they have recommended consumers use have always been inherently flawed, seriously terribly flawed, 2) the regulators have known such, and yet 3) the regulators have never (as of June 2012) replaced these defective consumer aids. There's, unfortunately, just not enough space left in this article to talk about the incredibly horrendous performance of these chief state insurance bureaucrats.) Again, much additional information about analyzing the annual costs of cash value life insurance is contained in the Breadwinners' "Policy Disclosure – Press Release" article.)

Another Cash Value Policy Characteristic – Their Tax Privileges

Another characteristic of cash values policies arises from the tax privileges these policies enjoy. As we've noted, life insurers invest their reserves and use the earnings on these investments to grow the reserves, which can show up as increases in a policy's cash values. These increases in policy cash values grow tax-deferred; in fact, they are never taxed if the policy is held until death. Different insurers use slightly different names and different accounting mechanisms to distribute these investment earnings to policyholders (interested credited, annual dividends or a part of the policy's annual dividend, a part of the policy's possible guaranteed growth in cash values). But what is significant to comprehend is that: 1) the investment earnings can be and are, at least to some extent, varying based on the quality of the policy, passed through to the cash value policyholders and that 2) such occurs without these investment

earnings routinely being taxable to the individual policyholder. (For the exceptions to this routine favorable tax treatment see FAQs: What are the special circumstances under which a life insurance policy's earnings become taxable?)

Naturally, one of the important things to learn about any life insurer from whom one is contemplating buying, or just as importantly - from whom one already has bought a cash value policy, is the extent to which the insurer passes through the investment earning. This is an important topic that is more fully covered in FAQs: What extent of an insurer's investment earnings are passed through to its policyholders?

Very briefly, what is important about the above explanation about the conceptual framework of a cash value policy are the following: the way the cash values grow from investment earnings: 1) that they are passed through to the policyholder without the policyholder being taxed, 2) that as the policy's cash value grows it reduces the insurer's risk in the policy, and 3) such thereby reduces the policy's amount at-risk and the annual mortality costs from what they otherwise would have been (without any cash value).

The Beneficial Consequences for Policyholders of a Cash Value Policy's Tax Privileges

To fully understand the benefits of the tax privileges of traditional cash value policies, a few implications need to be understood. Very briefly, return to the \$1 million policy on the 60 year-old who has \$400,000 in cash value. The investment earnings on the cash value, which are growing tax-deferred can, for example, be used to pay the insurance costs. Suppose on the above mentioned policy that had \$400,000 in cash value, the insurer was crediting 5% interest. From such, the policyholder would have had a potential increase in cash value of \$20,000, and using the \$3,000, age 60, annual expense figure cited above, a net increase of \$17,000 (without having paid any premium during the year). In essence, the policyholder would have paid for that year's annual cost of insurance with the untaxed appreciation. While cash value policies were around long before our tax code and its modern complexities, cash value life insurance could well be considered the original way in which one can purchase something, namely life insurance, with an untaxed dollar. Obviously, the actual attractiveness of such depends upon, among other factors, the attractiveness of the rate at which the cash value grows and the competitiveness of the insurer's annual insurance costs.

Another advantage pertains to the calculation of the taxable gain when a cash value policy is surrendered. The gain is, naturally, the difference between the total of life insurance premiums paid and one's cash value upon surrender. Because a cash value policy is in essence a bundled product, an insurance policy and an investment product rolled into one, this means, in contrast with purchasing these things separately, that one's cost basis on the bundled product includes what was expensed for the term insurance. In essence, investment earnings up to the level of such costs are recovered tax-free upon surrender. For more, see FAQs: What are the benefits of cash value policies' tax privileges?

An Aside: A Few Words About Tax Privileges, Historic Disclosure Practices, Economics, and Public Policy

Tax advantages or potential tax advantages, of course, are never a reason to ever rush right out and do anything. Financial decisions are always a combination of understanding something conceptually and then researching and analyzing the relevant numbers. Proponents of cash value policies also often recommend these products because they can help to build a savings discipline and these policies also can provide liquidity to meet life's emergencies or "surprises" or be used to provide dollars during retirement or for other needs at possibly a lower cost or with a better after tax net rate of return than some other alternatives because the policy's tax advantaged growth and the policyholder's ability to access such. There is undeniable truth in such statements. Breadwinners' Insurance, though, does not believe that such possible policy advantages have ever provided the rationale for imposing these policies' significantly greater charges (albeit typically in an undisclosed and often misrepresented manner) upon consumers.

The primary, functional advantages of cash value policies arise from these policies' tax privileges. Neither the regulators nor the industry have ever explained this fact and its ramifications clearly to consumers. The Buyer's Guide that the regulators mandate agents distribute has, in fact, never mentioned the tax advantages of cash value policies. To do so would have undermined lots of their sales misrepresentations. After all, tax privileges are a free non-proprietary input, and one can't extract value from an informed consumer in a competitive marketplace for a free, non-proprietary input – that's just basic economics. That's why, Breadwinners' Insurance asserts, no informed consumer would have ever paid the industry's traditional sales loads. That's also why the disclosure and information that we at Breadwinners' Insurance are providing is changing and will continue to change the life insurance industry and enable consumers to obtain hugely better value. Please help us to spread this important information to your friends. You'll also be helping to transform the staid, dysfunctional life insurance industry.

How to Assess the Performance of a Cash Value Policy: A Very Brief Introduction

In the above example on the 60 year-old with a \$1 million death benefit and a \$400,000 cash value, I assumed for pedagogical purposes that the cash value was growing at 5% and that the costs were \$5 per thousand dollars of at-risk amount or a total of \$3000 during the year being examined. But what if the returns and costs were different? What if the returns were 6% and the costs were only \$4 per thousand? That would clearly have provided better financial performance during the year. Similarly, if the returns had been lower and the costs higher, the performance would have been worse. As I am sure you can intuitively sense, there are truly a myriad of combinations of returns and costs that produce all sorts of different net outcomes, that is, different year-end cash values. Consequently, the assessment of a cash value policy's performance or attractiveness or overall value depends upon these two primary factors, and these primary factors' performance over time, that is, year after year. See FAQ: How to assess the performance of a cash value policy? A Comprehensive Overview for a much more detailed explanation about assessing the performance of a cash value policy, both its past performance and its prospects for future performance.

But to end this brief summary, I suspect that you might intuitively sense that understanding a product that is comprised of both an insurance/expense component and an investment/savings

component means that both components must be understood. And that entails having a means of summarizing the performance of a cash value policy over a period of years so as to describe: 1) the stream of annual costs that have been expensed and 2) the annual rate of return (ROR) it has earned on its cash values. The annual premium is not the way to analyze the insurance cost of these products because the premium contains both insurance and investment components. With respect to the insurance component, one has to look at what was expensed by the insurer, and most significantly calculate the stream of costs per unit of insurance (per thousand dollars of annual at-risk amount) over the time period analyzed. The proper way to financially analyze costs that occur over a period of years, in order to be able to compare them, is to calculate their present value, that is, the present value of their stream of annual costs. See FAQs: What are present value costs? How are present value costs calculated and used? A policy's total annual insurance costs are a function of both the amount at risk in the particular year (the difference between the policy's death benefit and its reserves or cash value) and the increasing unit costs of insurance as the policyholder ages. See also FAQs: What is everything that I could ever possibly want to know about the costs of life insurance?

With respect to a policy's investment aspects, it is important to understand how the policyholder participates in the insurer's financial performance. It is obviously necessary to understand a policy's average rate of return (ROR) and/or its prospects for attractive future annual RORs. See FAQa: What is everything that I could ever possibly want to know about the investment performance of cash value life insurance? Please be forewarned: these last two FAQs are not intended for casual pleasure reading at the beach or romantically with another by a fireplace; they're kind of dense text.

The Various Varieties of Cash Value Policies: Short Introductions

The short summaries below provide a general introduction to the different cash value policies. Small or slight differences in policies produce slightly different policies, but products which are hardly all that drastically different. Such slightly different policies should not be thought of as different types of life insurance. Bicycles, cars, trains, planes, submarines, rocket ships, and the Star Trek transporter are truly different types of transportation vehicles. In contrast, Universal Life, Whole Life, Term Life, Return of Premium Term, or Variable or Equity-Indexed products are hardly different types of life insurance, and the representations and conceptions of them as different types of products can actually be detrimental. In addition to the short summaries below, a table on page XX [forthcoming in a revised draft] provides a good way to contrast the policies once aware of each policy's basic structure.

Universal Life: An Intro

There are, as you know, several varieties of cash value policies. The type of cash value policy described above in the section Introducing Cash Value Policies is actually a Universal Life (UL) policy. A UL policyholder has much flexibility regarding how much premium (a little or a lot) is annually paid into the policy. The premiums not expensed are invested by the insurer, and the investment earnings are typically paid as an interest rate that the insurer establishes on a monthly or annual basis. A UL policy remains in force as long as it has some cash value. The flexible nature of UL premiums has meant that some UL policies have low cash values or lapse and such circumstances have led to some overly broad

and misguided criticism of UL. This is discussed below in the section, [An Implication Arising from a Structural Difference between Universal Life and Whole Life](#), which is best read after having read the intervening paragraphs. UL policies also require policyholders to also decide whether they want their death benefit in the policy's early years to be a combination of its cash value and a level death benefit amount, or remain at its initial level amount. This, though, is fundamentally a question of whether the policyholder wants to buy a level amount of coverage (that is, a level at-risk amount) or whether one wants to have the at-risk amount change (generally declining) as the cash value grows (thereby reducing the at-risk amount). But again this is an individual choice and is a minor incidental consideration. Much more information about UL life (such as the UL insurer's investment practices is contained in FAQs: [What is Universal Life? The Complete Facts about UL](#)).

Whole Life: An Intro

The original or traditional cash value policy is Whole Life. While many assert that whole life policies are something really special or different, they are really not anything other than a UL policy with certain fixed assumptions, the most unique assumption being that they have a guaranteed, level lifetime premium. In particular, the premium in a whole life policy is determined by a mathematical formula so that the cash value is guaranteed to grow to equal the death benefit at a particular ripe-old age (years ago it was typically age 100, currently, now on new policies it is at an age of 121). This mathematical formula for a whole life policy's fixed annual premium is based on assumptions about a minimum guaranteed rate of return on the insurer's investments and the maximum annual insurance costs. And consequently, whole life policies - contrary to many agents' sales misrepresentations and/or consumers' misconceptions - do not solve the unavoidable impact of aging to increase the annual costs of life insurance. In fact, whole life policies got their name, "whole life" because they were originally known as level payment term for your whole life. That's right; all life insurance is comprised of term insurance.

Two Important Notes: 1) Cash Value Policies Do Not Lock in a Level Lifetime Annual Cost, and 2) Obtain Help If You've Been Deceived

This point needs to be emphasized because the misrepresentations and misconceptions about whole life policies are so pervasive and harmful. There are several common ways in which the annual costs of whole life policies are misrepresented and misunderstood, but they are all quite similar. Whole life policies do not provide a level lifetime annual cost. As we've seen above, the annual claims cost for the 40 year old in our example grew from \$1,000 to \$3,000 by age 60 and continue to grow as the insured ages. Representations and beliefs that a policy that is known as a whole life policy somehow avoids this inevitable fact that costs increase as one ages are just deceptive, ignorant, and/or irrational. The only factor that can offset the inexorably increasing probability-based risk cost is when the actual amount of insurance provided by a policy, its at-risk amount, declines, as its cash value grows. But even with a whole policy's at-risk amount declining annually, its total annual costs increase significantly for many years and in fact in the policyholder's older years often are significantly larger than the policy's premium. Policyholders who do not understand this fact often make mistakes about whether to or when to elect a paid-up policy. For more information see FAQs: [When does it make sense to elect a Paid-Up Policy?](#)

Life insurers, such as Guardian, New York Life, Northwestern, and Mass Mutual, which have predominantly sold whole life have for decades, have vigorously objected to providing consumers with an accounting of the costs incurred, and hence their agents are currently the leading practitioners making misrepresentations in their efforts to sell whole life. Many other insurers' agents, meanwhile, make misrepresentations about or against whole life either in an effort to replace a whole life policy or in competition for a new sale. Again, if you think you have suffered from an agent's misrepresentation about such, if some of the earlier mentioned half-truths and blatant falsehoods regarding life insurance deceived you, then you might want to contact Breadwinners' Insurance of find someone else that can advocate successfully on your behalf for some compensation or restitution for having been deceived. As we've explained, while a whole life policy is a cash value policy that has a guaranteed level premium, its annual premium is not the policy's annual cost.

Insights Gained From Understanding a Whole Life Policy: The Importance of Participation

Stepping into the life insurer's shoes and trying to imagine building a product that will provide a guaranteed level death benefit for a guaranteed level annual premium for an insured's entire lifetime (that most likely will span many decades) makes it easy to see: 1) that whole life policies with their guaranteed annual premiums are built by making assumptions about two primary matters, investment returns and mortality rates, and 2) that such factors can and do vary significantly over time in the real world.

For example, in our above numerical examples, we've made the simplifying assumptions that 1 out of a thousand 40 year-olds dies and 5 out of a thousand 60 year old. But as you may well intuitively recognize, there could well be some years when a smaller or greater number of insureds die. That is, in our real world there is uncertainty regarding the exact death rates that will be experienced, there are variations in death rates from year to year. In some years there have been terrible outbreaks of flu, heat waves, or accidents that have caused higher than normal deaths; over the span of decades medical technology has significantly increased life expectancies. The industry's original solution to such was, quite prudently, to calculate the required a whole life policy's level annual premium based on conservative assumptions; that is, based on the maximum number of deaths at each age or more generally the maximum possible annual costs at each age. Similarly, they also made conservative assumptions regarding the minimum investment returns needed to grow its reserves and the policy's cash value. The interaction between the assumed minimum rate and future years' at-risk amounts subsequently impacts maximum annual costs, whereby the assumptions about the product's investment component can have a feedback effect upon its maximum annual mortality costs.

In fact, when one understands that a whole life policy's premium is not its annual cost, and that whole life premiums are set by a mathematical formula on a conservative basis, then the question arises: what happens when investments are better than the guaranteed or claims are not as bad as the maximums assumed? The most popular answer has been one type of whole life policy called a participating policy where the insured "participates" or shares in the insurer's favorable investment and expense performance. Dividends are a means by which the insurer passes on investment and expense performance that is more favorable than the conservative financial assumptions upon which it was built.

Many critics of participating whole life policies mistaken and misleadingly disparage dividends by stating that dividends are simply refunds of over-charges. When one understands how a whole life policy that can span a hundred years is built, the deceptiveness of such critics' statements becomes obvious. For more on this subject see FAQs: Why is it misleading to view whole life dividends simply as refunds of overcharges?

Another solution was to base the premiums on a less than conservative basis, but to not share with policyholders the insurer's actual financial performance. Such insurers chose to make slightly more aggressive assumptions about either their investment returns or their claim costs or some combination of the two factors to have a whole life policy with a smaller premium than its more conservative industry peers. Some agents and consumers thought these policies were attractive because of their smaller premiums. Whether or not they actually are attractive is, before purchase, simply an educated judgment or guess regarding their guarantees vis-à-vis their competitors' actual likely future performances. Whether or not these non-participating policies actually proved to be more attractive was simply an empirical question. It is somewhat interesting to note that when the Federal Trade Commission analyzed life insurance industry products in the late 1970s, the FTC advocated that these non-participating whole life policies built with more aggressive assumptions (and known as guaranteed cost policies because they did not offer dividends) should be banned from the market. For more on this topic see FAQ: What do you think about guaranteed cost policies?

As you recall, though, as the insurer's reserves or cash value grows, the insurer is reducing the size of its risk, and that has a feedback effect of reducing the annual insurance costs. These interacting concepts – between the growth of the policy's cash value and the reduction in the insurer's amount at risk on the policy and the impact of such upon the annual insurance or claims-related cost are all very simple and straightforward, although admittedly in hearing about them just now and they can seem a little complex. But rest assured, using 7th grade math and a pencil and paper for a few minutes, you would readily follow all the calculations.

Another very important upshot is: Given that a whole life policy's premium is simply determined by a mathematical formula and the product's underlying conservative assumptions, its premium size is not a very useful way to compare policies. Such comparisons of premiums are not particularly relevant because a policy's attractiveness will be determined by its actual comparative performance, not the mathematical assumptions underlying their actuarial structures or assumptions. Sure, comparisons of premiums are a way of quantifying the differences in the conservative assumptions used to build different policies, but again the comparison of policies will be based on comparisons of the underlying financial performance. For more on the actual comparisons of policies, see Table 14 in the article, "Policy Disclosure: Press Release."

Another final notable fact regarding whole life policies with their fixed, mathematically calculated, and premium that is annually required, or at least annually required until some age, is that there is a cash value that grows on a guaranteed basis over the years as a result of both ongoing premium payments and the insurer's investment earnings distributed to the policyholders, such that by some maximum age the cash value equals the policy's original death benefit amount. This "guaranteed

growth” should not be confused with an investment (such as a certificate of deposit (CD)) because often much of the policy’s purported annual growth comes from premium dollars paid by the policyholder, and clearly growth arising from dollars paid in by the policyholder hardly constitutes what is meant by growth in the investment realm. It is true whole life policies are built with assumptions about guaranteed investment earnings on the policy’s cash value or reserves, but any balanced and objective summary of a whole life policy describes not only its investment aspects but also its costs and insurance aspects.

An Implication Arising from a Structural Difference between Universal Life and Whole Life

Because a universal life policy has a flexible premium - that is, the insured can pay an annual premium largely of his or her own choosing - the cash value in a UL policy can be relatively large or small, depending upon the premiums actually paid and the policy’s operations. Therefore, a UL (universal life) policy cannot provide the same guaranteed growing cash value. While UL policies could have the same or similar investment and expense guarantees as a whole life policy, their flexible premiums mean that they can have low or even no cash value. And again, if a policy’s cash value becomes zero (or its net cash value is zero), the policy lapses or ends. However having said that, a UL policy can still provide the same type of guaranteed building of cash values as a whole life policy does, simply by the policyholder making sure that a comparable premium is paid every year (that is, a premium just like the whole life policy’s premium).

There are quite often serious misrepresentations and half-truths made regarding UL, especially by the agents favoring whole life, regarding what they misconstrue as this inherent problem with UL. As explained, however, UL’s flexibility doesn’t mean that UL policies were inherently flawed or bad. Problems can arise when UL premiums payments have not been adequate based on the returns earned and the costs incurred, but such is a very different matter than the common disparagements that: 1) UL products are inherently risky and/or 2) that only UL products among cash value policies have an ever increasing annual costs for mortality charges – an implicitly misleading assertion given that every policy has such increasing annual costs as the insured ages.

Again, what really determines whether or not a policy has provided good value or performed well are its rates of returns (RORs) and its stream of annual costs. Let’s recall and reexamine that UL policy described above. It had a \$1 million level death benefit, the policyholder had chosen to fund at a level \$15,000 per year, even though the policyholder could have chosen to make different premium payments, and it had a cash value by the time the policyholder was 60 years-old of \$400,000. Well, suppose for a moment that the policy had had \$350 or \$450,000 of cash value at that time, what would that have indicated? In the case of \$350,000 (again assuming the same premium payments and level death benefit) it would have meant that the net result of the investment returns and the expenses for insurance coverage would have been less attractive than if the policy had \$400,000. Either investment returns would have been smaller or insurance expenses greater or some combination of these two factors (the average annual compounding rate and the stream of annual costs) would have produced less attractive results. The significance of this is that in properly assessing policies with cash value, it is

necessary to have information about both of these components: a policy's compounding rate on cash values and its stream of annual costs.

A Special Form of UL Policy, It Doesn't Lapse Even If Its Cash Value is Zero – It has a No Lapse Guarantee (NLG) or it is a GNL (Guaranteed Not to Lapse) UL Policy

Some universal life policies have what's referred to as a secondary guarantee. This prevents them from lapsing even if their cash value is zero provided that the policyholder has fulfilled some other condition, most typically paid total premiums of a particular amount or of a particular average annual amount. These UL policies with secondary guarantees, that are guaranteed not to lapse, are designed, in fact, to have very small or even no cash value. This, however, does not mean that the insurer is not building reserves on these policies from which to pay death claims. Rather it means that the insurer is not providing access, or much access, to such reserves. That is, the policyholder might not have anything but a very small vested interest in the reserves, and hence has little or no cash value.

This policy design, by so limiting or restricting the cash value that a policyholder can obtain upon terminating his coverage (surrendering his or her policy), enables the insurer to use the reserves it does not pay out upon surrenders to subsidize the ongoing annual costs for the other, the persisting, policyholders. Inevitably, there will every year always be some reasons (i.e., changes in the consumers needs, resources, or even perception regarding the attractiveness of the policy) that cause some policyholders to choose to discontinue their coverage. By providing low values to policyholders who terminate or surrender their policies, the insurer can reallocate the reserves it has built up for one policy to someone else. In other words, when Sam surrenders his policy of this type, the insurer can use the windfall it has made on Surrendering Sam to subsidize coverage for Persisting Pete – this is known as lapse-supported pricing.

A No Lapse Guarantee UL policy design isn't inherently either good or bad; it just presents a design or form that one needs to understand before evaluating or buying it. For instance, one needs to understand: 1) the pros and cons of lapse-supported pricing (which one might you be, a lapsing or a persisting policyholder, and especially what happens if the insurer's assumptions about lapses prove to be unrealistically high, 2) the policy's cash values' disjointed disconnection from the insurer's investment returns, and 3) how to assess the adequacy of the insurer's reserves that support these policies, given that the policy's cash values do not parallel the insurer's reserves.

Satisfaction with NLG UL policies can, in fact, be perverse related to changes in market interest rates/investment returns. If interest rates at time of purchase are low, one's initial perception of the policy can be favorable; but if interest rates rise, satisfaction may fall because one will not participate in or benefit from the higher interest rates. Alternatively, if interest rates were seemingly high at time that the policy was issued, but then fall, satisfaction could also fall because of concerns over the insurer's solvency. On the other hand, this alternative scenario where interest rates fell and remained low could make a prior purchase of a UL policy that is guaranteed not to lapse (GNL or NLG) a very smart purchase (provided the insurer remains solvent). Given that life insurance policies by their nature are contracts that span many years, if not decades, investment returns, as all know, do change significantly over time.

Here is a chart [forthcoming (after all, ‘Rome wasn’t built in a day’)] that shows investment returns and also annual inflation rates for the past 40 years. The significance of this is that the attractiveness of a GNL UL policy with an annual premium of \$X thousands of for a million dollar level death benefit – a premium level that is often much less than a whole life policy’s premium – and that most likely will be paid over 30 or 40 years has a very different appeal if market investment returns average 4% or 9% or 14%. In other words, what can look like a good policy when market returns are 4% probably does not look good when market interest rates are 14%, and vice versa. Given the long term nature of these products, and that it’s pretty difficult to know what a market rate of return on a safe investment will be in 3 years (let alone, 13 or 23 or more years), one’s personal assessment of a GNL UL policy is really just a judgment about the relative attractiveness of 1) transferring investment risks along with mortality risks entirely to an insurer and 2) a product with a return that declines with longevity vis-à-vis one that participates in the future market.

Finally, it always needs to be remembered that the insurers issuing these NLG UL policies are actually building reserves to pay claims, it is just they are not providing policyholders with access, or very much access, to the reserves. There can be lots of misrepresentations about these policies by their supporters and their critics. But as with any contractual guarantee provided by another (namely, the insurer), one always must be vigilant in evaluating the insurer’s creditworthiness. For more information, see FAQ: How do I find out what I need to know about NLG UL policy?

Single Premium Life Insurance

This summary needs to also briefly mention single premium policies. All of the above policies have had premiums paid for many years. That is, premiums on cash value policies are typically paid for lifetime or until some ripe-older age (i.e., 65, 90, 95, 100). It is possible, as described above in The Beneficial Consequences for Policyholders of Cash Value Policies’ Tax Privileges, for a typical cash value policy’s annual premium or annual expenses to be funded via the investment earnings on its cash value, rather than directly from the policyholder’s pocket. But such circumstances are dependent entirely upon the amount of the policy’s cash value, the rate of return the insurer is crediting on such, and the policy’s ongoing expenses, which depend significantly upon the policy’s at-risk amount. In other words, such possible performance is uncertain and the policy’s death benefit is not guaranteed indefinitely.

In contrast, there are single premium policies and other policies (i.e., 10 Pay) that do not require premiums to be paid for year after year. For instance, a single premium whole life policy is one in which the premium paid is large enough such that the policy’s cash values will grow based on its guaranteed maximum costs and minimum investment returns as large as its death benefit by some specific ripe-old age (say age 100 or age 121). These single premium policies also typically pay dividends. A universal life policy can also be funded as a single premium policy. There are also single premium Guaranteed No Lapse Universal Life policies that do not have a death benefit that grows, and while having cash values that might grow slightly, do not grow at a competitive rate (Such policies are often purchased with an eye on the death benefit, and little else.)

All of these single premium cash value policies, regardless of their different names, and like all other cash value policies, raise various important questions: How well does the cash value grow? How does the cash value benefit the policyholder, for instance, when or how can the policyholder access the cash value? See FAQs: What do I need to know about single premium and other MECs (modified endowment contracts) which provides important additional information. It should also be very apparent from a single premium policy, that the annual cost of a cash value policy is not simply the amount of money paid out of one's pocket during the policy's first year. Such a cost analysis is clearly incorrect in the second and every subsequent year of any single premium policy, and in fact, it is incorrect in the policy's first year as well. This observation has been noted just to reiterate the importance of both: 1) avoiding incorrectly analyzing a cash value policy's annual costs by simply the size of its premium and 2) correctly calculating a cash value policy's annual costs based on sound financial principles and methods.

Variable and Equity-Indexed Policies: An Intro

Variable policies are another type of cash value life insurance, where one's cash values are typically invested in a variety of investment accounts or mutual fund-like structures. These policies can be either build as whole life policies with fixed premiums and a guaranteed death benefit or like a universal life policies with flexible premiums. The fact that a variable policy's cash values can go down, as well as up, has implications for these policy's potential annual insurance costs. If or when the variable policy's cash value suddenly declines, it means that the amount of insurance (the difference between the death benefit and the cash value) has suddenly increased. Obviously, variable policies require that the policyholder be more actively involved in making decisions with respect to the investment choices and possibly managing the policy's at-risk amount.

There are also policies which have their cash values tied to investment indexed to equities. In these policies, the cash value can come with some guarantees; in contrast with variable policies, it won't decrease, and that it will grow at a participation rate up to the performance on the index, typically subject to a cap. Clearly, this brief presentation is not to make you a wizard about equity-indexed policies, as every different insurer's equity-indexed policies' investment performance rules can require fairly significant research. Rather this overview is intended to provide a clear overview and solid understanding of the correct, coherent, and comprehensive conceptual framework for understanding any and all life insurance policies.

An Important Observation

Slight differences in policies create slightly different policies, but hardly products which are all that drastically different, and therefore slightly different policies should not be thought of as different types of life insurance. Bicycles, cars, trains, planes, submarines, rocket ships, and the Star Trek transporter are truly different types of transportation vehicles; Universal Life, Whole Life, Term Life, Return of Premium Term, or Variable or Equity-Indexed products are hardly all that different. Moreover, the proliferation of various life insurance cash value policies combined with the regulators' failure to provide and to publicize the competitive assessment approach advocated by Breadwinners' Insurance and/or others has resulted in assorted marketplace problems. The sales hype from life insurance

marketing executives and agents of their preferred policy (as though there is something so incredible and yet so ineffable about their preferred policy and its advantages) and the disparagement of their competitors' policies sadly often amounts to little but half-truths, faulty comparisons, and pervasive misrepresentations. It is most important to never lose sight of the fundamental similarities among life insurance policies. Without a broad prospective, one can easily get lost or be led astray with sales mumbo jumbo, half-truths, or outright fraudulent deceptions.

Return of Premium Term Policies and An Addendum about Level Premium Term Policies

Recall the level premium term products with level premiums for 10, 20 or 30 years that were briefly mentioned above. While one can view these products premiums as an average of the costs over the 10 to 30 year period, it is technically correct to understand that these policies along the lines of Universal Life policies with secondary guarantees. With level premium term policies, the insurer is obviously building reserves (sometimes sizeable reserves in the case of 30 Year Level Premium term policies) in the early years when the premiums paid exceed the insurer's total costs, and yet the insurer does not provide the policyholder access to these reserves. These level premium term policies are built on assumptions that many policyholders will drop or lapse their coverage, thereby providing a windfall to the insurer on each lapsed policy. Using these anticipated windfalls from this lapse-supported pricing approach, the insurer is able to build these policies with a lower fixed annual premium than if the insurer had paid the accumulated reserves for the insured's policy to each surrendering policyholder.

At the other end of the product spectrum are Return of Premium (ROP) term policies. Contrary to the implication of their name, that one is somehow "getting back" one's premiums at the end of the coverage period, and that therefore the policy has not cost anything, ROP term policies are built by charging the consumer \$X more than what he or she might have annually paid, say \$Y, for a comparable duration level premium term policy. Consequently, when the insurer invests each year the extra \$X it receives from the policyholders, it anticipates growing these extra dollars into a total over the 20 years such that it can pay out to the policyholders who maintain coverage the sum after 20 years of $20*(X+Y)$. These policies can also incorporate lapse supported pricing practices because they only provide a payout to policyholders who maintain the policy for certain durations (admittedly, a 20 Year ROP policy might provide a little payout at year 10, but the full "refund" is only paid after year 20.) Viewed from this perspective, one can see that such policies are really quite similar to some cash value policies, except that there are real restrictions on the access that a policyholder has to the policy's reserves/cash values.

In contrast with level premium term, Return of Premium term policyholders are implicitly making an investment in the policy over all of the years with the expectation of receiving a de facto guaranteed implicit rate of return (that is, the return when one "invests" \$X every year for 20 years and receives $\$(20 \text{ times } (X+Y))$). The attractiveness of one of these policy's rate of return can appear one way at the start but quite possibly very differently at different durations throughout the policy's duration because of: 1) the different lengths of times until one receives the "return of all premiums" and the potentially different rates of return provided by the ever changing financial marketplace. In essence, the

competitiveness of such policies can be difficult to assess at time of purchase because no one knows what a competitive rate of return will be over the next 10, 15, or 20 years. However, with the passage of time, the attractiveness of these policies improves, as a marginal analysis of whether or not to keep or to terminate/lapse a 20 Year ROP policy in the 18th year, is – as your intuition suggests – a slam dunk keeper because the financial analysis shows the policy has become very attractive at that time. The real and difficult question, though, again, is whether such ROP policies ever look attractive to an individual who really understands financial and insurance markets at the time of purchase. And, similar to very long level premium term policies, that is, policies with level premiums for 25 or 30 years, Return of Premium term policies are exceptionally inflexible, that is, they are not appropriate for one who thinks there is any real likelihood of wanting to terminate/replace, and/or otherwise significantly decrease the policy. No type of policy is inherently bad, but Return of Premium policies are pretty inflexible, and furthermore seem designed to typically prey upon two misconceptions consumers often have: 1) that cash value policies are bad (so a Return of Premium is not marketed as a cash value policy), and 2) that term is wasting one's money (so these ROP policies are marketed as if they have somehow solved this unsolvable problem).

Policies Insuring Two Lives, a.k.a. Survivorship Life Insurance or Second-to-Die Policies

The above policies have all been individual life insurance policies, that is, they provide coverage on the life of one individual. There are policies that insure two individuals, that is, they pay a death benefit upon the second death of the two individuals. Typically, these policies are used by married couples to facilitate their estate plans, but they can also be for any two individuals where there is an insurable need (that is, there is some possible adverse financial consequence that would occur upon the second death). These policies can be of any of the above varieties of coverage, although there are relatively few second-to-die term policies.

Because these policies pay only on the second death they have lower annual costs than individual policies would have. These lower costs also mean that there is a lower probability that they will pay off in any immediately upcoming year because the chance of two deaths occurring involves a combination of two unlikely events occurring (the chance of individual A dying next year multiplied by the chance of Individual B also dying next year). Specifically, these Joint Life or Survivorship policies purchased by two individuals under the age of 60 have a remote chance of paying a death benefit within the first 20 years. But, once one of the two individuals dies, then such policies become, if not technically, then de facto, a single life, an individual policy. There can be some subtleties in the various ways life insurers build and operate these policies, but essentially they are – aside from the above noted differences – quite similar to an individual life insurance policy.

Group Life Insurance Policies

All of the above described policies are sold to individuals. Individuals, however, who are part of a group (an employer, a professional organization, a school), can often buy insurance based on their group membership. Many assume that a group policy because of the sheer largeness of the group offers attractive costs. This assumption can be incorrect because the costs of life insurance mainly depend on

the mortality risks of the individuals insured, and group products are based on the riskiness of the group's average member. Insurance products, like credit products (i.e., mortgage loan and credit cards), are risk-based products. While there are administrative and sales aspects that can be minimized per customer when sold to many consumers at once, that is, when mass produced, such costs are a comparatively small part of a life insurance product's total costs, which are driven primarily by claims. Most group plans must accept all applicants, and this implicitly means that healthier individuals subsidize the costs of less healthy. Group plans, for instance, do not charge smokers different premiums than they charge non-smokers.

There are also different contractual rules that govern group and individual policies. Group policies, typically, can be terminated by either the group manager (i.e., the employer) or by the insurer; the insurer can choose not to renew the group policy at the end of a policy year. These policies also can have various restrictions (limited sign-up periods, restricted amounts); the most important restriction being that group policies are typically not portable, or only portable upon different premiums or types of coverage. In addition to such cost and contractual differences, the choice between an individual or a group policy can also depend upon different levels of service provided by an individual or a group policy. For instance, properly setting-up a policy's ownership and beneficiary designations and possible supplemental riders (i.e., waiver of premium) can be more readily, more competently, and/or more securely achieved with an individual policy than a group policy.

In general, group policies can certainly be attractive for individuals who have any sort of health issues. On the other hand, healthier individuals who know that they want coverage that will span many years routinely find individual policies less than the costs available from a typical group plan. For instance, a healthy 35 year-old couple expecting their second child next year and confident of wanting some coverage for 20+ years might find that their employers' group policies wouldn't provide sufficient coverage and would also be more expensive after the age of 40 than what they could obtain from a good individual policy. Group policies are typically pure term policies, although cash value group policies are becoming increasingly available through employers. For more information see FAQs: What are the differences between a group and an individual life insurance policy?

Concluding Remarks

This brief overview, I hope, has provided with you with a conceptual framework or understanding of life insurance. This framework begins with the facts that: 1) All life insurance is comprised of term insurance, which can also be primarily known as a policy's annual mortality charges, and 2) such annual charges per at-risk amount inevitably increase as the insured ages. The total costs of a policy also involves other possible charges to cover sales costs, set-up costs, ongoing administrative costs, and profits (the costs or charges necessary to pay for the insurer's capital - what makes the insurer financially sound). Given that a policy is typically wanted and maintained for a number of years, the stream of a policy's annual costs is best measured and compared by calculating the present value of the stream of annual costs for \$1,000 of coverage.

Some life insurance policies can also involve a savings/investment component. These are generally known as cash value policies, and are marketed with a multitude of various names. Cash value policies enjoy some tax privileges that produce benefits that can be attractive to consumers. To understand a cash value policy one obviously first needs to understand its savings/investment component – and accordingly, understand the average annual rate of return (ROR) and other related investment information. One can then analyze this performance in light of the policy’s tax privileges; namely, that: 1) a cash value policy’s “investment” earnings grow tax-deferred (or actually tax-free if held until death), 2) these “investment” earnings can be used to fund the policy’s on-going insurance costs (thereby essentially paying for such costs with untaxed appreciation or a pre-tax dollar), 3) a cash value policy’s cost basis upon surrender is typically the total of the premiums paid (thereby shielding from tax a policy’s investment earnings up to the amount implicitly expensed for the insurance coverage., and 4) these policies also permit their “investment earnings” to be borrowed via potentially tax-favored means.

This article has endeavored to provide the basic framework for understanding life insurance policies. It is only when one has a correct, coherent, and comprehensive framework that one can properly evaluate one’s life insurance alternatives and that one is immunized from the pervasive misinformation in the life insurance marketplace.

Perhaps the most memorable classic example of misinformation was the National Association of Insurance Commissioners’ original Life Insurance Buyer’s Guide which stated that there are two types of life insurance: Whole Life and Term. Agents have used this false dichotomy to endlessly mislead consumers ever since. Agents explain that term is akin to renting, while whole is owning, and directly state or imply that whole avoids the ever increasing costs of term. I trust you can now readily recognize the misleading aspects of such representations.

One would have thought that the insurance regulators would never have facilitated such misrepresentations, but would have prevented such and provided consumers with the means of detecting and avoiding such. But that was expecting too much of the industry’s regulators for their history the past 40+ years demonstrates that they have either been beholden to the industry (and thereby not protected consumers) or they have been clueless. This may seem as a too harsh indictment, but it is not. In fact, a thousand facts can be marshaled to support my contention, but let’s in closing just cite the most straightforward two pieces of evidence supporting my justifiably harsh criticism of the state insurance commissioners.

Whole life was originally called whole life – not because it was a different type of life insurance from term, but because it was originally known as level premium term for one’s whole life. In presenting an inherently flawed framework (again, after all, the difference is not that some policies have annually increasing costs as the classic term policies had and some others somehow are not comprised of such term, but that some policies have both cash value and term and some others are just pure term), the regulators have failed, have extraordinarily failed, for decades and decades to do their duty for American consumers.

The second piece of evidence that overwhelmingly condemns the state insurance commissioners is the fact is that the policy comparison metric, the interest-adjusted indices, that the NAIC advocates has always been inherently flawed. To compare policies, especially when policies can be a combination of both an insurance and a savings vehicle, it is necessary to have a comparative tool that analyzes both dimensions. The NAIC's one dimensional interest-adjusted indices do not facilitate policy comprehension, cannot be used to compare different types of policies, cannot be meaningfully used to compare policy performance over different time periods, and have a variety of other technical problems, not to overlook the fact that they have never been widely understood by agents or used by consumers. The industry regulators, the 50 states' insurance commissioners for the past 40+ years (from the time that the consumer movement emerged in this country in the 1960s) have been a complete and total utter failure for the American consumers of life insurance products.

Good information transforms the life insurance marketplace, and that is what Breadwinners' Insurance has been providing its clients for more than 20 years. In 2010 Breadwinners', on its own began to actively work toward making sure that all consumers obtain the necessary information and so that the marketplace will at long last begin to provide the value and deception free buying experience that consumers deserve. Breadwinners' welcomes the opportunity to be of service to you. Breadwinners' and its associates have clients throughout the country and are currently licensed (or can be readily licensed) in every state.

Finally, this draft of *Life Insurance 101* will be updated and expanded in the coming months. All who have registered to receive this copyrighted draft will automatically receive updated versions as they become available. That's part of the Breadwinners' Insurance commitment to excellence and to keeping you informed. Please help others to become informed by spreading the news about Breadwinners' Insurance. Thank you.

Everything Below Is Still Very Much a Work in Progress.

Frequently Asked Questions (FAQs) Intro:

All the answers to these FAQs are contained in the above article or elsewhere on the Breadwinners' Insurance website. Short, specific answers to any of the FAQs listed below can be obtained by contacting us and referencing the particular question that interests you. A sample of the type of detailed reply that we will provide is shown below. In the future, the complete list of our answers to these FAQs may be provided in forthcoming versions of this *Life Insurance 101* article. We are, however, presently concerned about the possibility that competitors could make unauthorized use of our copyrighted work, and think that at present it is best that answers to these FAQs be provided only

via explicit requests. As our business grows we will have greater resources and abilities to protect our online materials; we naturally welcome any and all assistance you can provide in helping us to grow and develop.

If you do not see your own important question in a current FAQ list, please do not hesitate to submit your question and we will answer it and possibly add it our list. Or, of course, feel free to contact us to more broadly discuss your insurance questions and concerns.

FAQ Subjects: [FAQs about Evaluating The Need for Life Insurance Coverage](#)

- 1) When does someone need life insurance? Who needs life insurance? Who doesn't need life insurance?
- 2) How much life insurance does someone, say, a Breadwinner, a Business Owner, or a Billionaire need? What's the right amount of life insurance to have? What the correct framework for assessing one's needs?
- 3) If I don't buy life insurance how much more money will I have when I retire? On the other hand, if one does buy life insurance, how much longer would he or she have to work to have the same amount of money in retirement? Is saving money on life insurance likely to make you rich?
- 4) How does the right amount of insurance change over the course of one's life?
- 5) How are one's assets, possible Social Security benefits, and possible inheritances taken into account when assessing one's needs?
- 6) Do children need life insurance?

Answer: Children, typically, do not need life insurance. They seldom have dependents to support or income to protect. And while a funeral can entail large and unexpected costs, the financial impact of such is typically much less than the ongoing costs of raising/supporting a child.

Having noted these facts, it is important to mention that obtaining life insurance on a child can be prudent when there are realistic concerns that the child's insurability could adversely change. Buying life insurance means that one incurs costs each year that the policy is in-force, so obviously buying it sooner rather than latter incurs costs that could either be avoided or postponed. But buying it early in a good health class can be better than buying it later in a less attractive or more costly health class.

If parents are concerned about a child possibly developing a condition that could result in the child being placed in a more expensive health class in his or her adult years, the purchase of life insurance on a child could be prudent. In such cases, parents also typically buy an optional policy rider: the right for the child to purchase additional insurance when they turn various ages (i.e., 25, 28, 31...) without having to undergo a medical exam and the underwriting process. For example, a family with a history of diabetes might choose to insure a child before any symptoms appear

because doing so might enable the child to readily obtain coverage in the insurer's best health class, whereas if the child is subsequently actually diagnosed with diabetes, he or she will not obtain an insurer's best health class. In such circumstances, the advantages of obtaining coverage and possibly with the right to purchase additional attractively-priced coverage as one ages are intuitively apparent.

Unfortunately, many agents and insurers emphasize that there are cost advantages in buying insurance on a child even if it is assumed the child always remain healthy. That is just not correct. Many parents and grandparents are routinely encouraged to buy life insurance on children on this deceptive basis, that is, that buying life insurance early locks-in a lower lifetime total cost. Agents often try to prove the soundness of their recommendation by citing misleadingly comparisons that buying a whole life policy at a younger age means one obtains a lower premium and that a lower premium means a lower cost. But, as explained above in *Life Insurance 101*, there is a big difference between a policy's annual premium and its annual costs. Much more information on the problematic sales presentation: Buy Now to Lock-In a Lower Lifetime Cost can be found in our article "Beware Buy Now To Lock Rates." <http://BreadwinnersInsurance.com/beware-deceptions/beware-buy-now-to-lock-rates>

In summary, at Breadwinners' Insurance, buying life insurance on children is actually typically discouraged unless there are exceptional concerns about the child's future insurability or some other exceptional factor. Moreover, unless it can be proven to the satisfaction of everyone involved (both spouses, agent, and any other financial or family adviser involved) that both parents are absolutely appropriately insured, or even more than adequately insured, then the decision to allocate or divert family resources to insure a child could really constitute a case of financial malpractice if, god forbid, a parent without appropriate coverage died during the child's dependent years.

FAQs About Term Policies

1. What are the typical contract provisions of a term life insurance policy? What are the specific characteristics of term policies? (Renewal, Convertible, etc.)
2. Which is better a term or a cash value policy, and when and why? Is there any reason to buy anything other than a term policy?
3. Of pure term policies, which type of term is better, and when and why?
4. How does one determine the correct duration of a level premium term policy? That is, when should one buy a Level 10 Year, or a Level 20 Year, or a level premium term policy of any particular duration?
5. Is term insurance as profitable for life insurance companies as many agents assert? What impact does it have on consumers when agents assert that term is a big money maker for life insurance companies?

6. Group vs. Individual Coverage: Which is better: having coverage under a group term or an individual term policy? When is group coverage less expensive than individual coverage and vice-a-versa?
7. What happens at the end of a level premium term policy's level premium payment period?
8. What are present values costs and how are they calculated and used?

FAQs about Cash Value Policies

1. What are the typical contract provisions of a life insurance policy? What are the specific characteristics or provisions of cash value policies?
2. Which is better a term or a cash value policy?
3. Why would anyone ever save or invest with a life insurer?
4. Is life insurance a good investment?
5. What is the best type of cash value policy? UL, Whole Life, Variable, Equity-Indexed, Guaranteed No Lapse?
6. How does a cash-value policy's death benefit amount change?
7. When is exercising a conversion privilege – the right to convert a term policy into a cash value policy - a good decision?
8. How can a cash value policy's cash values or living benefits be accessed?
9. Why is it misleading to represent that a cash value policyholder loses his or her cash value upon death?
10. What extent of an insurer's investment earnings are passed through to its policyholders?
11. What are the problems with making decisions based on sales illustrations?
12. What are the benefits of cash value policies' tax privileges? Could you provide numerical examples of a cash value policy's tax privileges?
13. What is a Modified Endowment Contract (MEC) and what are its consequences?
14. What are the special circumstances under which a life insurance policy's earnings become taxable?
15. What is everything that I could ever possibly want to know about the costs of life insurance?
16. What is everything that I could ever possibly want to know about the investment performance of cash value life insurance?

17. What is universal life? What is whole life? What are all the other types of cash value policies?
18. When does it make sense to elect a Paid-Up Policy?
19. What do I need to know about a single premium life insurance policy?
20. What do I need to know about “Guaranteed Cost” policies?
21. What do I need to know about a Universal Life policy with a No-Lapse-Guarantee?
22. How does a policyholder access a policy’s cash values via loans, surrenders or withdrawals?
What happens when a policyholder borrows from a policy?
23. How can a cash value life insurance policy provide supplemental dollars to spend during one’s retirement?
24. What is a surrender squeeze?
25. Could you explain a Universal Life policy’s death benefit choices?

FAQs about Applying for Life Insurance and General Policy Related Details

1. What do I need to know about the application process?
2. How do I decide upon the owner and beneficiary and other possible parties to a life insurance policy? Who should be the owner? The beneficiary?
3. How does one choose a life insurance agent? What do I need to know to evaluate a life insurance agent?
4. What is the underwriting process? What are the different health classes or risk classes?
5. If I take a medication for cholesterol or blood pressure or some other condition and the medication has been shown to be effective, how do I find an insurer that will offer me the most favorable health classification?
6. How do the following factors impact upon an applicant’s health/risk class: 1) current smoking, 2) past smoking, 3) personal health history with respect to diseases (cancer, heart, diabetes, asthma, etc.), 4) family health history, 5) driving record, and 6) avocations?
7. Should one submit a premium payment with an application?
8. What to do if a insurer offers coverage in a health class that you don’t think is good enough?
9. What can one do to improve his or her health class? How does reconsideration work?
10. How do you obtain a good policy when you have health concerns?
11. What is a term policy’s conversion privilege and conversion period?

12. Once I have a policy, what should I do to maintain it properly?
13. When should one think about buying a policy's supplemental riders? What do I need to know about the following supplemental policy riders: 1) Accidental Death and/or Dismemberment? 2) Waiver or Premium? 3) Inflation Protection? 4) Spousal Protection? 5) Riders on Children?
14. What is lapse supported pricing, and why could such a technical term be of any interest to me?
15. When should a life insurance policy be replaced?
16. If I am thinking of surrendering my policy, what do I need to consider?
17. What does a consumer need to know about the "state" guarantee associations?
18. What is a guaranteed-issue policy? And what is a policy issued without medical underwriting, and what are the possible consequences of such upon the policyholders?
19. Are there any special legal protections that life insurance policies enjoy and how might they be of benefit to a policyholder? Specifically, what protections do policies provide against creditors?
20. How do I figure out whether to pay a policy premium on an annual basis or one some other more frequent basis (semi-annually, quarterly or monthly)? What is the difference between paying a policy premium on a monthly versus an annual frequency? What can you tell me about premium payment frequencies?
21. When does it make sense to convert a life insurance policy into an annuity?
22. What are the anti-rebating laws and how do they impact consumers?
23. What are some other sources of information on life insurance?

FAQs about Comparing Products

1. Which is better a term or a cash value policy?
2. Of pure term policies, which type of term is better?
3. Which is better Group Term or an Individual Term policy?
4. Does a Joint Life policy (a policy that pays upon the death of two individuals) provide a better value than a single life policy?
5. When a Joint Life policy appropriate?
6. What's the difference between Life Insurance and Accidental Death & Dismemberment (ADD) coverage? If I'm healthy, isn't ADD better?

7. How do I assess the performance of a cash value policy? Both a policy's historical performance and its future prospects. A Comprehensive Overview
8. What are present value costs and how are they calculated and used?

FAQs about Misrepresentations by Agents and Others

1. What can a policyholder who thinks he has suffered as a result of a misrepresentation do?
2. How can smart individuals be so misled by life insurance agents? Is what Plato said, that "Everything that deceives can be said to enchant" applicable to life insurance marketplace?
3. What are the typical misrepresentations made to disparage: 1) whole life, 2) universal life, 3) term life, 4) variable life, 5) equity-indexed life, and 6) other policies?
4. What are the typical misrepresentations made to exaggerate the advantages of the following types of life insurance: 1) whole life 2) universal life, 3) term life, 4) variable life, 5) equity-indexed life, and 6) other policies?
5. What are the typical misrepresentations made regarding specific insurance companies?
6. Why is it misleading to represent that a cash value policyholder loses his/her cash value upon death?
7. What are the problems with making decisions based on sales illustrations?
8. What are the misrepresentations regarding buying life insurance on children?
9. Are whole life dividends simply a refund of an overcharge?
10. What can one do if he/she bought as a result of or on the basis of a misrepresentation?

FAQs about Business Life Insurance (very abridged listing)

1. What are the typical uses of life insurance in a business or corporate situation?
2. What is buy-sell insurance, and when is it useful?
3. What is key man insurance, and when is it useful?
4. What are the different ways in which buy-sell insurance can be structured and what are the benefits and consequences of such?
5. What are some of the unique tax advantages that businesses or corporations have with regard to life insurance?
6. How are life insurance policies used to provide deferred compensation to business executives?