

Life Insurance Plan Guide

Looking to purchase life insurance? Not sure which type to buy? This guide describes some common types of life insurance available in today's market and provides a glossary of some general insurance terms to help you understand them better.

Types of Life Insurance Plans

There are two basic categories of life insurance: term and permanent. Within these two categories, there are also several different types. Provided below is a brief description of some common types available.

Term Life Insurance: This category of life insurance is often considered the most basic. It provides a death benefit if the insured dies during the term of coverage. It is usually the most affordable insurance available because there are no savings elements or cash values. If the insured doesn't die during the term, coverage ends. The rate an insured pays is determined by age, health factors and the risk of death.

Annual Renewable Term Life Insurance: Renews coverage every year without the insured providing evidence of insurability (a health statement or medical exam); however, rates are not guaranteed beyond one year. The rate the insured pays each year could increase because of the increased risk of death with age.

Level Term Life Insurance: Provides coverage for a fixed period of time and usually guarantees that the benefit amount and rate will remain not increase based on the insured's age during the policy's term. Terms often consist of 10, 15 or 20 years.

Increasing/Decreasing Term: The benefit amount the insured applied for increases or decreases during the term, but the premiums generally remain the same.

Joint Term Life Insurance: Also often referred to as first-to-die term life insurance, covers both spouses under one plan. It pays the death benefit on the first spouse to die to the surviving spouse.

Permanent Life Insurance: This category of life insurance differs from term life in that it provides coverage for the insured's lifetime (rather than ending at the end of the term) and offers a savings feature that builds cash value. It also is generally more expensive than term.

Whole Life Insurance: Guarantees protection for your entire lifetime as long as you continue to pay premiums. You pay a fixed premium for a specified fixed benefit amount. Premiums are usually higher than term life insurance. In return for a higher premium, whole life insurance offers you a low-risk, tax-deferred cash value from which you can withdraw funds. With this type of permanent life insurance policy, there is no flexibility to manage your own account.

Universal Life Insurance: Similar to whole life insurance in that it provides permanent protection and offers a cash value account. However, it offers you more flexibility. It allows you to increase or decrease your coverage and pay your premiums however you

want (lump sum, reduce it during challenging economic times, etc). Or use interest accumulated from your account to pay future premiums.

Variable Life Insurance: Similar to whole life insurance in that it provides permanent protection, fixed benefit amounts and premiums, and a cash value account. However, it offers the advantage of account flexibility and allows you to allocate portions of your cash account into separate types of investment options. It is generally the most expensive permanent cash value life insurance product. In addition, because it offers investment flexibility, it is regulated by federal securities laws, similar to other investment accounts.

Glossary of Common Insurance Terms

Accelerated Death Benefits: (Also known as Living Benefits) Allows the insured to request a portion of his or her life insurance coverage before he or she dies.

Application: Form required by the insurance company that provides the criteria upon which insurance coverage is approved and issued.

Beneficiary: Person, persons or entity the insured has designated to receive the death benefits from a life or accident insurance policy.

Cash Value: Amount of money an insured's policy earns that he or she will receive if he or she cancels the policy.

Certificate: Summary of the group master policy's terms and conditions; provided to each insured person.

Claim: Formal request made by the beneficiary or the insured to pay the benefits of the insurance policy.

Coverage: The overall protection and benefits available through an insurance policy.

Effective Date: Date when an insurance policy's scope of coverage begins or when the insured is officially protected by the insurance policy.

Evidence of Insurability: Information about you, your health and lifestyle that insurance companies use when deciding whether your application is approved, and the rate for the coverage.

Exclusion: Certain conditions or events not covered by the insurance policy.

Guaranteed Issue: When referring to insurance coverage, this is the opportunity to purchase insurance without providing past health conditions or taking physicals or other medical exams, including the collection of blood and other lab work.

Insured: Person covered by the insurance policy.

Living Benefits: (See "Accelerated Death Benefits")

Pre-Existing Condition: Coverage limitation that reduces, delays or excludes benefits for certain previous or current physical or mental conditions. Usually, benefits for these conditions are not covered for a certain period of time.

Premium: Price of the insurance protection the insured pays for.

Renewal: When an insurance policy continues to remain in-force status by the payment of another premium.

Underwriter: Person who reviews an applicant's medical history and decides whether the applicant is approved for the insurance policy.

Underwriting: Process of determining potential insured's risks for the insurance coverage and possible acceptance or rejection for such coverage.

Waiver of Premium: Feature within some insurance policies that allows an insurance company to waive the payment of premiums while keeping the coverage in force if the insured becomes unable to work because of disability.