# LIFE INSURANCE FAQs

**How much life insurance should you own?**
Rough rules of thumb suggest an amount equal to 6 to 8 times your annual earnings. However, there are other things to consider when determining how much life insurance you need. Important factors include: income sources (and amounts) other than salary/earnings; whether or not you're married and, if so, your spouse's earning capacity; the number of people who are financially dependent on you; the amount of death benefits payable from Social Security and from an employer-sponsored life insurance plan, whether any special life insurance needs exist (e.g., mortgage repayment, education fund, estate planning need), etc.

**What about buying life insurance for a spouse or children?**
Generally, that should not be done in lieu of buying appropriate amounts of life insurance on the family breadwinner(s). It is extremely important that you protect the earning capacity of the primary breadwinner, if possible, with the right amount of life insurance before considering life insurance on children or spouse. In a dual-income household, it is important to protect the earning capacity of both spouses. Life insurance for a non-wage earning spouse is often recommended for help in paying for household services lost if that spouse dies

**Should I buy term insurance or cash value life insurance?**
Term life insurance pays out in the event of death. Cash value, which is more costly, has a cash amount you can withdraw before death. Which one is for you will depend on your circumstances. First answer an insurance question - how much life insurance should you buy? Then look at the financial aspect - what type of policy should you buy? The amount of life insurance you need may be so large that the only way you can afford it is by buying term insurance, which carries a lower premium than cash value policies. If your ability (and willingness) to pay life insurance premiums is such that you can afford the desired amount of life insurance under either type of policy, you can consider the financial decision - which type of policy to buy. If you view life insurance as an investment, you'll want to study rates of returns. If it's protection, then your purchase is a matter of what you can afford and want to spend.

**How does mortgage protection term insurance differ from other types of term life insurance?**
The face amount under mortgage protection term insurance decreases over time, consistent with the projected annual decreases in the outstanding balance of a mortgage loan. Mortgage protection policies generally cover a range of mortgage repayment periods, e.g., 15, 20, 25 or 30 years. Although the death benefit decreases, the premium is usually level in amount. Further, the premium payment period often is shorter than the maximum period of insurance coverage--for example, a 20-year mortgage protection policy might require that premiums be paid over the first 17 years.

**Can an existing life insurance policy be used to provide for the repayment of an outstanding mortgage loan?**
Yes. Lenders don't usually require that you buy a new mortgage protection term insurance policy. An existing policy, either term or cash-value life insurance, can be used for many purposes, including paying off an outstanding mortgage loan balance in the event of your death.

Credit life insurance is frequently recommended in conjunction with taking out an installment loan when buying expensive appliances or a new car, or for debt consolidation. Is credit life insurance a good buy?

Credit life insurance is frequently more expensive than traditional term life insurance. Further, if you already own a sufficient amount of life insurance to cover your financial needs, including debt repayment, buying credit life insurance is normally not advisable due to its relatively high cost.

**What are the tax issues with life insurance cash values, dividends, and death benefits?**
The "interest build-up" portion of the annual increase in the policy's cash value is not taxed. Dividends generally are considered to be a "return of premium" and are not taxable. Although life insurance death proceeds will not typically be subject to income taxation, they may be subject to federal estate taxation. If you own part or all of the policy when you die, those can be included in your gross estate for federal estate tax purposes. State inheritance taxes and federal gift taxes may also apply to life insurance policies/proceeds under specific circumstances. Contact your tax adviser regarding questions about possible income, estate and gift tax consequences surrounding any life insurance you own or are contemplating buying.

**How is universal life insurance different from traditional whole life insurance?**
Both traditional whole life (WL) and universal life (UL) products are examples of cash-value life insurance. But there are several important differences between them. One relates to product transparency. In UL policies, it's easy to look at the internal operations of the policy and to examine the relationships among various policy elements (premiums, cash values, interest credits, mortality charges, and expenses) and how they interact with each other. Another difference is that unlike whole life policies, universal life policy returns were freed from long-term, fixed-rate contracts and replaced with policies whose returns were tied to short-term interest rates and periodically adjusted. After the initial payment, universal life allows you to pay premiums anytime, in virtually any amount, subject to certain minimums and maximums. You can also reduce or increase the amount of the death benefit more easily than under a traditional whole life policy.

**Which type of cash value life insurance policy, universal life (UL) or participating whole life (WL), is a "better buy" financially?**
There's no simple answer to this. The best performing product (from a financial perspective), whether UL, WL or some other type of cash value life insurance, will likely be the one that reveals the most favorable interest earnings, actual expenses and mortality costs. Insurers earning the highest investment income, and who also incur the lowest expenses and the lowest mortality costs, are in the best position to offer life insurance at the lowest cost. This is true whether the cash value product being offered is UL or WL. You and your adviser should carefully examine the financial aspects of each product under consideration.

**What is variable life (VL) insurance, and how is it different from universal life (UL) and participating whole life (WL)?**
Variable life insurance is a type of fixed-premium whole life insurance policy where changes in the policy's cash values and death benefits are directly related to the investment performance of its underlying assets. Policy owners typically can choose among several investment options for the assets backing the policy's cash values. The various investment options offered in the contract generally possess different risk/return relationships and frequently include a money market fund, a bond fund, and one or more common stock funds. The policy prescribes that the death benefit will not fall below a minimum amount (usually the initial face amount) even if the invested assets depreciate in value by a substantial amount. Because the policy owner assumes all of the investment risk, there is no similar "floor" to protect the cash values. Variable universal life (VUL) insurance has recently become a more popular product than VL. VUL combines features of both UL and VL and, in essence, is the flexible premium version of VL