

Information for Better Living

The Facts of Life Insurance

The role of life insurance is an essential part of a sound financial plan. If someone depends on you financially, chances are you need life insurance.

So what exactly is life insurance?

To put it simply, life insurance protects those who depend on your paycheck. If you die prematurely, life insurance provides your dependents with ongoing income to replace yours. Life insurance isn't for people who die; it's for people who live, and it can be used for a number of purposes such as:

- Daily living expenses
- Mortgage payments
- College tuition
- Debt pay-off
- Final expenses (funeral, taxes, unpaid medical)
- Transfer Assets
- Supplemental Income Retirement

What is it?

Do you need it?

How much?

What kind?

How much do you need?

Most people want enough life insurance to make sure their family can continue to live their current lifestyle. According to the American Council of Life Insurers, you need life insurance coverage equal to five to seven times your annual gross income. But your needs may be more or less. So first consider how much your family would need for current and future expenses (mortgage, utilities, child care, food, clothing, college, retirement, etc.). From there, take into consideration the resources surviving members could tap into to meet those obligations (salary, savings, investments, social security, or other assets). The difference between the two is the approximate amount of life insurance you need.

What is the best policy for your needs?

The type of policy depends on your individual situation and financial goals. Your options are between a term insurance policy and a permanent insurance policy – or a combination of these two types.

Term life insurance is designed to provide you with protection for a specified period of time, and pays a death benefit only if you die during that period. Term insurance makes most sense to cover an obligation you have that will disappear at some point, such as a debt, or when your children graduate from college. Term insurance can help ensure that your family will be able to pay off the mortgage, pay ongoing living expenses, fund college education costs, etc. if you die prematurely.

The most common term policies provide coverage for 20 years, but they can range from one year to 30 years or even longer. One main type of term life insurance, level premium term, guarantees that your premiums will remain the same throughout the specified term. Other types of term insurance guarantee that premiums will stay the same for a specified number of years, reserving the right to increase premiums over the remainder of the term period, if necessary, up to specified maximums.

You can renew most level premium term policies without having to provide evidence of insurability, up to a specified age or within a specified period. Depending on the policy, you may be able to renew a year at a time or for a limited number of successive terms. With most policies, however, premium rates increase at each renewal and may become unaffordable in your later years. Most level term policies offer the option to convert to a permanent policy for the same or lesser amount of coverage.



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An insurance agent or financial advisor can provide you with a life insurance needs analysis.

without having to provide evidence of insurability. This conversion option is available for a specified number of years or before a specified age.

Permanent life insurance is designed to provide you with continuous lifetime coverage as long as you pay the necessary premiums. Permanent insurance also provides a tax-deferred way to save for your future needs. Part of your premiums pay for insurance coverage and expenses, and part goes toward creating a cash account.

Term or Permanent		
	Term	Permanent
Length of coverage	A specified term, typically 20 years.	Until age 100 or later, as long as premiums are paid.
Premiums	Based on your age and health, but typically lower than those of permanent insurance.	Usually higher than term premiums, but often level for life.
Cash Value	None.	Accumulates over time on a tax-deferred basis.
Key advantage	Typically offers the highest death benefit for the lowest cost.	Offers lifelong protection and tax-deferred savings.

SOURCE: Life's "What you need to know about life insurance" consumer guide, 2005.

Permanent policies are typically a form of whole life, universal life, variable life, or a combination of these insurance types. In addition to meeting your needs during your younger years, in your later years a permanent insurance policy can provide retirement income, fund a trust, leave a bequest to charity, or if you have substantial illiquid assets, provide cash to pay any estate taxes owed. Before you buy permanent insurance, consider whether you intend to keep the policy for the long term.

Also consider whether you can afford to buy enough protection for your current needs and whether you can commit to the required premiums for the long haul. Since insurers design and price permanent policies to provide you lifetime insurance coverage, if you surrender a policy in its early years there may be little or no cash value.

What are the ways to buy life insurance?

Most people need help determining how much life insurance to buy. An insurance agent or financial advisor can provide you with a life insurance needs analysis. The analysis typically includes a review of your current coverage, a calculation of your total life insurance needs, and a customized recommendation for you. Start with the Financial Advisor located at your credit union. They are licensed professionals who, at no charge, can help you get started with an analysis.

Many employee benefit packages also offer a basic life insurance benefit. However, it might not be enough to cover your needs, and generally you can't take it with you. Another option would be to purchase a life insurance policy (typically only term insurance) directly through the Internet, by phone, or mail. However, the better services won't allow you to complete the purchasing process until you've spoken with a qualified insurance agent. If you do choose to purchase on your own, make sure you're very confident in your needs.

Before purchasing any life insurance policy, make sure you fully understand its terms and check on the company's financial strength ratings. Most importantly, ask for an outline of coverage, read the policy itself, and ask for complete explanations of policy illustrations since some figures are guaranteed and some are not. And always answer questions about your medical history and health completely and truthfully. If you're dishonest, the company may be able to cancel your coverage later.

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