Florida School of Insurance
THE SCHOOL WITH CLASS

American Online Insurance School
THE SCHOOL WITH CLASS

Chapter 5

Term Insurance

<table>
<tr><th>Level</th><th>Decreasing</th><th>Increasing</th></tr>
<tr><td>Level premium
Level benefit</td><td>Benefit goes down
Premium stays level
Pays off loans and insures tuition
“Credit life</td><td>Benefit goes up
Based on Consumer Price Index, flat dollar amount, or stated percentage
COLA rider</td></tr>
</table>

Whole Life vs. **Universal Life**

<table>
<tr><th>Whole Life</th><th>Universal Life</th></tr>
<tr><td>Level/scheduled premium
Level benefit
Matures @ 100
Cash Value
Loans only
Insurance company’s money
Tax-free
Does NOT affect amount in cash value
Don’t repay = reduces benefit</td><td>Flexible premium
Flexible benefit
Matures @ 100
Cash Value
Loans or Withdrawals
<u>Loans</u> = same as whole life
<u>Withdrawals</u>
Policyowner’s money
Reduces cash value
Taxable FIFO (principal first)</td></tr>
</table>

Types of Whole Life

- **Indexed whole life**
    - Benefit goes up with Consumer Price Index
    - Without evidence of insurability (no health questions)
    - Policyowner assumes the risk = premium goes up each year with the benefit
    - Insurer assumes the risk = higher level premium from day 1
- Modified Endowment Contracts (MECs)
    - 7-pay test (premium paid-up within first 7 years (single premium whole life is automatically a MEC)
    - Policyowner pays taxes on the gain if they try to borrow against the cash value
    - Death benefits are tax-free
    - Company's responsibility to make sure policy meets the definition of life insurance (doesn't become a MEC without lots of approvals)
- Family plans
    - One parent has whole life and the other has term (rider)
    - Kid's rider
        - All kids for one price
        - Up to $10,000/kid
        - Up to age 21
        - Newborns not covered until 14 days regardless of health
- Multiple protection – Combination of whole life and term, this will pay 2x or 3x the death benefit if it happens within a certain number of years, and only the original death benefit thereafter because term drops off
- Joint life – covers 2+ lives (usually spouses)
    - Death benefit option 1 – pays the surviving spouse
    - Death benefit option 2 – pays only after the second person dies (last survivor/second-to-die) Used for estate taxes
- Juvenile – whole life insurance on a baby, can purchase before kid is 15
    - Payor provision/rider – pays the premium for the kid if the adult premium payor dies or becomes disabled
        - Pays the premium until the kid is 25 or the policy is paid-up, whichever is first

"Paid-up" = whole life
10-pay life/20-pay life/#-pay life = whole life
This means the PREMIUMS are paid up/ cash values continue to grow

Fixed Products	Variable Products
▪ Insurance company controls the investments of the cash value (assumes the risk) ▪ Principal and interest % are guaranteed ▪ Invest in bonds and mortgages ▪ Inflation risk	▪ Consumer controls the investments of the cash value (assumes the risk) ▪ Principal and interest % are not guaranteed ▪ Invest in mutual funds ▪ Market risk ▪ Separate account

▪ General account ▪ Regulated by the state Office of Insurance Regulation ▪ Won’t say “fixed” – will just say whole life, universal life or annuity	▪ Dually regulated by the state Office of Insurance Regulation AND the SEC ▪ Requires state and federal license ▪ Will say “variable”

Product	**Premium**	**Who controls the cash value investments?**
Whole life	Level	Insurance company Everything is guaranteed Safest
Universal life	Flexible	Insurance company Some guarantees Safe but little riskier
Variable life	Level	Policyowner Nothing in cash value is guaranteed Riskier
Variable universal life	Flexible	Policyowner Nothing in cash value is guaranteed Riskiest