TENZING
INSURANCE STRATEGIES

M Financial Group®

M INTELLIGENCE

LIFE INSURANCE BASICS

TYPES OF LIFE INSURANCE POLICIES

All life insurance policies fall into one of two general categories:

- **Term life insurance — temporary, providing protection for a set period of time.**
- **Permanent cash value life insurance — can provide lifetime protection and involves an internal savings component.**

This M Intelligence article provides a basic overview of these categories and the types of life insurance contracts within each.

TERM LIFE INSURANCE

Term life insurance pays a specified face amount (i.e., death benefit) if the insured dies during the policy term. The level-term period is usually specified as a number of years, such as 10 or 20, or to a specified age, such as age 65. If the insured outlives the specified level-term period, the term life insurance can be continued, but at a premium cost that increases substantially each year and is frequently not economically viable to maintain. Term insurance has no cash value.

Premiums for most term contracts are fixed and guaranteed at issue. The majority of term contracts provide level death benefit coverage, although decreasing and increasing death benefit coverage is available as well.

There are two types of term policies:

- **Renewable term** — the term policy's annual premium increases with the insured's age.
- **Level-term** — the term policy's annual premium remains the same throughout the level-term period.

Term policies with increasing premiums are called renewable. **Renewable term** insurance provides protection for a stated number of years and allows the policyowner to renew the policy for the successive periods without furnishing evidence of insurability. Yearly renewable term features premiums that increase annually. The right to renew is usually limited to a stated number of years or up to a specified age.

Level-term policies have premiums that remain the same each year. Level-term policies are typically used to cover a certain number of years — 10-year and 20-year term are most common. Some level-term policies may have the ability to be renewed (i.e., become a yearly renewable term policy) after the specified number of years have passed.

A variation of level-term provides coverage intended to last an employee's typical working life, but is not renewable. These contracts include life-expectancy term and term-to-age 65, and are not very prevalent in the marketplace.

Another variation of traditional level-term insurance is return of premium term insurance, which returns a portion or all premiums if the insured survives to the end of the specified term period. Return of premium insurance is considerably more expensive than traditional term insurance.

Many term insurance policies include a convertibility option, either as a rider or a separate product. Convertibility allows a policyowner to replace term coverage with permanent coverage within a specified period without evidence of insurability. Convertibility provisions allow the policyowner to obtain term insurance, or temporary coverage, and reserve the option to purchase permanent coverage for an amount equal to the term insurance face amount if needs change. Conversion typically must occur within a specified number of years no greater than the length of the term period.

PERMANENT LIFE INSURANCE

Cash value life insurance, also referred to as permanent coverage, differs from term because the premiums paid are sufficient to both cover the death claims and expenses of the insurer and potentially build a cash value, or savings fund, within the contract. The permanent life insurance variations described below are whole life (WL) insurance, universal life (UL) insurance, indexed universal life (IUL) insurance, variable universal (VUL) life insurance, and no-lapse guarantee (NLG) life insurance.

Permanent life insurance face amount will be paid at the death of the insured(s), not matter when the death occurs, as long as the policy is in-force.

WHOLE LIFE INSURANCE

The policyowner must pay the scheduled premiums on time and meet the requirements of the policy to keep the policy in force.

Premiums for most WL insurance contracts remain level and are calculated to ensure that the policy will remain in force for the lifetime of the insured (i.e., age 121). The initial annual premiums can be several times higher than those of a term policy with a comparable face amount. These higher premiums fund the permanent coverage while establishing cash values within the policy.

The cash value forms a reserve, enabling the insurance company to keep premiums level and still pay the policy's full death benefit. Policyowners may borrow from cash values via policy loans pursuant to the terms and conditions of the contract. Optional riders and benefits, in addition to the policy death benefit, may be added to the policy.

WL insurance policies can be issued as participating or non-participating. Participating policies are entitled to share, via non-guaranteed policy dividends, in any distribution of the insurer's surplus funds that it decides to make to those policies. Non-participating policies are not entitled to dividends.

UNIVERSAL LIFE INSURANCE TYPES

UNIVERSAL LIFE INSURANCE

All UL policies offer more flexibility and transparency than WL policies. The policyowner has the ability to modify or change the amount and duration of premium payments, within certain limits, and still maintain coverage for life as long as the cash value is positive. For all UL policies, the premiums paid into the policies are reduced by policy expenses, the remainder being cash value that can potentially earn interest depending on the type of UL policy being purchased. Death benefits in UL contracts may be fixed at a specified level or may increase each year by an amount equal to the premiums paid or current cash value of the policy. Similar to WL contracts, policyowners can access policy cash values. In addition to policy loans, UL policyowners can also take withdrawals of cash values up to the policy's cost basis. Also similar to WL policies, riders and features can be added at the time of issuance to provide other benefits to the policyowner.

Fixed rate UL policies, many times referred to simply as Universal Life, are credited with interest determined by the insurer in the form of a crediting rate that reflects the fixed-rate environment at the time, with a minimum guaranteed rate. There are other UL policies that have different ways to invest the cash values that will be discussed next.

INDEXED UNIVERSAL LIFE INSURANCE

IUL is a UL with an interest crediting rate determined by reference to an investment index, such as the S&P 500 price index or a custom designed 3rd party index. The index return is typically adjusted by a participation percentage rate, then subject to a maximum interest rate cap (8-12%) and minimum interest rate floor (0-1%). IUL offers the potential for a higher yield than UL, with indirect participation in an equity market, as well as a guaranteed minimum crediting rate (i.e., floor) that provides downside protection for the policyowner. IUL policyowners also have the ability to invest in a fixed crediting rate offered by the policy in addition to the customized indexes offered should their needs change.

VARIABLE UNIVERSAL LIFE INSURANCE

VUL products permit the policyowner to allocate a portion of each premium payment into one or more "separate account" funds. Separate accounts, which are like mutual funds, typically have up to 70 or more options to choose from to properly allow policyowners to invest according to their risk tolerances. VUL policies are monitored and subject to the rules established by the Securities and Exchange Commission, as the investment options are deemed to be securities. All VUL policies must be accompanied by a prospectus that provides detailed information on policy mechanics, expenses, and changes, and general information regarding the inherent risks associated with securities. VUL is most appropriate for individuals willing to accept greater risk for greater reward, as the policy's cash value may depend on non-guaranteed market value changes. VULs also may have fixed crediting rate and indexed accounts to invest in, in addition to the separate accounts. Separate accounts are also allowed extra policyowner protections should the carrier's solvency be called into question.

NO-LAPSE GUARANTEE UNIVERSAL LIFE INSURANCE

NLG life insurance policies are UL policies with a guarantee that if a specified minimum premium is paid, the policy will not lapse for a specified period, or for life, even if the cash value decreases to zero. The guarantees are accounted for in what is referred to as a "shadow account". The shadow account has its own assumptions that are guaranteed by the carrier and dictate the required premium to enforce the guarantees.

NLG insurance is often characterized as having minimal or no cash value accumulation. It is best suited for individuals focused on ensuring the life insurance death benefit will be available at a guaranteed cost, and where cash value accumulation may be less important.

NLG may also be offered as a rider on other forms of life insurance, including VUL and IUL. In contrast to a pure NLG insurance policy, NLG riders may be available on products where cash value accumulation is a key benefit of the policy. These types of contracts can serve the dual purpose of providing cash value accumulation and a death benefit that is guaranteed by the shadow account.

SUMMARY

Life insurance serves a wide variety of purposes, providing financial support to heirs and charitable organizations, indemnification against the loss of a key person of a business, funding of a business continuation plan, and as a benefit for executives and employees. Between the two basic types of life insurance, term and permanent, there is a solution for a wide range of planning needs and objectives.

TERM AND PERMANENT LIFE INSURANCE COMPARISON

	TERM LIFE INSURANCE	PERMANENT LIFE INSURANCE				
ATTRIBUTE	**N/A**	**WL**	**UL**	**IUL**	**VUL**	**NLG**
Accumulates Cash Value	No	Yes	Yes	Yes	Yes	Yes
Coverage Duration	Fixed	Life	Flexible	Flexible	Flexible	Flexible
Premium Flexibility	No	Limited*	Yes	Yes	Yes	Yes, but will impact NLG
Guaranteed Elements	Death benefit and premium	Death benefit, maximum premium, and minimum cash values	Death benefit, maximum charges, and minimum interest crediting rate	Death benefit, maximum charges, and minimum interest crediting rate	Death benefit, and maximum charges	Death benefit, premium, maximum charges, and minimum interest
Nonguaranteed Elements	None	Dividends	Current interest credits and charges	Equity index changes and current charges	Market value changes and current charges	Current interest credits and charges
Primary Appeal	Guaranteed coverage for a specific period and low premium outlay	Guaranteed lifetime coverage, backed by investments made by the issuer	Flexibility, transparency, and backed by investments made by the issuer	Flexibility, transparency, and limited equity-like returns in return for a guaranteed floor	Flexibility, transparency, and mutual fund-like returns	Guaranteed coverage up to lifetime with potential cash value build-up
M Proprietary	No	No	No	Yes	Yes	Yes

Variable life insurance products are long-term investments and may not be suitable for all investors. An investment in variable life insurance is subject to fluctuating values of the underlying investment options and entails risk, including the possible loss of principal.

VUL insurance combines the protection and tax advantages of life insurance with the investment potential of a comprehensive selection of variable investment options. The insurance component provides death benefit coverage, and the variable component gives you the flexibility to potentially increase the policy's cash value.

*Whole life policies do have the ability to reduce or eliminate the requirement for premiums via Premium Loans, Partial Dividend Offsets, Paid Up Additions or Reduced-Paid-Up options. These are typically more limited compared to Universal Life products.

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