In Celebration of
Life Insurance Awareness Month.
Information You Should Know.

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The Need for Responsible Planning

What If You Were to Die Today?

Many individuals recognize the benefits of planning for the future. Such efforts often uncover problems and frequently provide the motivation to make needed changes. For the most part, the issues involved are positive and enjoyable (e.g., retirement, well-educated children).

However, planning for the unexpected – known as risk management – can be less pleasant. A key part of risk management is answering the question, "What if I were to die today?" Preparing for an untimely death is often referred to as "survivor benefit planning." A subset of estate planning, it addresses the need to keep one's family in their current world, financially.

Understandably, no one likes to contemplate his or her own demise. For some, death seems a distant, future event. Others are simply too "busy." Whatever the reason, delaying this part of planning can result in expensive, unintended, even tragic consequences.

Survivor Benefit Needs

The ultimate purpose of survivor benefit planning is twofold: (1) to ensure that the ongoing income needs of the survivor(s) are met, and (2) to provide for immediate lump-sum cash needs.

- **Income needs:** How much income will the survivors need, now and in the future, to cover the following:
  - **Household living expenses:** Will the family stay in the same house? Can they afford to? Do they want to? Will they have the option?
  - **Additional childcare:** Will there be a need for more help with young children?
  - **Educational expenses:** Will there be enough money for the children to go to college?
- **Lump-sum needs:** How much will the survivors need immediately and in cash? Consider the following:
  - **Final expenses:** More than the funeral, this includes unpaid medical bills, which, after a long illness, can be substantial.
  - **Estate settlement costs:** Probate expenses, attorney's fees, death taxes, etc.
  - **Mortgage payoff and debt reduction:** Will it be important to provide a paid-off house? Are there debts that should be retired?

One Final Question

If you died today, would your plan be ready?

General Purposes of Life Insurance

Life insurance is a unique asset that can be used to solve some of life's perplexing financial problems.

Death Benefit Uses for Life Insurance

- **Create an estate:** Where time or other circumstances have kept the estate owner from accumulating sufficient assets to care for his or her loved ones, life insurance can create an instant estate.
- **Pay death taxes and other estate settlement costs:** These costs can vary from a low of three to four percent to over 40 percent of the estate. Federal Estate Taxes are due nine months after death.
- **Fund a business transfer:** Business owners often agree to buy a deceased owner's share from his or her estate after death. Life insurance provides the ready cash to finance the transaction.
- **Pay off a home mortgage:** Many people would like to pass the family residence to their spouse or children free of any mortgage. Often a decreasing term policy is used, which decreases in face amount as the mortgage balance is paid down.
- **Protect a business from the loss of a key employee:** Key employees are difficult to attract and retain. Their untimely death may cause a severe financial strain on the business.
- **Replace a charitable gift:** Gifts of appreciated assets to a charitable remainder trust can provide income and estate tax benefits. Life insurance can be used to replace the value of the donated assets. Proceeds from life insurance policies can also be paid directly to a charity.
- **Pay off loans:** Personal or business loans can be paid off with insurance proceeds.
- **Equalize inheritances:** When the family business passes to children who are active in it, life insurance can give an equal amount to the other children.
- **Accelerated death benefits:** Federal tax law allows a "terminally ill" individual to receive the death benefits of a life insurance policy on his or her life income tax free. Such "living benefits", received prior to death, can allow a person to pay medical bills or other expenses and maintain his or her dignity by not dying destitute. If certain conditions are met, a "chronically ill" person may also receive accelerated death benefits free of federal income tax.[1]

  Existing life insurance policies should be reviewed to verify that policy provisions allow for payment of such "accelerated death" benefits.

[1] The discussion here concerns federal income tax law; state or local tax law may vary.

General Purposes of Life Insurance

Other Uses for Life Insurance

While life insurance products are primarily used for death benefit protection, they are also used for long-term accumulation goals.

- **College fund for children or grandchildren:** Cash value increases in a policy on a minor's life (or the parent's life) can be used to fund college expenses.
- **Supplement retirement funds:** Current insurance products provide competitive returns and are a prudent way of accumulating additional funds for retirement.

Available cash values may also serve as an "emergency reserve," if needed, or a source of loans, since life policies frequently include features permitting borrowing against these cash values [1]

[1] A policy loan or withdrawal will generally reduce cash values and death benefits. If a policy lapses or is surrendered with a loan outstanding, the loan will be treated as taxable income in the current year, to the extent of gain in the policy. Policies considered to be modified endowment contracts (MECs) are subject to special rules.

Considerations in the Purchase of Life Insurance

Who Will Be the Owner of the Policy?

Life insurance proceeds are included in the estate of a deceased if he or she has any incidents of ownership in the policy. Ownership by adult children or an irrevocable life insurance trust should be considered if there is an estate tax problem.

How Much Life Insurance?

This will depend on the need it is fulfilling. Amounts needed to fund a business transfer or to pay death taxes may be readily determined.

Calculating the value of a human life to a family is more difficult. Consider these projected total earnings up to age 65 assuming a 5% annual increase including inflation.

Projected Total Earnings to Age 65

Current Age	Current Monthly Income		
	$2,000	$4,000	$8,000
25	$3,044,154	$6,088,309	$12,176,618
35	1,674,259	3,348,518	6,697,036
45	833,262	1,666,524	3,333,048
55	316,963	633,926	1,267,852

What Type of Policy Should Be Purchased?

A person trained in life insurance can explain the many different policies available and assist in selecting the one which best fits your needs.

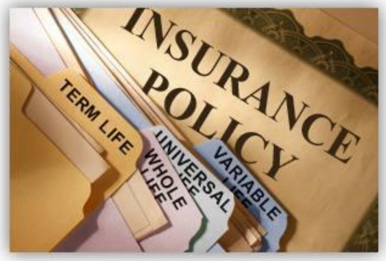
How Should the Premium Be Paid?

Sometimes the amount of the premium can be paid from current income, while other times it may be prudent to reposition other assets so as to be able to acquire sufficient insurance protection.

If the insured is a business owner or executive, a corporation may assist in paying premiums. Other times it may be better to have the corporation own the policy and use the proceeds to purchase part or all of the owner's interest at death.

Insurance can also be purchased in certain qualified retirement plans.

Types of Life Insurance Policies



In choosing the type of life insurance policy you purchase, consideration must be given to the need which is being filled, e.g., creation of an estate, payment of estate settlement costs (federal and state death taxes, last illness and burial costs, probate fees, etc.), business buy-out, key-man coverage, etc.

Decreasing Term

Level premium, decreasing coverage, no cash value: Used for financial obligations which reduce with time, e.g., mortgages or other amortized loans.

Annual Renewable Term

Increasing premium, level coverage, no cash value: Used for financial obligations which remain constant for a short or intermediate period, e.g., income during a minor's dependency.

Long-Term Level Premium Term

Level premium, level coverage, no cash value: The annual premiums are fixed for a period of time, typically 5, 10, 15 or 20 years. Used for financial obligations which remain constant for a short or intermediate period, e.g., income during a minor's dependency.

Whole Life

Level premium, level coverage, cash values: Cash value typically increases based on insurance company's general asset account portfolio performance. Used for long-term obligations, e.g., surviving spouse lifetime income needs, estate liquidity, death taxes, funding retirement needs, etc.

Single Premium Whole Life

Entire premium is paid at purchase, cash values, level coverage: Provides protection as well as serving as an asset accumulation vehicle.

Universal Life

Level or adjustable premium and coverage, cash values: Cash values may increase, based on the performance of certain assets held in the company's general account. Used for long-term obligations or sinking-fund needs: estate growth, estate liquidity, death taxes, funding retirement needs, etc.

Indexed Universal Life

Level or adjustable premium and coverage, cash values: Cash values may increase, based on the performance of an underlying stock or bond "index." The death benefit may increase or decrease (but not below a guaranteed minimum) depending on investment performance. Used for long-term obligations or sinking fund needs, estate growth, estate liquidity, paying death taxes, funding retirement needs, etc.

Types of Life Insurance Policies

Variable Life and Variable Universal Life

Level or adjustable premium, level coverage, cash values: Used for long-term obligations, by those individuals who are more active investors, for estate growth, and death tax liquidity. The death benefit may increase or decrease depending on investment performance. The policy owner directs cash values to a choice of investment accounts (bond, stock, money market, etc.). However, cash values are not guaranteed.

Note: Withdrawals and loans may be available from permanent policies. Withdrawals and policy loans may reduce the death benefit and will reduce the cash value of the policy. There are different income tax consequences if they are modified endowment contracts.

How Much Life Insurance?

1. Annual living expenses of survivors[1] (spouse, children, etc.)
   a. After-tax living expenses $__________
   b. Average tax rate[2] (as decimal value) __________
   c. Tax factor (one minus line 1b) __________
   Pre-tax annual living expenses of survivors __________
   (Line 1a divided by line 1c)

2. Less: Expected pre-tax annual income
   a. Social Security benefits __________
   b. Survivor's pension benefits __________
   c. Survivor's earned income __________
   d. Other income __________
   Total expected pre-tax annual income __________

3. Equals: Annual net living expense shortage, if any.[3] __________
   (Line 1 minus line 2)

4. Capital required to produce income to meet the annual living expense shortage
   a. Pre-tax annual rate of return ______%
   b. Annual inflation rate ______%
   c. Years of income required _____yrs
   d. Multiplication factor[4] _________
   Capital required due to shortage (Line 3 times factor on line 4d) __________

5. Plus: Lump-sum expenses
   a. Final expenses and/or estate costs __________
   b. Mortgage/other debt payoff __________
   c. Emergency fund __________
   d. Other fund (education, etc.) __________
   Total lump-sum expenses __________

6. Total capital required (Line 4 plus line 5) __________

7. Less: Existing capital
   a. Income producing assets __________
   b. Life insurance __________
   Total Present Capital __________

8. Amount of capital to be added, if any (Line 6 minus line 7) $ __________

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[1] Consider using 70% of current family living expenses.
[2] This value should be based on the total income and payroll taxes divided by total gross income.
[3] If Line 2 is greater than Line 1, enter a zero value for Lines 3 and 4, then skip to Line 5.
[4] See tables on following pages.

How Much Life Insurance?

Multiplication Factors (for line 4d)

Years of Income	1% Pre-Tax Annual Return			2% Pre-Tax Annual Return		
	Inflation at 3.00%	Inflation at 4.00%	Inflation at 5.00%	Inflation at 3.00%	Inflation at 4.00%	Inflation at 5.00%
5	5.20	5.31	5.41	5.10	5.20	5.30
10	10.94	11.45	11.98	10.45	10.93	11.43
15	17.27	18.56	19.96	16.07	17.24	18.52
20	24.25	26.79	29.66	21.98	24.20	26.71
25	31.95	36.32	41.42	28.17	31.87	36.18
30	40.44	47.35	55.72	34.68	40.32	47.12
35	49.81	60.12	73.07	41.51	49.63	59.78
40	60.14	74.90	94.14	48.69	59.89	74.40
45	71.54	92.01	119.73	56.22	71.20	91.31

Years of Income	3% Pre-Tax Annual Return			4% Pre-Tax Annual Return		
	Inflation at 3.00%	Inflation at 4.00%	Inflation at 5.00%	Inflation at 3.00%	Inflation at 4.00%	Inflation at 5.00%
5	5.00	5.10	5.20	4.90	5.00	5.10
10	10.00	10.45	10.92	9.58	10.00	10.44
15	15.00	16.06	17.22	14.03	15.00	16.05
20	20.00	21.96	24.16	18.27	20.00	21.94
25	25.00	28.14	31.79	22.32	25.00	28.11
30	30.00	34.63	40.20	26.17	30.00	34.58
35	35.00	41.44	49.46	29.84	35.00	41.38
40	40.00	48.59	59.65	33.34	40.00	48.50
45	45.00	56.10	70.86	36.67	45.00	55.97

Years of Income	5% Pre-Tax Annual Return			6% Pre-Tax Annual Return		
	Inflation at 3.00%	Inflation at 4.00%	Inflation at 5.00%	Inflation at 3.00%	Inflation at 4.00%	Inflation at 5.00%
5	4.81	4.91	5.00	4.72	4.81	4.91
10	9.18	9.58	10.00	8.82	9.19	9.59
15	13.16	14.04	15.00	12.36	13.17	14.05
20	16.76	18.29	20.00	15.44	16.79	18.31
25	20.04	22.34	25.00	18.10	20.08	22.36
30	23.02	26.20	30.00	20.40	23.07	26.24
35	25.72	29.88	35.00	22.40	25.79	29.93
40	28.17	33.39	40.00	24.13	28.26	33.45
45	30.40	36.74	45.00	25.63	30.51	36.81

How Much Life Insurance?

Multiplication Factors (for line 4d)

Years of Income	7% Pre-Tax Annual Return			8% Pre-Tax Annual Return		
	Inflation at 3.00%	Inflation at 4.00%	Inflation at 5.00%	Inflation at 3.00%	Inflation at 4.00%	Inflation at 5.00%
5	4.64	4.73	4.82	4.56	4.64	4.73
10	8.47	8.83	9.20	8.15	8.49	8.84
15	11.64	12.39	13.19	10.99	11.67	12.41
20	14.26	15.47	16.82	13.23	14.31	15.51
25	16.43	18.15	20.12	15.00	16.49	18.20
30	18.22	20.47	23.12	16.39	18.30	20.54
35	19.70	22.48	25.86	17.49	19.79	22.57
40	20.92	24.23	28.35	18.36	21.03	24.33
45	21.93	25.75	30.61	19.04	22.06	25.87

Years of Income	9% Pre-Tax Annual Return			10% Pre-Tax Annual Return		
	Inflation at 3.00%	Inflation at 4.00%	Inflation at 5.00%	Inflation at 3.00%	Inflation at 4.00%	Inflation at 5.00%
5	4.48	4.56	4.65	4.40	4.48	4.57
10	7.85	8.17	8.50	7.57	7.87	8.18
15	10.40	11.02	11.70	9.85	10.43	11.05
20	12.31	13.28	14.35	11.50	12.36	13.32
25	13.76	15.06	16.55	12.68	13.82	15.12
30	14.84	16.47	18.37	13.53	14.93	16.55
35	15.66	17.59	19.89	14.14	15.76	17.68
40	16.28	18.47	21.14	14.58	16.39	18.58
45	16.75	19.17	22.18	14.90	16.86	19.29

Years of Income	11% Pre-Tax Annual Return			12% Pre-Tax Annual Return		
	Inflation at 3.00%	Inflation at 4.00%	Inflation at 5.00%	Inflation at 3.00%	Inflation at 4.00%	Inflation at 5.00%
5	4.33	4.41	4.49	4.26	4.33	4.41
10	7.31	7.59	7.89	7.06	7.33	7.61
15	9.36	9.89	10.46	8.90	9.39	9.92
20	10.77	11.55	12.41	10.11	10.82	11.60
25	11.74	12.75	13.89	10.91	11.80	12.81
30	12.40	13.61	15.01	11.44	12.48	13.69
35	12.86	14.24	15.85	11.78	12.95	14.33
40	13.18	14.69	16.50	12.01	13.28	14.79
45	13.40	15.01	16.98	12.16	13.50	15.12