



Ne Cede Malis Insurance Solutions

YIELD NOT TO MISFORTUNES – GET COVERED

IN THIS ISSUE – LIFE INSURANCE

Life Insurance and the myriad of choices

By John Apuzzo

This newsletter breaks down the life insurance choices so you can make a better selection of which product suits you and your family needs

You have many different options for buying life insurance. I will help you to break it down. When you are shopping around for a life insurance policy, the easiest way to get started is to realize that there are essentially two kinds of policies: term life insurance and whole life insurance. Term life insurance lasts for a specific amount of time (the “term”) and expires at the end of the policy. Whole insurance, on the other hand, is a form of permanent life insurance. There are more insurance plans that fall into these two categories, each with their own benefits and drawbacks.

The different types of life insurance are:

- Term life insurance
- Whole life insurance
- Universal life insurance
- Variable life insurance
- Variable universal life insurance
- Simplified issue life insurance
- Guaranteed issue life insurance
- Final expense insurance
- Group life insurance

Term life insurance vs whole life insurance

Term life insurance lasts for a set number of years before it expires. If you die before the term is up, a set amount of money, known as the death benefit, is paid to your designated beneficiary. Term life is considered the simplest, most accessible insurance policy. When you make your payments (known as your premium), you are simply paying for the death benefit that goes to your beneficiaries in the event of your death. The death benefit can be paid out as a lump sum, a monthly payment, or an annuity. Most people elect to receive their death benefit as a lump sum.

Term life insurance policies are more affordable than other types of life insurance policies, usually costing between \$30-40 a month for a 30-year, \$500,000 policy for healthy people in their 20s and 30s. They expire at the end of the term, which can last up to 30 years.

Whole life insurance, on the other hand, is considered a permanent life insurance policy because it does not expire. It has a death benefit but also a cash value, which is a tax-deferred savings account that is included in the policy. The cash value accrues interest at a predetermined fixed rate. Each month, a certain portion of your premium will go into the cash value of the policy, which offers a guaranteed rate of return (The exact amount that goes into savings is determined by your individual policy). The policy's cash value grows over time.

Due to the fees and the extra feature, a whole life insurance policy can cost 5 to 15 times as much as a term life policy (for the same death benefit amount).

Whole life lasts for as long as you pay the premiums. However, the cash value component can make whole life more complex than term life because you have to consider surrender fees, taxes, and interest as well as other stipulations.

Still, it may be worth it if you need the cash value to cover things like endowments or estate plans, which might benefit from the greater options that a whole life policy provides.

Still, there are some key differences in the various types of permanent life insurance policies, so they are worth discussing about further.



Life Insurance
Auto and Recreational Vehicle Insurance
Home Insurance
Pet Insurance
Workman Compensation Insurance

Group Health Insurance
Commercial & Business Insurance
Professional Liability Insurance
Travel Insurance
Disability Insurance
Other Types of Insurance

Individual Health Insurance
Dental Insurance
Vision Insurance
Medicare Supplemental Insurance
Cyber Liability

Life insurance terms review

| | |
|-----------------------------|---|
| Term life insurance | A popular life insurance policy option. These have a set expiration date and are a cheaper, more popular option. |
| Whole life insurance | A form of permanent life insurance that has a premium and cash value. These are typically more expensive and complex, but can satisfy specific needs, like large estates or inheritances. |
| Death benefit | The amount paid to beneficiaries when a policyholder dies. |
| Beneficiary | The person(s) who receive the death benefit. They are selected by the policyholder. |
| Premium | The regular payment made toward the insurance policy. These are typically monthly. |
| Cash value | A tax-deferred savings account that are included in permanent life insurance policies. |

Universal life insurance

Universal life insurance has a cash value, just like a whole life insurance policy. Your premiums go toward both the cash value and the death benefit. But there is a twist. The policyholders of universal life policies can change the premium and death benefit amounts without getting a new policy.

Basically, although you have a minimum premium to keep the policy in force, you can use the cash value to pay the premium. That means if you have enough money in the cash value, you can use that to skip premium payments entirely, letting the accrued interest do the work.

But the cash value of a universal life insurance policy has an interest rate that is sensitive to current market interest rates. If the interest rate being credited to your policy decreases to the minimum rate, your premium would have to increase to offset the reduced cash value.

You can also adjust the death benefit within limits outlined in your policy. Increasing it may subject you to further underwriting, while there may be fees to decrease it.

If your financial situation changes, the ability to change the death benefit amount within your policy is appealing. While this can be done with term life insurance policies, this feature is one of the main selling points of a universal policy.

This flexibility makes universal life insurance attractive to some people, but it is also confusing. Unlike term life insurance, where you pay a certain amount every month or year and know what the death benefit will be, shifting premiums and death benefits are more complex than what most people need, and it comes at an added cost.



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| FEATURES | BASIC TERM LIFE INSURANCE | BASIC WHOLE LIFE INSURANCE | UNIVERSAL LIFE INSURANCE |
|-----------------------------------|---|---|---|
| Duration | 1 - 30 years | Life | Life |
| Guaranteed Death Benefit | Yes | Yes | Yes |
| Guaranteed Cash Value | N/A | Yes | Protected from risk, but accrued interest can be used to pay premiums |
| How Cash Value Grows (Or Shrinks) | N/A | Earns interest at a predetermined fixed rate | Variable rate determined by the insurer |
| Premiums | Can increase periodically or stay at a guaranteed level for the policy duration | Level | Varies, up to the customer (subject to federal tax laws) |
| Notes | No risk of losing coverage, but no cash value when term ends | No risk compared to other permanent types, but you may find better investment options elsewhere | N/A |

Variable life insurance

Variable life insurance is similar to whole life insurance in that they both have a cash value, but the functions of the cash values are quite different.

With a whole life insurance policy, the cash value component is a savings account. That is why, although the growth might be small compared to other investment options, there is a guaranteed minimum rate. It also includes dividend payments from the life insurance company.

A variable life insurance cash value, though, is more akin to investing. The money paid into it goes into a series of mutual fund-like sub-accounts where you can get some decent growth, but you can also lose money depending on the market. The cash value is more or less placed in the stock market.

While this makes variable life insurance policies a better investment option than whole life insurance policies – the potential for higher, tax-deferred growth makes it a "super-IRA" – you can only invest in the sub-accounts available through your policy. That means you do not get to choose from the wide variety of mutual funds that are available on the open market. While fees can be lower with a variable life insurance policy than a whole life policy, the product is riskier. Why? The same reason investing in stocks is risky: most people do not know much about the stock market and do not know enough to make changes in their investment. There is too much management for the average person to do it effectively.

All of this makes a variable life insurance policy both a limited investment option and a limited life insurance option. As an investment vehicle, variable life insurance policies provide tax-free money to beneficiaries during the time that the policyholder is alive. Once that person dies, however, that money is retained by the insurance company. Like other types of life insurance, a variable policy can help cover funeral and end-of-life expenses.

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Variable universal life insurance

If you think variable universal life insurance is just some aspects of universal and variable life insurance policies mashed together...well, you are mostly right.

A variable universal life insurance policy takes the best (or worst, depending on how you look at it) of the other two policies: you can adjust the premium and death benefit amount while investing the cash value in the policy's cash value.

But variable universal life insurance also comes with many of the same elements as the other two. Again, this policy is more complicated than most people need, and it is not your best investment or insurance option.

The better option is a combination of a simple, cheaper term life insurance policy and a dedicated investment option, like a mutual fund. This offers the same insurance coverage as a variable universal life insurance policy with lower fees and easier administration.

| FEATURES | VARIABLE LIFE INSURANCE | VARIABLE UNIVERSAL INSURANCE |
|-----------------------------------|---|--|
| Duration | Life | Life |
| Guaranteed Death Benefit | Yes | Yes |
| Guaranteed Cash Value | No | No |
| How Cash Value Grows (or Shrinks) | Subaccounts - pool of investor funds offered by the insurer | Subaccounts - pool of investor funds offered by the insurer |
| Premiums | Level | Varies, up to the customer (subject to US federal tax laws) |
| Notes | Risk of ending up with expensive insurance policy with little-to-no cash value | Risk of ending up with expensive insurance policy with little-to-no cash value |



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Simplified issue life insurance

Typically, when you apply for life insurance, you go through a paramedical exam as part of the underwriting process so the insurer can find out how risky you are to insure. Ultimately, it helps them set your premium rate.

With simplified issue life insurance, though, you can skip the medical exam. That is the "simplified" part of this policy type. Known as a "no exam policy," a simplified issue policy gets you life insurance without the health exam.

You are not out of the woods completely, though. You do not need to go through the medical exam, but you do need to fill out a health questionnaire, answering questions like if you smoke, have been diagnosed with serious illnesses, and so on.

People in poor health may have to take the exam if they have too many health issues, and they could flat-out be denied by insurers. For those healthier people in a hurry, though, it might be a good option to skip scheduling the paramedical exam, which adds some time to the underwriting process.

But with this benefit comes a major financial drawback.

With a term life insurance policy, your premium rates are directly tied to your chances of outliving your policy. If you are young and/or healthy, you shall pay lower rates than someone who is older and/or in poor health. That is why the medical exam is important. Since there is no medical exam with simplified issue life insurance, the policies tend to be more expensive than term policies.

Even if you think a term life policy will be prohibitively expensive, it is worth getting a free quote to see exactly how much you would pay. You may be surprised at how affordable it is.



Guaranteed issue life insurance

Guaranteed issue life insurance takes the concept of simplified issue life insurance – forgoing the health exam – and takes it a step further in that you do not have to answer any questions about your health, either. As long as you can pay the premium, the insurer will cover you, needing only your age, sex, and state of residence.

That makes it appealing for older people, whose declining health makes it prohibitively expensive to get coverage with another insurance types. Guaranteed issue life insurance is useful for elderly applicants, but others can likely get more life insurance coverage at a lower cost with a different policy type.

Just like with simplified issue life insurance, the lack of insight into your health conditions that a medical exam and interview would provide means that you are going to be paying more for coverage. In order to cover the costs of an average funeral, you would have to pay more than \$200 a month for around \$10,000 of coverage.

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Final expense insurance

Still looking for a way to cover funeral costs if you passed on guaranteed issue life insurance? You are in luck, because there is a life insurance policy that is specifically for that purpose.

Final expense insurance is a unique type of policy. It covers the cost of anything associated with your death, whether its medical costs, a funeral, or cremation – whatever your literal final expenses are. It is usually only issued to people of a certain age and the policy is valid up to a certain age.

Like other permanent life insurance policies, there is a cash value that can grow over time. Final expense insurance is a simplified issue policy in most cases, but if you do not pass the health questionnaire you will be placed in a guaranteed issue policy instead.

Final expense insurance is usually attractive to older people who do not have other life insurance coverage (maybe they outgrew their term life policy) and do not have enough savings to pay for their own funeral, which can cost upwards of \$8,000. Coverage is usually for small amounts, from \$5,000 to \$25,000, to cover those expenses. It is good if you do not have another way to pay for your funeral and do not want to burden your family with the costs.

However, it has the same drawbacks as guaranteed issue life insurance: higher life insurance premiums for relatively low coverage amount. If you or your family are able to pay for a funeral through other means, that is your best bet.



Group life insurance policies

Group life insurance is an employee benefit provided by some employers. It is not technically a life insurance type, but it is important to know how it is different from privately purchased term life.

Group life insurance is most commonly term (although it can be whole). The real reason we bring it up, though, is that most people think their employer life insurance is enough, when in most cases it is not.

Make no mistake: if your employer is offering life insurance at no extra cost to you, it is a great benefit. By all means, get insured. But if you need life insurance to protect your family, employer-provided coverage may not be sufficient.

Employer life insurance provides fairly low coverage, usually only one to two years' worth of salary, when you could need \$500,000 or more in coverage in order to meet your financial obligations.

If you want to go for more, it is likely to be more expensive than buying your own policy if you are a person in relatively good health.

In short, do not automatically pass up group life insurance, but do not automatically dismiss other options, either. Make sure it fits your needs and see how you can work it into your private coverage.

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Which life insurance policy type is right for me?

Term life insurance policies are usually the best solution for most people who need life insurance. They are usually the most affordable, they are simple to understand, and they provide the straightforward protection that most people shopping for a policy at an insurance company are looking for.

But that does not mean that other life insurance policy types are wrong for everyone. Some people tout the benefits of permanent life insurance policies are that they are like "forced savings" for people, like a mortgage. Many people struggle to adequately save for retirement, and a permanent policy provides separate cash accumulation for something they would be paying for anyway (their life insurance policy).

Simplified issue and guaranteed issue life insurance are options for people who might not be able to benefit from the paramedical exam portion of the application process. Final expense insurance is available for elderly consumers who do not want to burden their family with burial costs.

In the end, you should speak to a licensed independent broker or agent or a financial advisor to determine which policy is right for you. Knowing the pros and cons of your choices will make you an informed consumer so you shall be able to better understand the options you are presented – and make the right choice for you and your family.

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We can cover all your insurance needs. Our licensed agents will gladly walk you through the myriad of complexity to help accommodate your needs. We provide one stop insurance services. Accordingly, we work with various insurance carriers to obtain the best fit for you. We also collaborate with other independent agents to ensure we have a wide net of plans to offer.

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