

Narrator: Welcome to our Fifteen Minute Finance presentation on Life Insurance. As you may realize, you don't buy life insurance for yourself; you buy it for your loved ones. It's one of those products that you buy hoping that you'll never use it, or at least not for a very long time. But what peace of mind to know that if you should die, your family will be protected.



Life insurance may seem complicated, but if you break it down it involves a few basic choices, such as: "What type of coverage is best?" and "How much is enough?" Here to help us sort through some of those choices are John and Sue, a fictitious couple that we use to give life to the strategies and situations that we discuss in these presentations. In this seminar, Sue and John consider how they can protect their children in the event of their untimely death.



Life Insurance: Key Questions



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John: Sue, I see our life insurance policies are up for renewal and I'm wondering if our current coverage might not be adequate or even the right kind. I think we should review everything. When we bought term insurance policies 10 years ago, things were a lot different. It might make sense to convert to whole life or some other form of permanent insurance. And I'm not sure we have enough coverage. What do you think?

Sue: John, I think it's a great idea to review our insurance coverage and whether it's appropriate or sufficient. Our lives have changed, and that includes our needs and our priorities. Let's look at what we have and what we really need.

John: Other than each other? [winks]



Life Insurance: How Much is Enough?

- Use a rule of thumb?
  5 x annual salary?
  10 x annual salary? ...
- If you already have insurance coverage, is it enough?



John: Well, I know we thought we had enough coverage 10 years ago, but we didn't think about inflation. Our costs are higher and what we had 10 years ago clearly won't cover as much now. I guess we should go through the whole formula again of looking at the immediate costs after one of us dies, such as funeral expenses and attorney's fees for handling the estate plus whatever debts we have, including our mortgage, and other loans.

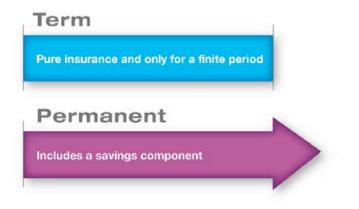
Sue: And then there'll be some extra costs incurred as whoever survives has to take on more and will probably have to pay someone to do some of the things we both do now. Then we need to look again at our dependents. John Jr. is only 10, so he'll be living with us a good number of years, and Sarah is 13, so she's still five years away from college. Oh, yeah... college. We need to factor in the expected cost minus what we've saved so far. And then look at how much the household expenses will be once one of us is gone and what the surviving spouse can expect to earn, and then cover the difference.

John: Yeah. I think we need to use a worksheet for all that.

Narrator: You'll want to take your time and make solid, reliable estimates on all these factors to make sure you have adequate life insurance coverage. And don't forget to factor in the impact of inflation.



Life Insurance: Term or Permanent?



John: So, do you think it makes sense to just renew for another 10-year term or should we consider going with permanent insurance?

Sue: Well, let's look at our options. I know when we bought term, we figured we could save for our retirement separately, so we didn't need to have a cash-value or savings component within our insurance coverage. But now, I wonder how comfortable I'll be just letting the term insurance end after say another 10 years. There are a number of cool options with permanent insurance.



John: So, Sue, you seem to know more than me about life insurance...

Sue: John, you seem surprised?

John: No comment. I know when to button it. But seriously, take me through our options for permanent insurance.

Sue: O.K. There are four basic kinds of permanent insurance. First, there's whole life insurance, which, as flavors go, would be plain vanilla cash-value insurance. You pay a level premium each year, you receive a death benefit, you earn tax-deferred interest, and if you should need extra income at some point, you can draw on your policy's cash value.

The next one, variable life, is for people who have more risk tolerance. Its death benefit is tied to the investment performance of your portfolio, so you'll bear some risk for the policy's cash value.

Third, we have universal life, which gives you some flexibility. You can change the amount of your death benefit, or adjust your premium within certain limits based on any changes to your financial situation, for instance. But unlike variable life, it doesn't allow you to choose a variety of types of investment. It also is different than whole life in that the death benefit level is not guaranteed.

And then, finally, we have universal variable life insurance, which incorporates features of both universal and variable life, as the name implies. You can adjust your premium level and invest in an array of products. So, that's like neapolitan ice cream, I guess, or as far from plain vanilla as you might imagine!

Reinventing Retirement

Insurance comes in many flavors...

## What's right for you?

How much coverage do you need? Use worksheets, online resources

http://www.iii.org/ http://www.lifehappens.org



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Sue: So, you see, life insurance comes in many flavors. This is just a taste of some of the decisions we face in buying life insurance. It'll probably take some time to digest what we've talked about today.

John: Thanks for the scoop, Sue.

Narrator: For help in determining how much life insurance you need, we have a detailed Life Insurance Needs worksheet for you to use to create your own recipe for life insurance protection that suits your budget and your palette.

For more information, you can also go to:

http://www.iii.org/ http://www.lifehappens.org

Each of these websites has helpful information on life insurance as well as broader insurance topics.

Reinventing Retirement

## Thank you

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