LIFE INSURANCE

Unit 6-7

What are the advantages of purchasing financial protection for your loved one?

- Life insurance gives families some **financial protection** after a loved one dies.
- It provides cash benefits to **beneficiaries**, people chosen by the policyholder whose names are on the life insurance policy.
- Life insurance can help pay for **funeral costs, lawyer's fees, loans, mortgages, etc.**
- Life insurance premiums are the **amount you pay for the policy** and are based on many factors.

Types of Life Insurance

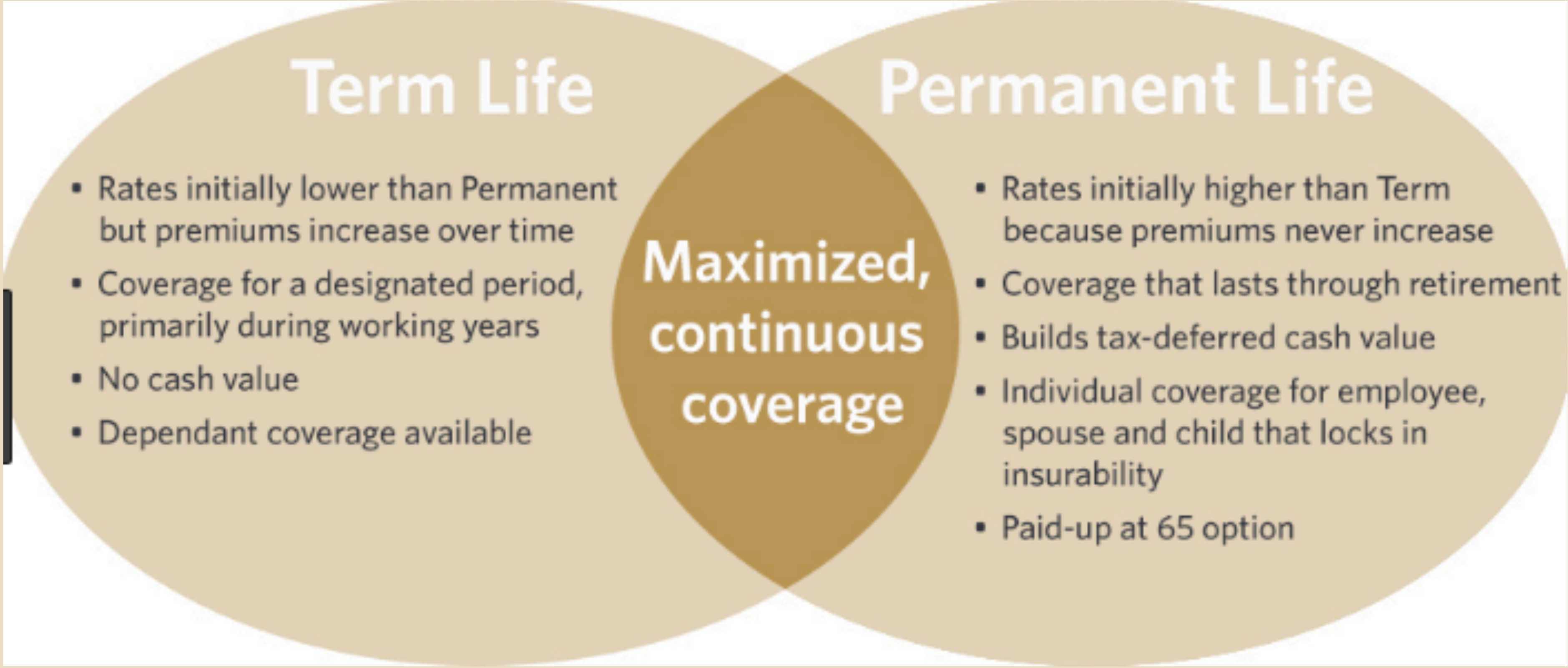
- **Term life** insurance provides protection for the policy-holder.
  - It covers the policyholder for a specified period of time, usually **5, 10, or 20 years**.
  - After that time, the policy is no longer in effect, unless it is **renewed for another term**.
  - If the policyholder dies during the term of the policy, the **beneficiaries** receive a settlement from the insurance company.

Types of Life Insurance

- **Group term** life insurance: a policy offered **through employers**.
  - Individuals are covered as long as they **work for that employer**.

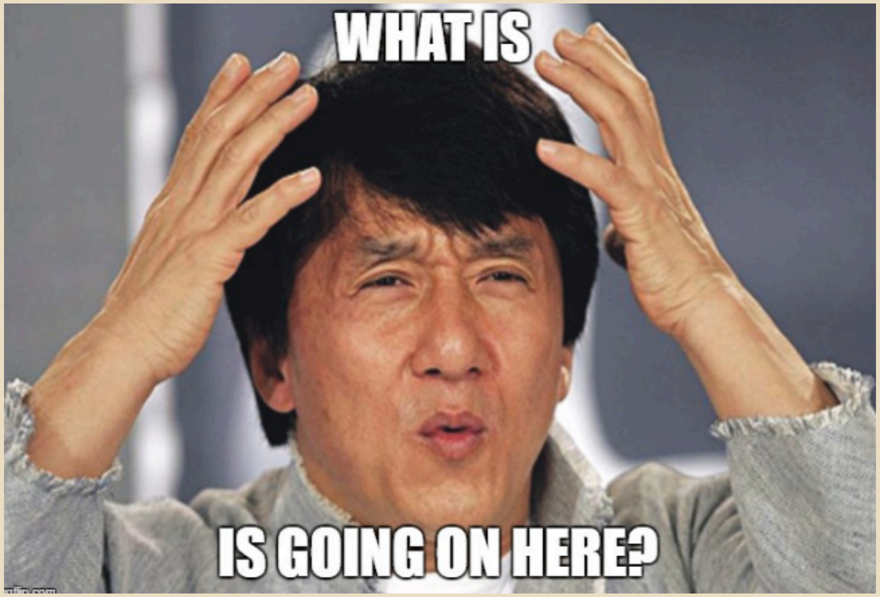
- **Level term** insurance pays the **same benefit** over the term of the policy. The premiums you pay remain level throughout the term.
  - There are also **decreasing and increasing** term policies.

Types of Life Insurance



Types of Life Insurance

- **Permanent** life insurance covers you for your lifetime or **to a specified age**. Whole life, universal life, and variable life are types of permanent insurance. These policies are usually very complicated.

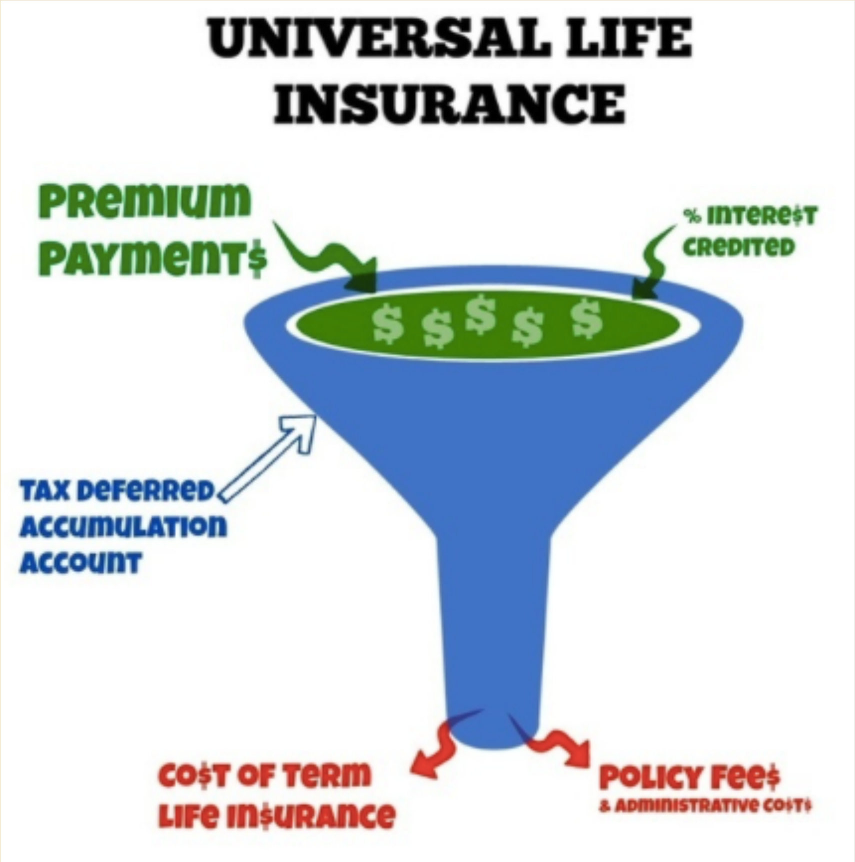


Types of Life Insurance

- **Whole** life insurance combines a life insurance policy with an **investment feature**.
  - Policyholders pay a premium that is divided between the **insurance** portion and the investment portion. (The investment portion has a cash value.)
  - As the policyholder gets older, more money goes into the **insurance** component and less into the **investment** component.
  - If the policyholder wishes to change the death benefit, they must apply for a **new policy**, which will be based on their **current** age and health.
  - Policyholders pay **premiums** to guarantee the death benefit.
  - If the policyholder cancels the insurance before their death, they receive the **cash value** and the insurance is no longer in effect.

Types of Life Insurance

- **Universal Life Insurance** is similar to whole life insurance.
  - The cash value can be used to pay the insurance **premium** if the policyholder doesn't pay it. But if the cash value is not enough to pay the insurance, the policy can **lapse**.
  - The death benefit can be changed without **having to get a new policy**.



Types of Life Insurance

- **Variable Life Insurance** combines an insurance part with ta variety of investment components. These may include **stocks, bonds, and money market funds**. Financial advisors often caution clients that this is one of the **riskiest** insurance policies.

Example 1:

Jack is 40 years old. In ten years, his house will be paid off and his daughter will have completed college. He wants to take out a 10-year level term insurance policy with a face value of $750,000. The monthly premium is $76. What will be Jack's total cost over the 10-year period?

How many payments will there be over the 10-year period?

Since it's a *monthly* payment, it will be: $12 \times 10 = 120$ payments

Since each payment is $76, the total cost will be: $120 \times \$76 = \mathbf{\$9,120}$

Example 2:

Mario has a universal life insurance policy with a face value of $250,000. The current cash value of the policy is $8,260. If the premium is $97 per month, for how many months can the cash value be used to pay the premium? *With universal life insurance, the premium can be paid by having money taken out of the cash value.

How many months can you pay $97 until you reach $8,260?

$$8{,}260 \div 97 = 85.15$$

You can pay $97 for **85** months before you reach $8,260.

Example 3:

The Umbrella State Insurance Company sells a *five-year* term life insurance policy with face value of $150,000 to a 41-year-old man for an annual premium of $648.

a) How much does the company lose if the person dies within those 5 years?

The annual premium states that the company will collect $648 per year.

Because this policy is a 5-year term, we need to first find out how much the company would lose (by paying out the policy) if the person died within those 5 years.

Let’s find out how much the company would lose for each of those 5 years.

Example 3:

The Umbrella State Insurance Company sells a *five-year* term life insurance policy with face value of $150,000 to a 41-year-old man for an annual premium of $648.

a) How much does the company lose if the person dies within those 5 years?

Year 1: –149,352

If the person died within the first year, he would have paid one annual premium payment of $648. Then the company would pay the family $150,000. So the company's loss would be:

648 – 150,000 = –149,352

Example 3:

The Umbrella State Insurance Company sells a *five-year* term life insurance policy with face value of $150,000 to a 41-year-old man for an annual premium of $648.

a) How much does the company lose if the person dies within those 5 years?

Year 1: –149,352

Year 2: –148,704

If the person died within the first 2 years, there would be 2 premiums paid. So:

$$2(648) - 150{,}000 = -148{,}704$$

Example 3:

The Umbrella State Insurance Company sells a *five-year* term life insurance policy with face value of $150,000 to a 41-year-old man for an annual premium of $648.

a) How much does the company lose if the person dies within those 5 years?

If the person died within:

3 years: 3(648) – 150,000 = –148,056

4 years: 4(648) – 150,000 = –147,408

5 years: 5(648) – 150,000 = –146,760

Year 1: –149,352

Year 2: –148,704

Year 3: –148,056

Year 4: –147,408

Year 5: –146,760

Example 3:

The Umbrella State Insurance Company sells a *five-year* term life insurance policy with face value of $150,000 to a 41-year-old man for an annual premium of $648.

b) What is the profit the company receives from selling this policy after those 5 years?

After those 5 years, the company will have gained $648 each year from the premium payments. So:

$$\$648 \times 5 = \mathbf{\$3{,}240}$$


That's all Folks!