

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.

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	1,66,524	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

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

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 obligation 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.