



YOUR INSURANCE NEEDS

WELCOME AND INTRODUCTION

1

Close your eyes and think about where you live. Imagine yourself sitting on your couch and think about all the items around you; things like your TV, stereo, chair, rugs, lamps, and clothes. Do you have a mental picture? If there was a terrible fire and you lost everything you have right now, would you be able to replace it? Do you have that kind of money in the bank or do you have enough insurance to cover this loss? Imagine you were in a car accident. Do you have enough money to pay for the repairs to the cars involved? What if someone is injured in the accident – could you pay for the medical expenses that would be incurred?

Although it is never easy to think about events like this, you can give yourself tremendous peace of mind by preparing for the possibility that they could happen. This workshop will cover different types of insurance plans available to help you cope with potential losses, and a common-sense approach to how, when, and which product to purchase. This approach is called the Life-Cycle Approach to Insurance Needs.

Purpose of Insurance

The purpose of any insurance is protection from financial loss. Life, health, auto, homeowner's/renter's, and long term care insurance products are all designed to protect you from losses you cannot afford to cover yourself. Insurance allows an individual to substitute a small certain cost (the premium) for a large uncertain financial loss (the contingency insured against). All policies have limits, which define the maximum amount you will be paid for the loss.

2

Risk

There are several ways to manage the various risks that we are all exposed to. One way to do this is to *avoid* the risk all together. For example, if you don't want anyone to drown in your pool, don't install a pool. If you don't want a disabling injury, stay away from dangerous activities. A second way is to *reduce* the risk. For example, taking a defensive driving course will reduce the risk that you will get into a car accident. You can also *retain* a risk. This means that you are willing to pay for whatever financial loss occurs (usually smaller losses).

3

Life-Cycle
Approach to
Insurance Needs

4

For everything else you can *transfer* the risk, which means you pay an insurance company a specific fee (premium) for the promise that they will pay for a larger loss that may or may not occur. Whether it's your life, property, health or personal liability, the principles are the same – avoid and reduce the risks you can, pay for the losses you can afford, and insure whatever is left. So, what do we have left and when do we insure it?

■ LIFE-CYCLE APPROACH TO INSURANCE NEEDS

Everyone goes through a number of major events in their life that have an impact on their insurance needs. We all start out single and then go through a progression of different housing situations, family situations, accumulation of assets, retirement, and ultimately death. Insurance planning begins with a detailed assessment of your insurance needs and reviews each life event and the insurance requirements that go with it. Some insurance, like health and disability are provided by the government while on active duty – we will touch on these briefly. Other types of insurance are partly or totally the responsibility of each individual. Let's take a look at major life-cycle events and explore how we can use them to make the best insurance purchasing decision.

Single in Quarters

“I don't need any insurance. I live in government quarters. I don't even have a car.”

Insurance Needs:

- Renter's Insurance – yes.
- Life Insurance – Single, no dependents: Nobody suffers any real financial consequences; therefore the need is not present (beyond covering one-time expenses such as burial costs and any outstanding debts). However, most sailors are covered by Servicemembers' Group Life Insurance (SGLI).

Government Quarters: You need renter's insurance. The government insures the building but may not always cover your losses. Check with the Housing Office to find out what is covered. Talk with your insurance company to make sure your possessions are covered while residing in the barracks or on a ship.

Renter's Insurance: Many young service members have no renter's insurance to replace their personal property if it is destroyed or stolen. Those who fail to purchase renter's insurance can face a double problem. Not only do they lose their possessions, but the creditor will expect the payments to keep coming in. Renter's insurance is relatively inexpensive, approximately \$10 to \$25 per month. Once you have your property insured, take an inventory and keep a copy of the list somewhere safe (not at home). Photographs or video of your property may help in getting a full value settlement.

Replacement Cost Coverage: Replacement cost coverage will pay fully to replace lost items. Actual cash value will only pay the depreciated value of the items. Always ask for replacement cost coverage!

Personal Property: Some personal property, particularly high cost items like jewelry, guns, collectibles, sporting gear, or computer equipment, is usually not fully covered under a standard policy; you may need a special rider or even a separate policy. If your personal property is not adequately covered, purchase a rider to an existing policy or a separate personal property policy. (A rider is like a mini policy added to a bigger policy to cover specific items.) Make sure you know what is and is not covered and the policy limits. This is the case with both homeowner's and renter's policies.

Personal Liability and Medical payments to others: Personal liability insurance covers you when you are held responsible for the losses of others arising from your own negligence. This is included in renter's insurance policies and can be increased if needed. Medical payments pays for medical expenses for those injured while visiting your home.

Life Insurance: SGLI/TSGLI

Servicemembers' Group Life Insurance (SGLI) is a program of low-cost group life insurance for service members on active duty, ready reservists, members of the National Guard, members of the Commissioned Corps of the National Oceanic and Atmospheric Administration and the Public Health Service, cadets and midshipmen of the four service academies, and members of the Reserve Officer Training Corps. SGLI coverage is available in \$50,000 increments up to the maximum of \$400,000. Premiums are currently \$.07 per \$1,000 of insurance, \$28.00/month for full coverage, regardless of the member's age. Rates are available at www.insurance.va.gov.

Traumatic Injury Protection under Service Myembers' Group Life Insurance (TSGLI): Every member who has SGLI also has TSGLI effective December 1, 2005. This coverage applies to active duty members, reservists,

National Guard members, funeral honors duty and one-day muster duty. This benefit is also provided retroactively for members who incur severe losses as a result of traumatic injury between October 7, 2001 and December 1, 2005, if the loss was the direct result of injuries incurred in Operations Enduring Freedom or Iraqi Freedom.

Moving Off-Base

“I commute to work with a friend and I am just buying some furniture on credit. Since I don’t have much, I don’t need insurance to cover it.”

Insurance needs:

- Renter’s Insurance – Renter’s insurance is necessary to replace your possessions. Without it, our friend here could end up having to continue making payments on that new furniture that was lost in the fire, as well as trying to replace it with new.

Buying a Car

“I am buying a car with a big monthly payment, there’s no way I can afford insurance. I’ll just take my chances.”

Insurance Needs:

- Auto Insurance – There are four basic areas of auto insurance coverage.
 1. *Liability* – refers to your responsibility for other people’s losses, both property damage and bodily injury. It’s written as three numbers. For example: 100/300/50 means \$100,000 in bodily injury coverage per person, \$300,000 in bodily injury coverage per accident, and \$50,000 in property damage coverage per accident.
 2. *Collision and Comprehensive Coverage (Physical damage)* – if you cause an accident, collision will pay to repair your vehicle (the actual cash value, not the replacement cost). Comprehensive pays for damages to your car not caused by an accident; fire, tree fall, theft, etc... Your insurer will only pay as much as the car was worth when the event occurred, not the cost of a new car.
 3. *Uninsured / underinsured motorist coverage* – Protects you if you are in an accident with a hit and run driver or someone that is uninsured or underinsured. This is a very important coverage and is mandated in some states. Despite laws requiring auto insurance,

many drivers chose to go without.

4. *Medical payments* – covers you and your passengers for injuries no matter who is at fault.

Rental optional features include: Rental car reimbursement, towing and labor, gap coverage (pays the difference between the actual cash value and the amount left on your loan if your vehicle is totaled, usually used with leased vehicles).

Most states require drivers to purchase automobile liability insurance and most young military drivers purchase only the minimum coverage required. However, those with assets to protect should seriously consider increasing their level of protection. If you want to protect yourself from big repairs or a possible lawsuit, you will want to buy more than what's required.

Often, junior personnel purchasing their first car will buy their insurance from the dealer; frequently this is collision coverage only and protects only the lender's interest in the car. The service member will still need liability coverage to register the car on base.

Purchasing auto insurance from a dealer is generally not recommended; investigating insurance coverage from several companies before going to purchase the vehicle is usually the best solution. Premiums can vary greatly from company to company.

Ways to save:

- Select higher collision and comprehensive deductibles. This is your out-of-pocket expense which you will pay for repairs. Many consumers find a deductible of \$500 to \$1000 to be more cost-effective. Call and find out what savings will be at varying levels. When opting for higher deductibles, make sure you have emergency funds to cover potential repair costs.
- If you have a second car and could afford to replace it or to do without it for awhile, you may wish to drop collision and comprehensive coverage on that car entirely. Compare the Actual Cash Value (ACV) of your vehicle to the premium cost of collision and comprehensive to help you decide.
- A safe driving record helps to minimize insurance costs. For very small claims (or only slightly higher than your deductible) that involve no injuries to anyone, consider not filing for reimbursement; the increase in premium for having the accident may cost more than the amount you

7

receive to cover the repairs!

- Drivers should be very selective when lending their cars.
- Maintain coverage while on deployment. Some companies will allow continued coverage at a reduced rate while deployed. Contact them and let them know your car will be “off the road.” If you drop coverage, your rates will likely go up when you reinstate it. If you still owe money on the vehicle, the creditor will require you to maintain coverage.
- Coordinate coverage. Many companies give discounts to customers who buy multiple policies.
- Ask about discounts. Many insurers will give discounts for added safety features, like antilock brakes, side air bags, alarms, etched windows and other anti theft devices.
- Check your credit report. Insurance companies use credit scores in determining your rates. Make sure your credit report is accurate.

Getting Married

“Wow, this is such a big step, with so many things to consider. I don’t want to think about those negative things right now.”

Insurance Needs:

- Renter’s – Review and adjust as necessary. Add spouse’s possessions to policy.
- Auto – Review and adjust as necessary. Add spouse and spouse’s vehicle.
- Dental – Sign your new family up for the Dental Health Program.
- Health – Sign up in DEERS. Use the TRICARE system for lowest costs. Consider a supplemental policy if you live far from military treatment facilities.
- Life – If someone depends on your income, review your plan and determine your needs. FSGLI offers inexpensive spousal coverage.

Health Insurance: While on active duty, all of your health care and most of your family member’s care is covered at no cost to you by TRICARE. In order to be covered, your dependant family members must be enrolled in the Defense Eligibility Enrollment Reporting System

(DEERS) by you and then be enrolled in the TRICARE program. TRICARE has three options; Prime, Extra, and Standard.

It is a good idea to consider a TRICARE supplemental policy, particularly when approaching retirement. This is especially true if you will be retiring to an area that is not near a military treatment facility, plan to use TRICARE Standard, or expect particularly high medical expenses out-of-pocket. The Navy Times has a special TRICARE issue each year that includes information on the many supplemental policies available

Life Insurance – Do you need more insurance at this point? That depends on your family situation.

- The purpose of life insurance: To protect those who depend upon you financially, should you die. The single most important reason to have life insurance is to replace one's income. It can also provide funds to pay off a mortgage, eliminate debts, pay educational costs or any other financial need. If you have dependents or expect to acquire them, you probably need life insurance.
- Married, One Income, No Children: One spouse is financially dependent on the other. Insurance would be needed to provide for the non-working spouse during his or her adjustment period and possibly longer depending on his or her education, employment potential and health.
- Married, Dual Income, No Children: Since both spouses are working, the major consideration will be providing money to pay off debts that they share and final expenses such as medical and funeral costs. Dual income couples often have more debts as well as more money.

One thing you must remember is that all insurance policies have a beneficiary designation form. The death benefit will be paid to the person specified on the form. It is important to change your beneficiary form for your SGLI if you want your current spouse to receive the money when you pass away.

Having Children

“I have a new baby, I’m supposed to be responsible but I don’t even know where to begin.”

Insurance Needs:

- Life – Need will increase with the long-term financial responsibility of raising children. In addition, insure the other parent. Family SGLI

(FSGLI) is available up to \$100,000. Children under 18 are automatically covered for \$10,000 under FSGLI.

- Health – Add child to DEERS and Page 2.
- Dental – wait until the child has teeth or needs to begin care (usually age 2-3 years), then change your enrollment to the full family plan.
- Auto – Review and adjust as needed.
- Renter’s – Review and adjust as needed.

Life Insurance: Now your needs will really change. Consider a few of the issues.

- Married With Children: This is the time of greatest need for life insurance. Regardless of employment status, the surviving spouse is generally going to have a significant need for additional funds to offset the loss of the other spouse’s income while the children are living at home or are in college. Serious insurance planning is needed for both spouses, even if one is not currently employed. Consider costs of childcare if an active duty military member is the surviving spouse. When the spouse is nonmilitary, there could be a need for additional life insurance as FSGLI benefits alone may not be sufficient.
- Single Parents: Single parents will want to consider who will take care of the children, if they (the parent) die. A significant consideration when designating a guardian should be the guardian’s ability to provide for the children’s financial needs. Adequate insurance should be in place to compensate the guardian for the additional expenses of raising the children.
- Children: Unless your child provides significant income to the home, the financial consequence of their death would be medical and burial expenses only. FSGLI provides \$10,000 per child at no cost to you.
- SGLI Family Coverage (FSGLI): SGLI Family coverage is available for the spouses and children of active duty service members. Spousal coverage is available in \$10,000 increments, up to \$100,000 and cannot be greater than the service member’s coverage. Premiums for spousal coverage are deducted from the member’s monthly pay. Any dependent child under the age of 18 is automatically covered under family insurance which is limited to \$10,000. In addition,

children between the ages of 18 and 23 who are full-time students are covered.

Buying a Home/Condo/Mobile Home

“I’ve just made the biggest purchase of my life, now I want to protect my investment and find a way to pay off this debt if something happens to me.”

Insurance Needs:

- Homeowner’s Insurance – Required by your lender to cover both the property and your personal possessions. This includes the liability coverage for someone injured on your property.
- Life – Needs increase again based on the mortgage you are carrying. In order to pay it off in the event of your demise, you will need to carry more insurance.

Homeowner’s Insurance: When shopping for home insurance, there’s much more to consider than how much your coverage will cost. You need to buy the right type of policy. You need the proper level of protection, plus special provisions for valuables such as jewelry, computer equipment and other possessions. You might also need additional coverage for such things as earthquakes or flooding.

- Standard Policy: Most homeowners purchase a standard HO-5 (homeowners) “all risks” policy. This covers property damage to the home, damage to contents, liability against damages to others while on your property, and expenses if you are displaced for some time. Standard policies provide the same coverage regardless of which company issues them; the only real difference is the cost. Like renters, homeowners should buy replacement cost coverage, not actual cash value.
- Other Coverage: Homeowner’s insurance does *not* cover certain types of damage (including earth movement, water damage, power failure, neglect, war, nuclear accident, or intentional damage.) Most of these perils can be covered by a separate policy specific to that issue, such as earthquake insurance. Water damage—flooding— is the most common of these other damages. Insurance against damage due to flooding is required (and expensive) in high-risk areas. However, it is generally inexpensive elsewhere, and often a wise purchase. Flood insurance is offered under the Federal Flood Insurance Program. Even though it is sold through commercial companies, the cost will be the same regardless of which company you buy from; it is the one type of insurance for which comparison shopping does no good.

- **Take Inventory:** Once you have your property insured, take an inventory and keep a copy of the list somewhere safe. Photos or videos of each room and its contents will help you to settle a claim in the event of a loss. Don't wait until the fire to find out if you have enough coverage. Take an inventory to help you decide how much insurance you need.

Increasing Assets

“I am finally starting to accumulate some possessions and put money aside in investments. Now I worry about how to protect these assets from a lawsuit.”

Insurance Needs:

- **Umbrella Policy** – This is in addition to your homeowner's and auto insurance. It covers you above the limits of these policies for your liability in a lawsuit.
- **Long-Term Care** – Designed to cover nursing home and in-home care over longer periods of time.
- **Homeowners** – Review and adjust as needed.
- **Auto** – Review and adjust as needed.
- **Life** – Review and adjust as needed.

Umbrella Insurance: An umbrella policy protects against loss in the event of a large damage award in a lawsuit, over and above the limits of an auto or homeowner's liability policy. Those with substantial assets to protect should consider an umbrella policy, as should anyone who may face particular risks. This could include owning an in-ground swimming pool, having a potentially dangerous dog for a pet, or regularly transporting other neighborhood children in your van. You usually are required to have \$300,000 to \$500,000 of insurance coverage on your regular policies before qualifying for an umbrella policy. In addition, insurers require that you have both your homeowner's and auto policies with them. A \$1M umbrella policy can often be purchased at a relatively low cost (under \$150 per year), and could prevent someone from taking years of your future income in a judgment. Members with few assets to protect probably do not need an umbrella policy.

Long-Term Care Insurance (LTC): Will long-term care costs wipe out your assets? LTC insurance is designed to help protect your assets in case you need nursing or in-home care.

- **Military Program:** Long-term care insurance is available to service members, retirees, spouses, and certain other family members under the Long-Term Care Program. The federal government sponsors the program but it does not pay for it. Participants choose the time period for which they will receive benefits as well as the daily benefit amount. There are a variety of options available in this program and premiums will vary based on the options chosen. For most people, Medicare and medical insurance does not pay for long-term care. This program needs to be thoroughly researched and understood in order to make a decision on participation.
- **When to Buy:** Industry experts recommend considering this coverage between ages 50 and 55.

Divorce

“My spouse said she would continue to cover me on the auto insurance policy, but now it’s been cancelled. What should I do?”

Insurance Needs:

- All policies need to be reviewed. Be certain to have your own policies, in your own name, for all of the areas of insurance.
- Life – It is time to reevaluate how much you need. What expenses are you required to cover and what plans have you made for any children? Review and update beneficiary designation (which is different from your Page 2).

Retirement/Separation

“I am getting out of the military in a few months, will my insurance needs change?”

Many of the benefits you have had at little or no cost through the military must now be covered on your own. Your new employer may provide some benefits if you continue to work. However, in most cases you will have a cost share.

13

14

Insurance Needs:

- Life – You have three options. SGLI can be converted to VGLI (Veterans Group Life Insurance) at a much higher price. You can convert your SGLI to permanent insurance on a guaranteed basis with one of 54 different commercial companies listed at www.va.gov or if you are in good health, you can apply for new insurance.
- Health/Dental – Personal health policies can be very expensive. Consider your employer’s policy if available. You must enroll in TRICARE as a retiree and there will be costs attached. You may need a supplemental policy even if you are eligible for Medicare/Medicaid.
- Disability – This will replace a portion of your income should you be injured or become ill and are unable to work for an extended period of time. May be provided by your employer or purchased on an individual basis.
- Homeowner’s – Review and adjust as needed.
- Auto – Review and adjust as needed.

Disability Insurance: Could you continue to pay your bills if you were injured or suffered a long-term illness? Did you know that prior to age 60, you are more likely to become disabled than to die in any given year? While on active duty you have disability coverage, but when you get out, you need to look at this again. Industry experts recommend minimum disability coverage of 60% of your annual income, but consider 70-80% based upon your expenses.

If your spouse works, and you rely upon that income for family needs, make sure you review his or her disability coverage as well.

Disability income insurance can be obtained through an employer’s group insurance policy or an individual plan. If an employer pays the group disability insurance premium, disability benefits will be taxed when you receive them. When you purchase individual disability insurance with after tax dollars, disability benefits are received tax free.

Your options to cover living expenses should you become disabled are:

1. Savings: The majority of families have less than \$5,000 in savings.
2. Social Security Disability: 70% of those who apply are rejected.
3. Sell your home: 48% of foreclosures are caused by disability.

4. Borrow: Access to credit will be based on your income.
5. Live on your spouses income: many families depend on two incomes already.
6. Disability Insurance.

Death

“My spouse just passed away, what can I expect financially now?”

Survivor Benefits for Active Duty: Active Duty Members have a number of benefits provided by the government. These must be included in any consideration of insurance needs. Separates must depend on the policies they have put in place. Retirees will have burial benefits, Social Security, and SBP as well as their own policies.

- Death Gratuity: \$100,000 paid within 72 hours.
- SGLI: Standard \$400,000. This coverage can be decreased or even declined entirely by the service member. It could be difficult to find a better deal elsewhere though. Military occupations are considered “high risk” which means that a traditional policy may not cover you if you die accidentally. Remember that the beneficiary of the policy, the one who will get the money, is determined by you. This is separate from your will.
- DIC (Dependency and Indemnity Compensation, provided by the VA): This is \$1,067 (2007) per month, payable to a surviving spouse. DIC is adjusted annually in accordance with the cost of living and is income tax free. An additional benefit of \$265 will be paid monthly for each child (2007). These benefits must be applied for.
- Social Security: \$255 lump sum payment, and if the surviving spouse has children 18 or under, the family will be eligible for one or more monthly checks from Social Security. The benefit amount depends on the worker’s earnings history. Individuals receive an estimate of Social Security benefits yearly.
- Supplemental VA education benefits: Educational benefits are available to a surviving spouse for up to twenty years after the service member dies. Children are also eligible to use these benefits between ages 18 and 26.
- SBP: This is like insurance on your retirement pay. It is provided at no cost while on active duty, but must be paid for at retirement. The

amount you receive is based on your retirement pay and the benefit amount chosen. Any SBP payment to the spouse will be offset by the amount of DIC received. Child DIC payments do not affect SBP payments.

- **Other Benefits:** The military will pay the cost of a basic funeral and provide transportation for family members. The family will be provided a no-cost final move and receive BAH or permission to live in housing for twelve months, and be paid for any accumulated leave or arrears in pay.

All of the above taken together provide the foundation for a sizable estate for the average service member. In fact, the U.S. Government is often said to be the best benefit-paying corporation in the world (if a member dies on active duty)!

16

Shopping Tips for Insurance

SHOPPING TIPS FOR INSURANCE

The handout “Shopping Tips for Insurance” offers many ideas on keeping insurance costs down. Remember, it’s your money. Don’t be talked into purchasing more than you need or a product you don’t understand.

- Know what you need. Don’t automatically rely on what an agent says you need.
- Comparison shop. Look at the costs and benefits of several different policies and types of policies.
- Understand your policy. Ask the agent lots of questions. Read the fine print!

17

FOCUS ON LIFE INSURANCE

How much and what type?

As we have seen, life insurance needs vary during your life. Some needs will be short-term (provide income until children graduate) and some long (covering funeral expenses and personal debt). In young adulthood, the need for life insurance is minimal if you have no dependents. When you marry, and particularly when you start raising a family, the need for life insurance greatly increases. Later in life, after your children have grown up and are independent, and you have

acquired other assets, the need for life insurance declines and possibly disappears.

Figuring how much life insurance to purchase (if any) is relatively easy to determine with the many needs calculators available on the internet. The VA provides an excellent calculator specifically designed with the military member in mind. These calculators look at existing assets, employer-provided benefits, and insurance you currently have, and determine if they will cover the financial needs that will result from your death. If they do, you don't need additional insurance. If they don't, the calculators will tell you exactly how much additional insurance you need to purchase. Your next decision, then, is which type of policy will best meet your needs.

There are many different life insurance products. Some are perfect for shorter-term needs (needs that have a beginning and an end) and some are perfect for perpetual needs (providing a stream of income for a spouse or providing for burial needs.) By considering your position in the life-cycle and the specific need you want covered, you can zero in on the most appropriate product to use. The expenses you will need to cover throughout your life may be best covered by permanent insurance (also referred to as "whole life") while those of limited duration may be best covered by temporary insurance (also referred to as "term").

Term Insurance

Term insurance provides protection for a limited period of time (the term of the policy). The face amount will be paid out if the insured dies during the specified period. Nothing is paid if the insured survives. Term insurance is purchased for 1, 5, 10, 15, 20 and even 30 year periods. Premiums for 1 Year term plans increase annually. For 5, 10, 15, 20 and 30 year plans, the premiums generally remain level for the entire term. Some term plans allow you to renew for an additional term. You may also be able to convert your term policy to a permanent insurance plan sometime in the future on a guaranteed basis. Make sure you understand the options.

Term insurance is referred to as "pure" insurance; you pay only for the cost of insurance, no frills.

Example: Statistics tell us that 1.07% of 21 year old women will die. If we have a group of 100,000 21 year old women and want to provide each of them with \$1,000 of life insurance for the year, we need to collect \$1.07 from each to cover the 107 (\$107,000) deaths in the year. At age 25, as the percentage of deaths increase, we need to collect \$1.16 from each member to provide the \$1,000. At age 40 the cost increases to \$2.42. At age 50 it

18

19

is up to \$4.96. When the members of this group are age 70 the cost has reached \$22.11!

It is easy to see that term insurance becomes prohibitively expensive when death becomes more likely to occur.

Term insurance is a good way to provide much needed protection when you are young and have financial obligations. It is also a good buy if you want permanent insurance but cannot yet afford it. SGLI and FSGLI are both term insurance. If you die during the term, the face amount is paid to your beneficiary.

Permanent Insurance

Unlike term insurance which covers you for a certain time period, permanent insurance covers you whenever you die. There are many types and variations of permanent insurance. All feature a cash value component. The three most common are whole life, universal life and variable universal life.

Whole Life

Premiums for whole life insurance are much higher than term in the early years. The higher premiums are used to cover the small amount needed for “pure insurance” and the rest is set aside in reserve to offset increasing costs in the future. This reserve money (cash value) is invested conservatively and belongs to the insurance company until the insured surrenders the policy, borrows it, or dies. If the company finds that it did not need the entire premium charged, it may return it to the insured. This return of unused premium is called a dividend. Insurance policy dividends are not taxed and can be received in cash, used to buy paid-up additional insurance, purchase term insurance, or held by the company and receive interest. The dividends can also be used to pay future premiums.

Once in place, a whole life policy remains in place for as long as you pay the premiums, normally for the whole life of the insured.

Universal Life

Universal Life became popular in the 1980's. It offers more flexibility to the policy owner in setting premium amounts and death benefit options. Another unique feature of universal life is that all policy costs are fully disclosed offering a transparency not available with other forms of insurance.

The premium is deposited into an interest sensitive fund (accumulation fund). The insurance company periodically withdraws money from the fund to cover term insurance costs, company expenses, and any other policy-related fees. The excess premium dollars continue to earn interest. Similar to whole life, the accumulated money can be borrowed or withdrawn at the discretion of the policy owner. As long as enough money remains in the fund to cover term insurance charges and company expenses, the policy stays in force. Of course, it is important to understand your policy as each company has its own unique rules and requirements.

Universal Life also allows the insured to increase (with company approval) or reduce the policy face amount as needs change.

Variable Universal Life

Variable Universal Life is similar to Universal Life except that, in addition to an interest sensitive fund, it offers the policy owner the option to invest in mutual fund sub-accounts to achieve a potentially higher return than whole or universal life. This type of policy carries higher risk as it is subject to market fluctuations. Potential buyers should also be mindful of fees relating to the investment accounts. Make sure to ask for a prospectus. Insurance agents selling Variable Universal Life must be securities licensed.

Comparison of Term and Permanent Insurance

Term Life Insurance Advantages:

- Less costly, particularly in the early years, when the purchaser is young. This is the time when the need for the insurance is normally greatest.
- Useful for limited duration needs such as a mortgage or education expenses.

Term Life Insurance Disadvantages:

- Cost increases steadily with age.
- There is no cash value buildup.

Whole Life Insurance Advantages:

- Premiums remain level.
- Insurance coverage is for life as long as premiums are paid.

- Builds cash value which may be used later.
- Loans can be taken against the cash value at a low interest rate, but this option will reduce the death benefit by the amount of the loan.
- Often, additional insurance may be purchased without evidence of insurability.
- Cost effective way to purchase insurance you intend to keep long-term.

Whole Life Insurance Disadvantages:

- Far more expensive than term policies, particularly when an individual is young.
- Since insurance and savings are “bundled” together, it is often difficult to accurately compare policies.
- The actual return on the cash value build-up can be very low; it is difficult to accurately estimate future cash values; other than a low guaranteed minimum (normally based on a 3.5% or 4% rate of return) there are no assurances of any dollar amount available in the future. Computer projections may or may not be realistic.
- Initial expenses generally mean there is little or no cash buildup in the early years of the policy. Some surrender charges are in effect for the first 10-20 years.

22

■ COMMON MISTAKES CONSUMERS MAKE WHEN BUYING LIFE INSURANCE

- Using term insurance for long term needs.
- Using permanent insurance for short-term needs.
- Not understanding the true purpose of insurance. Buy life insurance to protect your loved ones from a catastrophic loss of income.
- Using life insurance purely as a savings vehicle. These policies offer protection with cash-value, which adds to the cost and reduces returns. An IRA, TSP and/or 401K are excellent options for savings.
- Not understanding what you’re buying.
- Putting too much trust in an agent. Do your homework and don’t

rely on your agent exclusively to tell you what's best. Remember, they usually work on commission and their advice may be slanted. Let the life-cycle event determine the need, not the salesperson.

- Holding onto a policy forever. Your needs change when your life changes. Stay up to date and change your insurance too.
- Buying unnecessary insurance.
- Feeling rushed. Take your time; give yourself at least a 24 hour “cooling off” period just as you should before making any other big-dollar purchase decision. Be aware that you have at least 10 days after delivery to return a life insurance policy for a full refund if you change your mind.

■ ORGANIZING YOUR RECORDS

The handout “Organizing Your Records” provides important suggestions for keeping all of your life insurance policies in order. Ensure that your beneficiaries will be able to locate and submit a claim on your life insurance quickly and efficiently by having copies of your life insurance records in at least two places. This will make it less likely that you’ll lose them and more likely that, after your death, your beneficiaries will find them.

■ SUMMARY AND CONCLUSION

If other people are dependent on you for their financial well-being, no insurance plan in place, or being underinsured, can be a costly mistake. Be sure to:

- Determine your needs according to life-cycle events.
- With every event, review all insurance.
- Shop around for the best deal.
- Buy insurance, don’t let it be “sold” to you.
- Use the VA’s Life Insurance Needs calculator.
- Organize your insurance records.

By using the basic information, handouts and calculator information in this program, not only will you be sure to purchase the best insurance for your needs, you will also have purchased tremendous peace of mind.

23

Your Insurance Needs:
Organizing
Your Records

24