



# Life Insurance Basics

## What is Life Insurance?

Life insurance is a contract between you (the insured) and an insurance company. In exchange for premium payments, the insurer agrees to pay a death benefit to the person or entity you designate (your beneficiary) when you die. The primary purpose of life insurance is financial protection—helping ensure that the people and causes you care about are supported after your death.

Appropriate life insurance coverage can provide peace of mind, knowing that your financial responsibilities can be addressed even if you are no longer here.

## Common Uses of Life Insurance

Life insurance is a flexible financial tool that can serve many purposes, including:

- **Income replacement:** Helps replace lost earnings so surviving family members can maintain their lifestyle.
- **Debt repayment:** Can be used to pay off mortgages, auto loans, student loans, and credit card balances.
- **Final expenses:** Covers funeral costs, medical bills, and other end-of-life expenses.
- **Estate planning:** Provides liquidity to pay estate taxes or equalize inheritances.
- **Legacy planning:** Creates or enhances an inheritance for heirs or charitable organizations.

Because life insurance proceeds are generally paid quickly after death, they can provide immediate financial support when it is most needed.

## How Much Life Insurance Do You Need?

The amount of life insurance you need depends on several factors, including:

- Marital status and family size
- Current income and future earning potential
- Outstanding debts and financial obligations
- Education funding goals
- Long-term financial objectives

While younger individuals with few obligations may need minimal coverage, insurance needs often increase as families grow and responsibilities expand.

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Questions to consider include:

- What immediate expenses would my family face if I died today?
- How much income would need to be replaced, and for how long?
- How long would my dependents require financial support?
- Do I want to fund education, leave charitable gifts, or provide an inheritance?

Because needs change over time, it is important to review your coverage periodically.

### **How Much Coverage Can You Afford?**

Affordability depends on both your current financial situation and your long-term outlook. Premium costs are influenced by:

- Type of policy
- Amount of coverage
- Age and health at purchase
- Policy features and riders

A financial professional can help balance cost and coverage to align with your goals and budget.

### **Understanding a Life Insurance Policy**

A life insurance policy consists of:

- **The contract provisions:** Define rights, obligations, grace periods, incontestability clauses, and exclusions.
- **The application:** Includes personal, financial, and medical information.
- **The policy specifications page:** Details the death benefit, premium, riders, and policy options.

Common riders may include waiver of premium, guaranteed insurability, and accidental death benefits. Endorsements may also be added to modify standard provisions.

### **Types of Life Insurance**

#### *Term Life Insurance*

Term life provides coverage for a specified period, such as 10, 20, or 30 years. If death occurs during the term, the beneficiary receives the death benefit. If the term ends and the policy is not renewed or converted, coverage ends with no cash value.

Term life is often used for temporary needs such as income replacement during working years or mortgage protection.

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### *Permanent Life Insurance*

Permanent life insurance provides coverage for your entire lifetime, as long as required premiums are paid. These policies include a cash value component that can grow over time.

Common types include:

- **Whole life:** Level premiums, guaranteed death benefit, and guaranteed minimum cash value. Dividends may be paid but are not guaranteed.
- **Universal life:** Flexible premiums and adjustable death benefits. Cash value earns interest at rates declared by the insurer, subject to a guaranteed minimum.
- **Variable life:** Level premiums with cash value invested in market-based subaccounts. Death benefit and cash value fluctuate based on investment performance.
- **Variable universal life:** Combines flexible premiums with investment-based cash value and adjustable death benefits.

All guarantees are subject to the claims-paying ability and financial strength of the insurer.

### **Beneficiary Designations**

You must name at least one primary beneficiary to receive policy proceeds. You may also name contingent beneficiaries in case the primary beneficiary predeceases you.

Beneficiaries can include individuals, trusts, charities, or other legal entities. You may allocate proceeds by percentage among multiple beneficiaries.

Most policies allow beneficiary changes at any time unless an irrevocable beneficiary has been designated.

### **Where to Purchase Life Insurance**

Life insurance can be obtained through:

- Employer-sponsored group plans
- Professional or association group plans
- Licensed insurance agents or brokers
- Insurance companies directly

When selecting coverage, consider the financial strength of the issuing insurer. Independent rating agencies such as A.M. Best, Moody's, and Standard & Poor's evaluate insurer stability.

### **Important Notes on Variable Life Insurance**

Variable and variable universal life insurance policies are securities products offered by prospectus. The prospectus provides detailed information about investment objectives, risks, fees, and expenses and should be reviewed carefully before purchasing.

Life insurance products are not FDIC-insured, are not bank deposits, and are not guaranteed by any government agency.

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