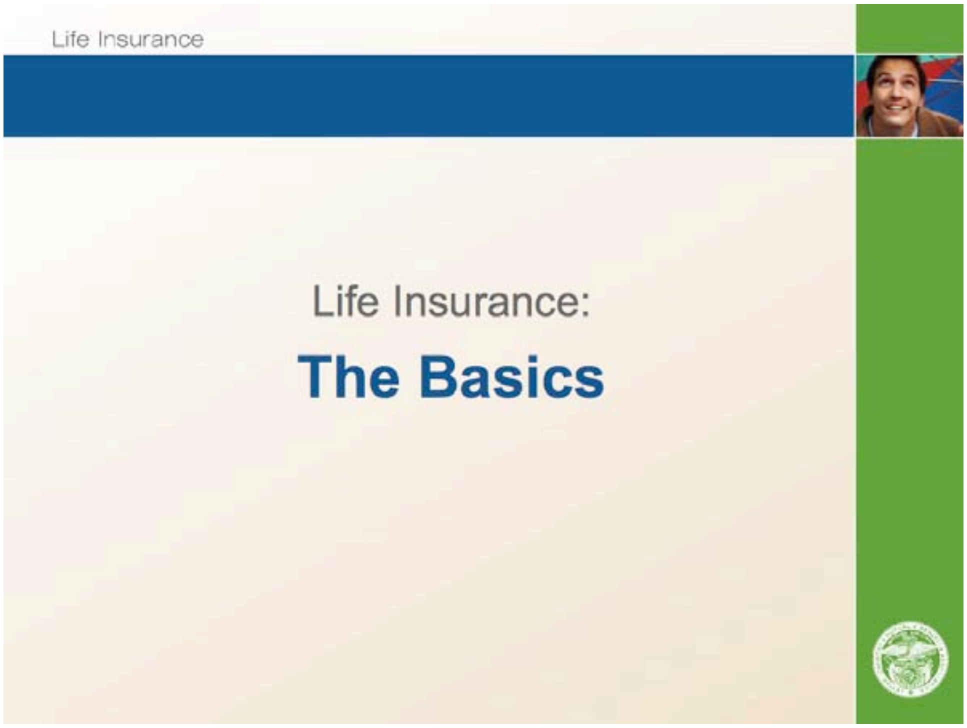

Life Insurance



Good morning (good afternoon). I'm _____________ from Regions Morgan Keegan Trust. I appreciate your taking the time to participate in this seminar, and hope that you'll pick up some tips that will help you in planning for the future.

The purpose of this presentation is to give you an overview of the major types of life insurance and how to determine how much coverage would be appropriate for your situation.

I'm not here to sell you anything. And we're not going to get into great detail. Rather, we simply want you to be familiar with key concepts so that you'll be a smart and well-informed consumer.

Let's start with a definition of life insurance.

To audience (solicit answers): What is life insurance?

Life insurance, at its simplest, is an arrangement to pay a specific amount of money upon a person's death. When you buy life insurance, you enter into a contract with an insurance provider. The contract calls for you to pay a certain amount of money each month, quarter or year; that's called a premium.

The provider collects premiums from others who want insurance, and spreads the risk across many people while it invests their premiums to earn income. That income allows it to pay its administrative expenses and, of course, future benefits for the policyholders.

In return for your premiums, the insurance company promises to pay, upon your death, a specified amount of money to your beneficiary, who is the person you've designated to receive the death benefit.

As we'll see shortly, there are several types of life insurance and a number of ways you can estimate how much insurance you should have.

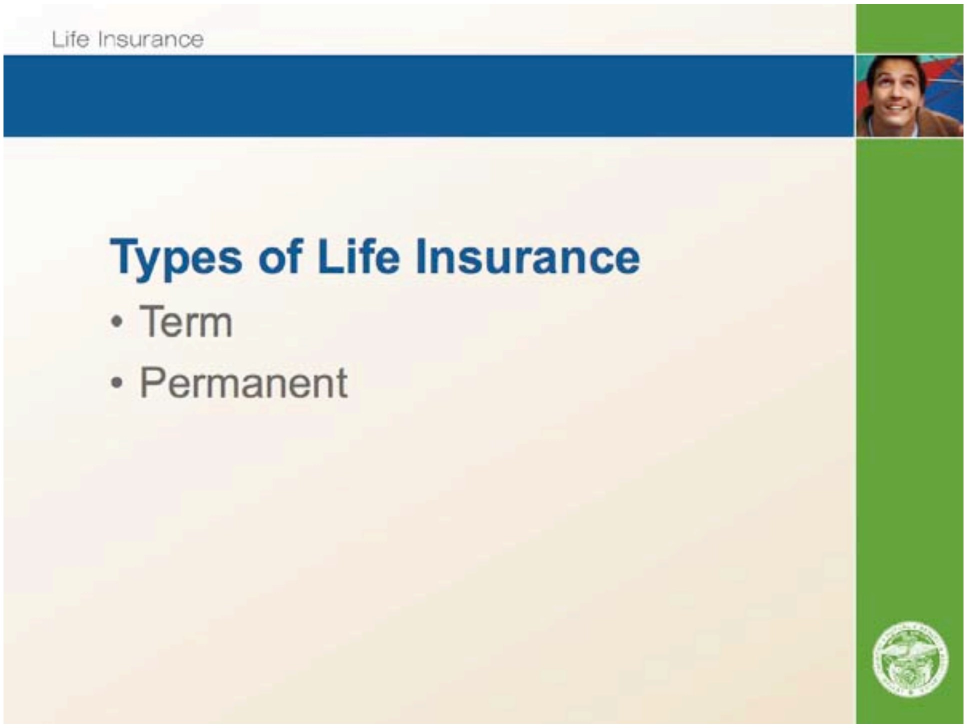
But first, let's consider why people buy insurance.

To audience (solicit answers): What are some of the reasons why you would consider getting life insurance on yourself or someone else?

Those are all good answers. Let's summarize the most common reasons:
To pay your final expenses, such as funeral costs, debts, estate taxes and medical expenses
To replace your income and help your family maintain their standard of living
To protect the family's home by reducing of paying off the mortgage
To pay other people to do tasks you did, such as taking care of the yard and house, caring for a child or an older relative, and so on
To ensure that a child or children can go to college or get special training for a trade
To cover the expenses of keeping your small business in the family, and
To provide additional retirement income for a spouse.
And there are many other reasons just as important as these.

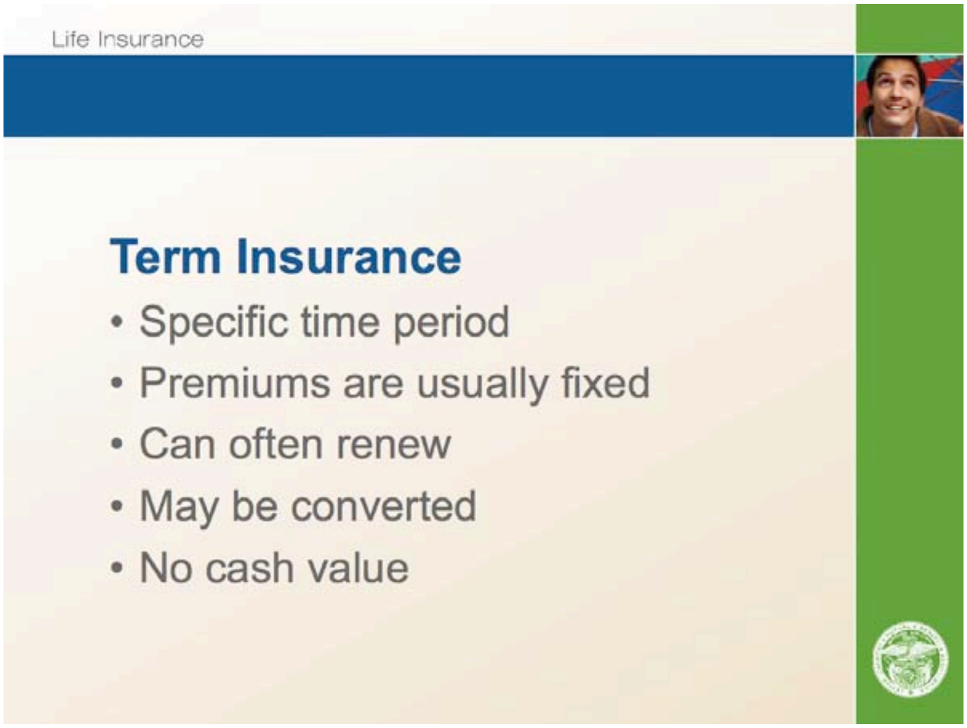
The bottom line is that if someone depends on you financially, you need life insurance. The money your beneficiary receives can cover daily living expenses, outstanding loans, tuition, health care and help the family avoid going into debt. Having life insurance could mean that your spouse won't have to sell assets to pay taxes or bills.

Now let's review the basic types of life insurance.



The major types of life insurance are term and permanent. Permanent life insurance is also commonly called cash value or whole life insurance.

As we'll see, term insurance is pretty standard, but there are several varieties of permanent insurance.



Term insurance provides coverage for a specific period of time and pays death benefits only if you die during the period. Common periods for term insurance are one, five, ten and twenty years. It's usually used to plan for financial responsibilities that will reduce over time, such as school tuition or mortgage payments.

Premiums for term policies can be fixed for the entire length of the term or might rise at specific intervals defined in the policy. They're often less than the costs for permanent insurance.

Some policies can be renewed at the end of the term, and premiums usually are increased upon renewal.

And in some cases, you can convert a term policy into a permanent one at the end of the term.

Finally, term policies don't usually build up a cash value.

Let's look at how term insurance differs from permanent.

Permanent insurance provides for lifelong protection in most cases, or at least to a significant age, such as 80 or 90, not just for a specified shorter period as term insurance does. It pays a death benefit whenever you die, as long as you pay the premiums.

The premium amount will not change, in most cases, unless the policy provides for increases when you reach certain ages.

Many permanent policies have a savings feature that builds a cash reserve that you can tap while you're still living. For example, at a certain point, you can use the cash value to pay the premiums. You might be able to use it to buy more coverage, or even borrow it from the insurance company.

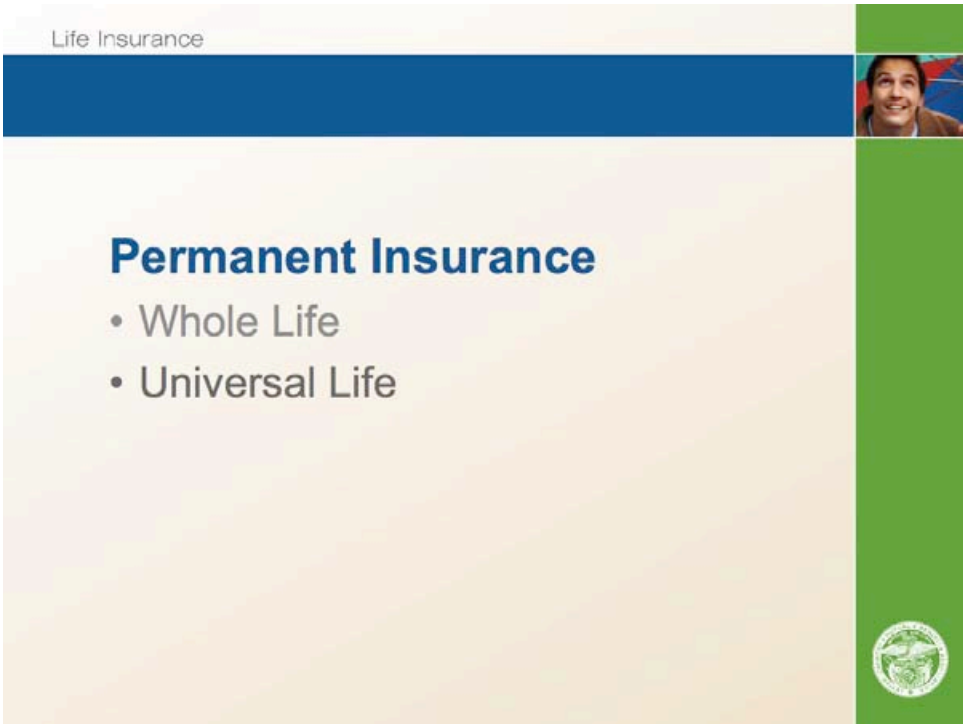
There are several types of permanent insurance, as we'll see.

The first type of permanent insurance we'll talk about is probably the most common: it's called whole life or ordinary life.

It provides protection and cash value. The amount of coverage, known as the policy's face value, stays the same for as long as the policy is in force. And in most cases, the premium amount is guaranteed not to change for the duration of the policy.

Over time, cash value builds on a tax-deferred basis.

And some whole life policies also provide for annual dividends that you can use to buy more coverage, add to the cash value, or receive as cash. Dividends are not guaranteed.

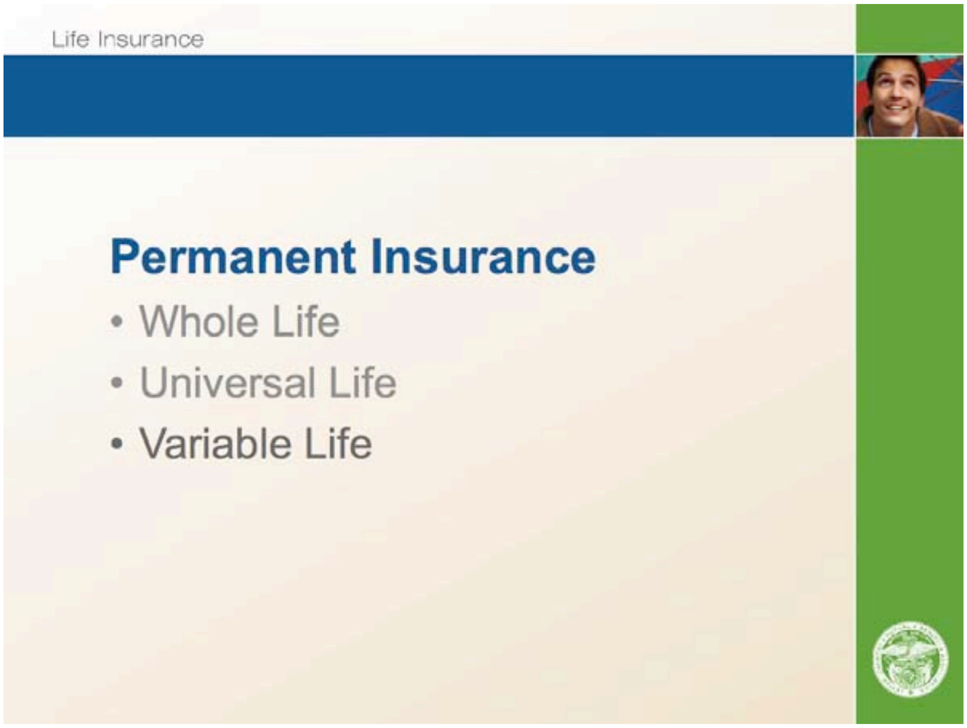


Another type of permanent insurance is universal life, also called adjustable life.

This type of policy provides more flexibility than whole life, such as allowing you to change the amount of the death benefit, or adjust the premium amount, within limits, depending on your current financial situation.

A portion of your premium payments is applied to an accumulation fund, which earns interest. The amount of interest may change, but the policy will have a minimum guaranteed rate.

As with a whole life policy, cash value will build up over time.



In a variable life policy, you choose from a variety of investments offering different risks and rewards. The choices might include stocks, bonds, combinations of stocks and bonds, or an option that guarantees principal and interest.

The death benefit and the cash value will change, depending on the performance of the investment options you chose. The cash value is not guaranteed.

The key point regarding a variable life policy is that the cash value and the death benefit may decrease if the investments perform poorly, although some policies contain a guarantee that the death benefit will not fall below a certain minimum level. Of course, if the investments do well, the death benefit and cash value will rise.

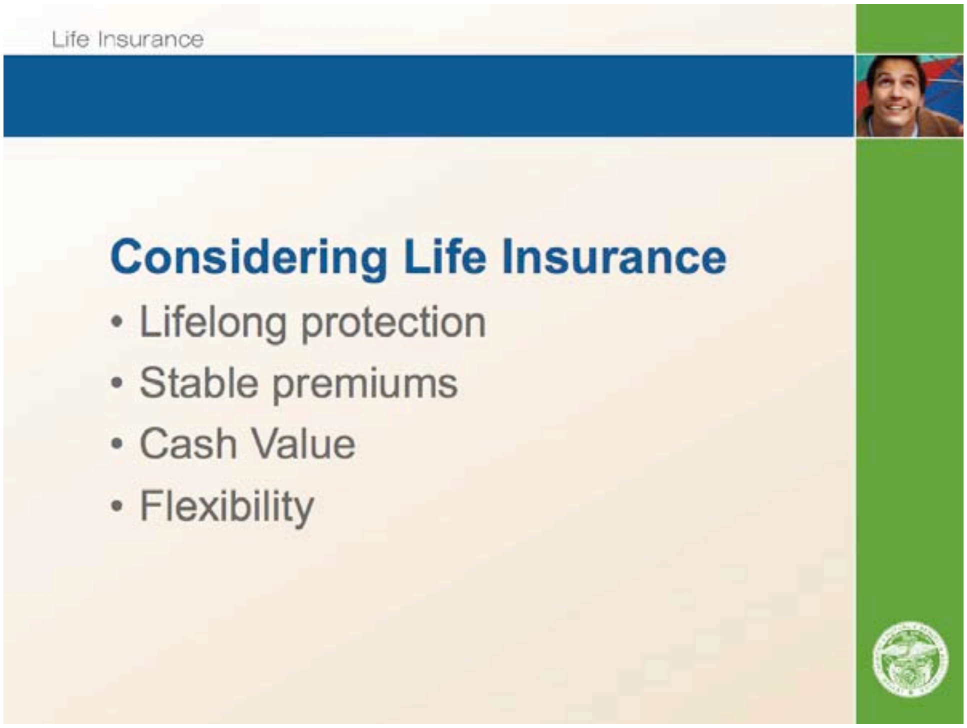
This type of policy gives you features of both universal and variable life insurance policies.

Your premiums and the death benefit can be adjusted, as we saw with universal life.

And, you choose your investment mix. Like regular variable life policies, the amount of the death benefit may decrease if your investments do poorly, and you may have to pay higher premiums to keep your policy in effect.

But, your cash value has the potential to grow more quickly if your investment choices do well.

Now that we've reviewed the basic types of life insurance, what would you want to think about in choosing a policy?



If you want lifelong coverage, permanent insurance is probably the right choice. If you want protection for a specific time period, term is the better option.

If stable premiums are important, then either term or permanent insurance, depending on the policy provisions, would be a sensible route to take.

For cash value, permanent insurance is the way to go. Remember, we saw that variable universal life insurance can provide the potential for faster growth of the policy's cash value, but that potential carries risk.

Term and whole life insurance provide no flexibility. We talked about how universal and variable policies, and the combination of the two, can offer interesting features.

So, you've done your homework on the types of life insurance available, and pretty much made up your mind regarding the kind of policy you want.

How do you figure out how much insurance to buy?

There is no easy answer to this question.

You'll hear people quote a "rule of thumb," such as five times your annual pay, or ten times your salary.

But, these "rules of thumb" simply don't take into account the fact that every family's assets and needs are different.

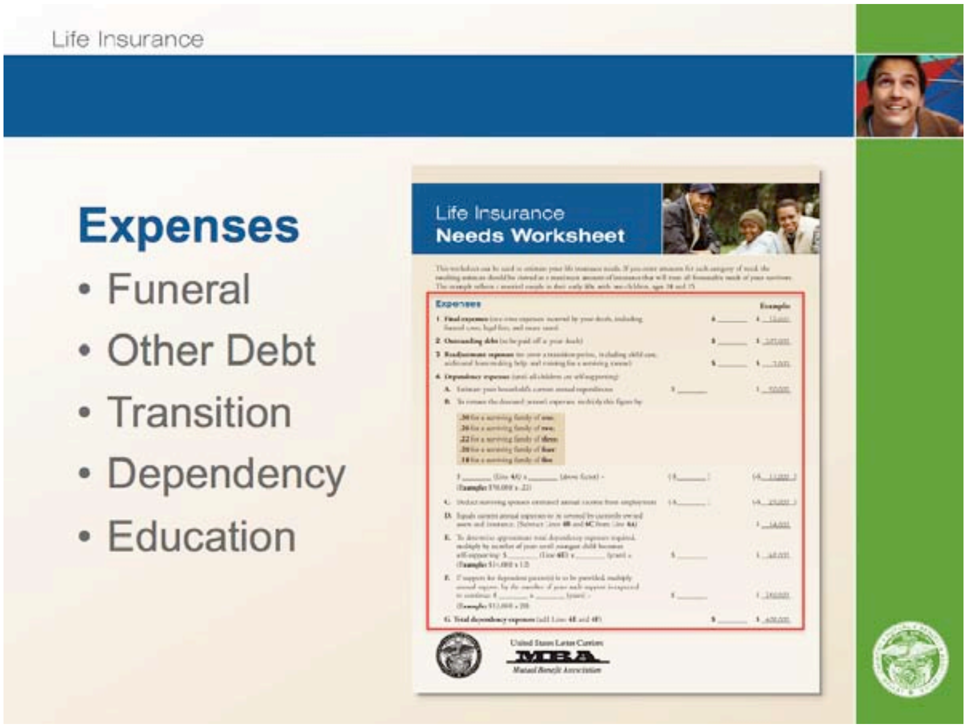
You'll have to do some calculations to determine an amount that is appropriate for <u>your</u> situation.

Inside the handout ("The Meaning of Life") is the Life Insurance Needs Worksheet. It might look a bit complicated at first glance, but it really is not difficult to complete. There's even a practical example to show how an average family might fill it out.

You won't need to do a lot of preparation to get ready for the worksheet, but you'll probably want to get together with your spouse for about 30 minutes to do this exercise. Doing it together will make the results more realistic and useful.

We're not going to complete the worksheet now. But, I do want to give you some tips and additional information to make it easier for you to do it on your own.

Let's take a look now at the worksheet. Feel free to make notes on it as we review it.



Expenses may well be the best place to start to estimate your life insurance needs, since this category deals with the cash your family will likely need when you die. Let's look at the individual items in the Expenses section.

Number 1 includes the estimate costs of the funeral, any attorney fees, and estate and other taxes.

Number 2 asks you to consider other debt to be paid off. For example, do you want the mortgage on your home paid so that your family won't have to continue payments? Do you have student loans or auto loans that you want to have paid off?

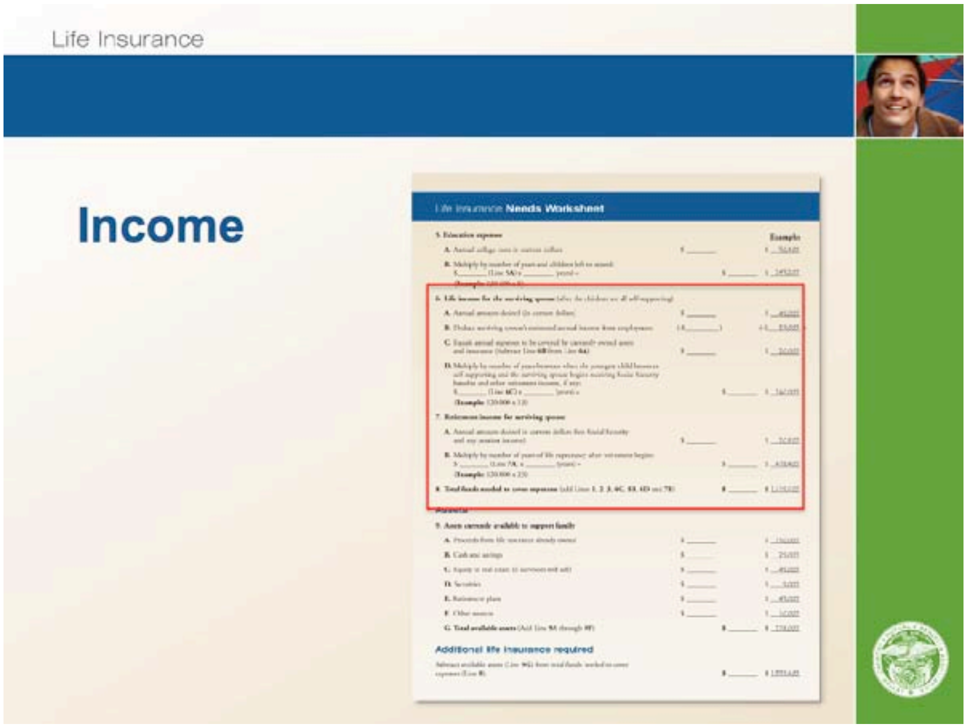
Number 3 is an important item. It recognizes that there will be an adjustment or transition period following your death during which extra child care expenses might be incurred, or additional help around the house may be necessary.

Number 4 addresses the expenses for your dependents. You'll estimate your family's total annual expenses, and reduce that amount by the income of the surviving spouse. That gives the amount, in item D, to be covered each year by current assets and insurance.

Then, in 4E and F, you'll calculate total dependency expenses by multiplying the annual expense figure by the number of years until the youngest child is self-supporting. You'll also need to consider costs for caring for a dependent parent or other relative.

In 4G, you'll have the amount for all of the costs related to your dependents. You will probably be surprised by how large that number is!

Number 5 is the last expense item. Here you'll be determining estimated college costs



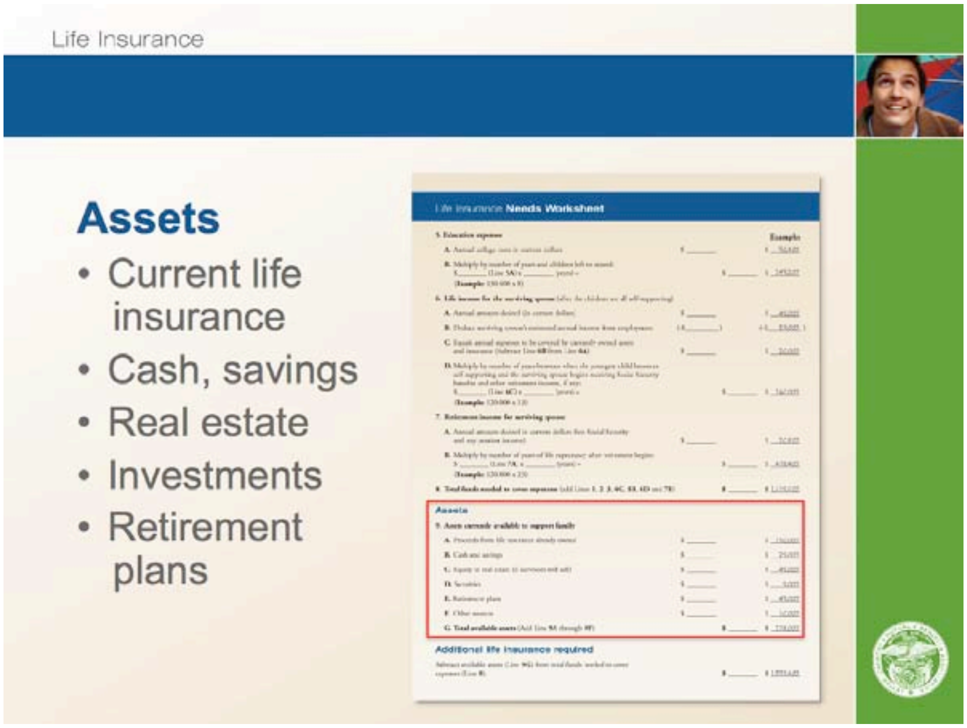
In Number 6, you'll start by arriving at an amount desired for your surviving spouse's annual income. Then deduct what he or she will likely earn from employment. That leaves the expenses to be covered by current assets and insurance.

How long should that income continue? In 6D, calculate the number of years between when the youngest child is out on his or her own, and when the surviving spouse starts receiving Social Security benefits.

In Number 7, you're asked to focus on the surviving spouse's retirement years. You'll take into account Social Security benefits and any pension income.

Fasten your seat belt, because now, in Number 8, is where you will add up all the individual expense category amounts to get the total amount needed to cover <u>all</u> expenses, from the funeral through your spouse's retirement years. It will probably be much higher than you would have guessed.

What offsets these expenses?

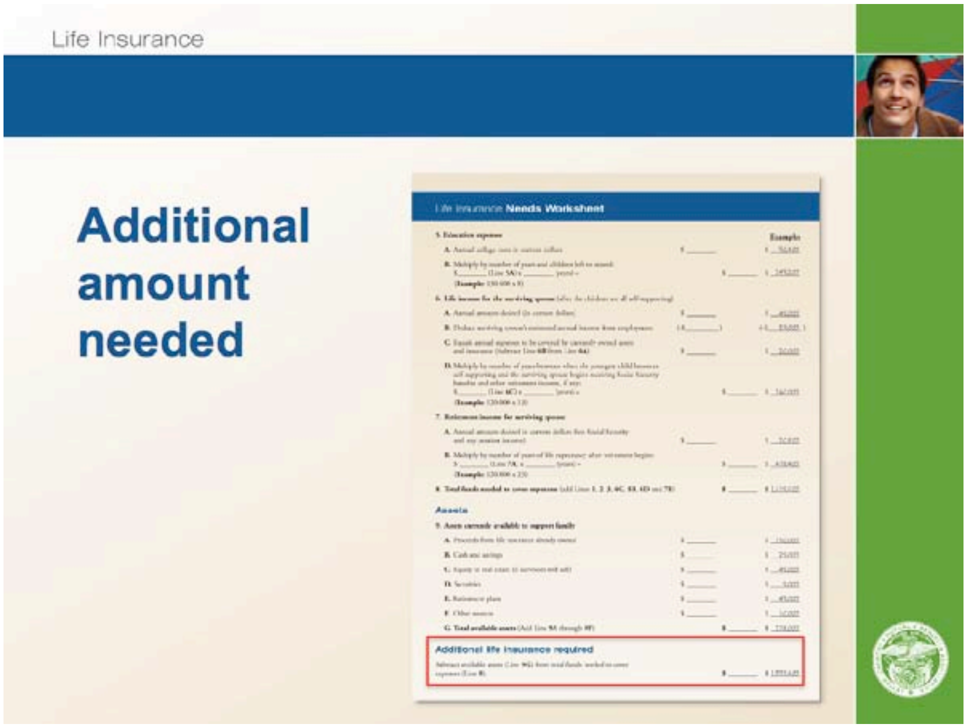


In addition to current income, you'll want to look at your assets, such as the face amount of the life insurance you already have.

The, consider the tangible assets that could be available to help with expenses, such as savings, real estate (but only if the survivor would sell it) or other property, investments, retirement plans like your 401(k) account, and other possibilities.

You'll enter your total assets on line 9G.

Now comes the moment you've been holding your breath for….

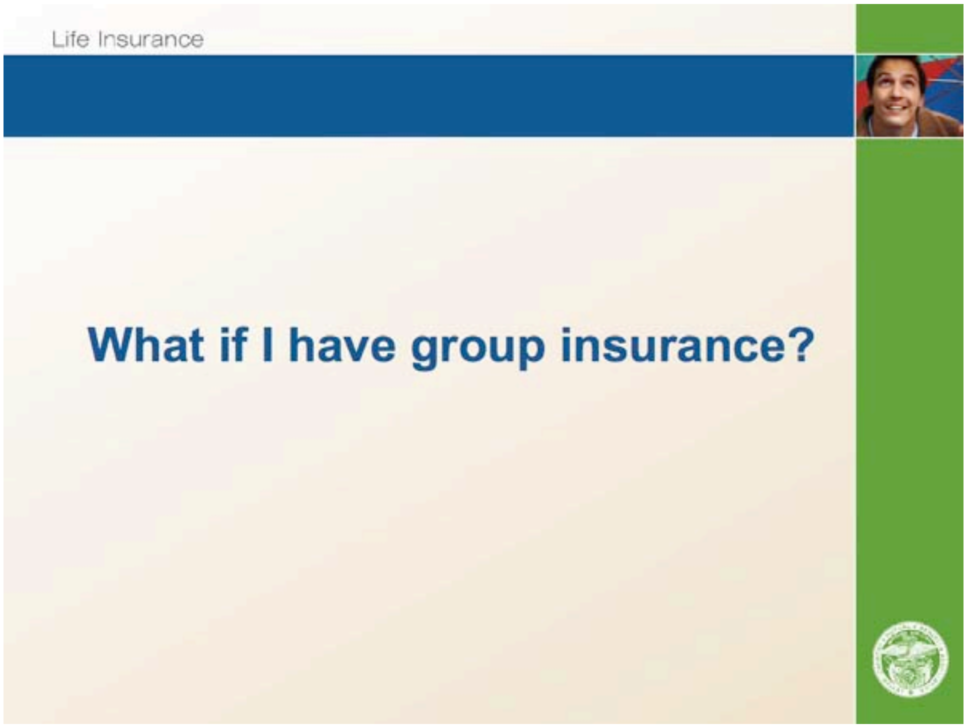


When you subtract all of your assets from the total of those years of expenses your family needs to be prepared for, the result is the additional amount of life insurance you need.

This is a "real" number, because it reflects what is needed to cover all of the living and other expenses you've estimated over a number of years. It's not just a "nice to have" amount of insurance.

I hope you agree that it's well worth the time to sit down and carefully work through this worksheet, and use it to develop or change your plan for your family's financial future.

Let's look briefly at some common questions about life insurance.



You may already have group life insurance as one of your employee benefits. If so, do you need more insurance?

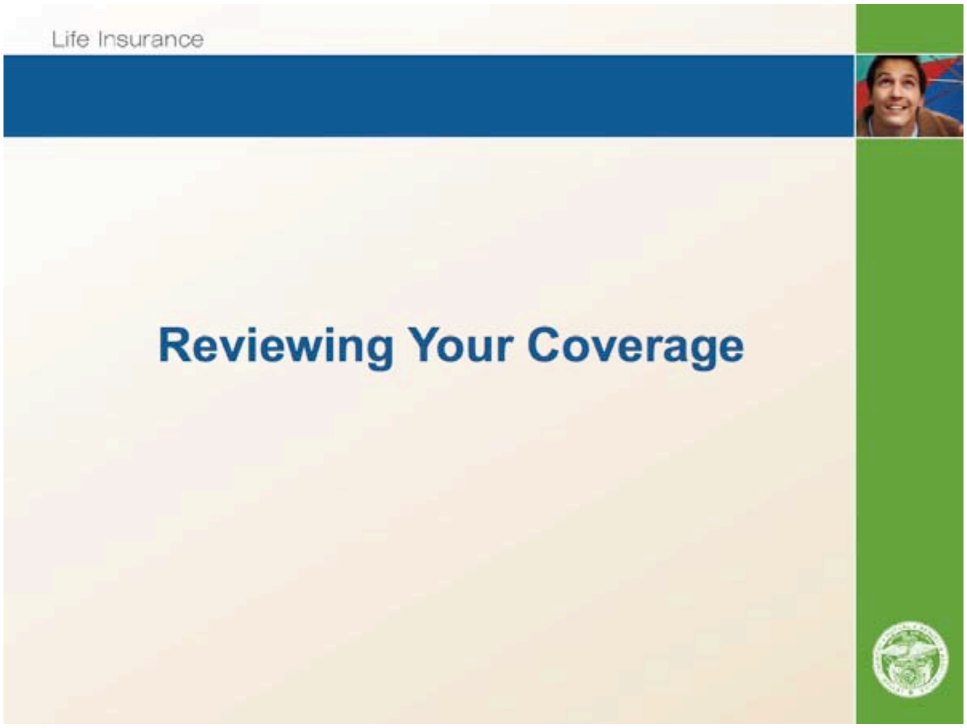
To answer that question, consider these issues:
If you leave your job, will you lose that group insurance?
Does the current amount give you enough coverage? Remember that bottom line on the Life Insurance Needs Worksheet that we just reviewed.
If you need to apply for individual insurance because you lost your group coverage when you left your job, are you ready to pay higher premiums because of your age or health status?

Group insurance is a wonderful benefit to have, but it probably isn't enough to cover your total life insurance needs.

Let's say you already have life insurance for yourself. Does it make sense to get insurance on your spouse?

If your spouse adds to the family's income, then the answer is yes, you should probably have insurance coverage for him or her to provide for replacing that income in the event of his or her death. This is particularly true today with so many two-income couples.

If the spouse doesn't have an income, you might still want to consider life insurance, because it can help pay for services he or she provides, like child or elder care, or maintenance of your home and yard.

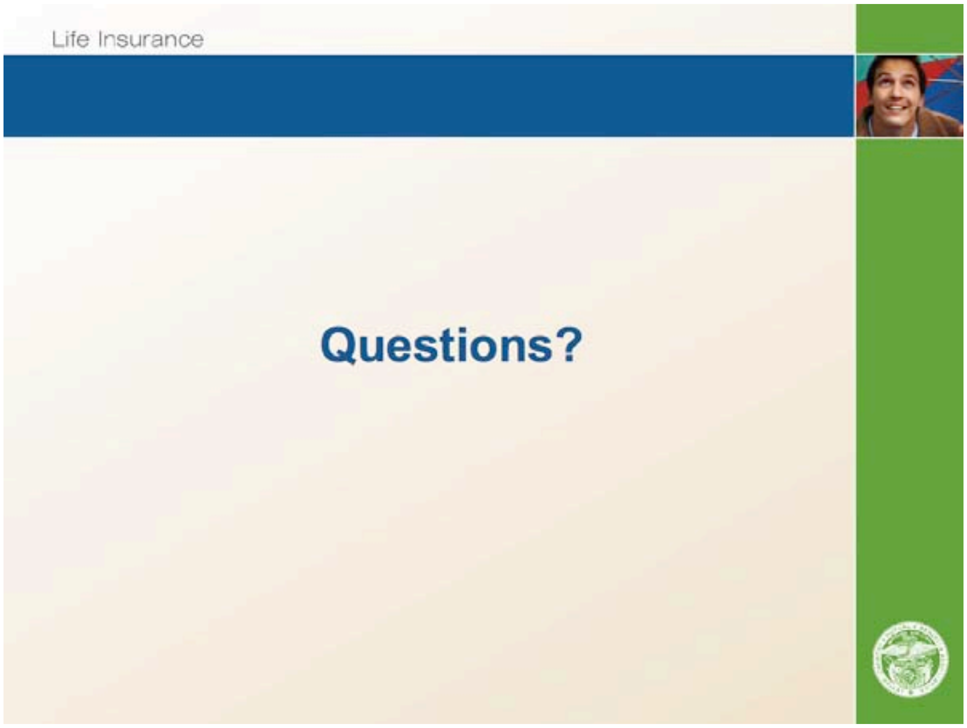


How often should you take a look at our total life insurance protection?

The basic answer is: at least annually.

But, waiting for a yearly review isn't wise if you've had major changes recently, such as:
Buying a home
Getting married, or divorced
Having a child
Changing jobs
Starting your own business
Beginning to care for an elderly parent

These and other life-changing events could significantly affect how much life insurance coverage makes sense for you and your family.



Almost everyone looks forward to analyzing their life insurance needs and coverage about as much as filling out their income tax returns.

But, I hope I've given you a fresh perspective on life insurance and what an important part it plays in your overall financial planning. While none of us likes to think about our own mortality, we all recognize the need to make sure that our families are protected financially.

Please take the time to review the brochure, which summarizes what we've talked about and provides additional resources. And please do use the Life Insurance Needs Worksheet. I know you'll be glad you did.

Are there any questions?