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Is Life Insurance Necessary?

The Important Role
Of Life Insurance
In A Sound Financial
Strategy

AXA Advisors

(NOTE: Page numbers subject to change.)

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Foreword

Is Life Insurance Necessary?

How much do you know about life insurance?

If you're like most people, you're probably not deeply familiar with the subject. Moreover, you probably don't enjoy talking or thinking about it – for some very human reasons:

- It regards your personal mortality, and none of us likes thinking about that;
- It's an expense for which you, the buyer, may personally never realize any tangible return; and
- It involves bringing someone into your “space” to discuss very personal issues -- someone who you may not know very well

There are other things that play into perceptions of life insurance.

For example, this is an era of rapid growth in the availability of both financial information and of investment opportunities, and it is an era in which the World Wide Web is playing a growing roll as one of many sources of information. Consequently, your ability to access personal finance-related information and advice has never been greater. On the other hand, the information you're able to gather seems often to generate a degree of confusion as each of us is confronted with a “Niagara” of information on a multitude of financial services.

In the middle of all this, one question persists: *What role does life insurance play in a sound financial plan?*

“Life” insurance really focuses on survivors – that is, on “beneficiaries” more than on insureds, since it is primarily those survivors who are intended to benefit most tangibly from life insurance policies. This Guide focuses on survivors and attempts to answer the basic question from their perspective.

It's also important to remember that life insurance can provide significant benefits to policyowners. For example, cash value policies may provide considerable retirement income to policyowners, or cash values may be used to help fund college tuitions. Moreover, exchanges made under Section 1035(a) of the Internal Revenue Code, (transactions which we will describe later), may enable some policyowners to convert life insurance cash values into other types of financial vehicles which may provide an opportunity for greater income.

The hope is that once you've read this Guide, you'll have a significantly clearer sense of what life insurance is, and the important role it can play in your financial planning.

What Is Life Insurance?

Since its birth hundreds of years ago, life insurance has largely served a singular purpose: to help survivors cope financially with the death of a family member or other key individual.

How it works

This is an oversimplified but reasonably accurate description: An "insured" person pays a one-time or periodic "premium" in cash to an insurance company, setting into motion a legal agreement under which the company pays the insured's survivor(s) a "death benefit" in cash if the insured dies while the policy is in force. (Perhaps it would make sense to rename "death benefits" "life benefits," since they benefit living survivors.)

The "life benefits" which life insurance companies pay to survivors help cover the cost of such things as food, clothing, electricity, rent/mortgages, tuitions, credit card bills, car payments, final expenses, and so on.

If the insured were an individual who left a sizeable estate, his or her life insurance proceeds could help provide the liquidity necessary to pay estate taxes, preserving estate assets. *That* use of life insurance proceeds is extremely important to people who have estates worth in excess of one million dollars and who want to pass their estate assets on to their survivors, intact.

If the policy had been bought by a business to insure a key employee, for example an owner or executive, the business could use the policy death benefit in any of several ways:

- If the business was a partnership which executed a buy-sell agreement¹ and funded it with life insurance, the policy death benefit could fund a seamless purchase/transition of the former owner's interest to the surviving partner;
- If the insured was a key sales person, the death benefit could help the company remain solvent over the transition from its current, highly effective sales organization to one involving new people;
- If the business was a sole proprietorship or was deeply in debt, the death benefit could ensure solvency or estate liquidity while survivors determined what to do next.

What About You?

Today, increasing numbers of people seem to be asking, *Is Life Insurance Necessary?* Most people don't die young, so the need for "life insurance" at a young age may be reduced. In fact, according to the National Center for Policy Analysis, life expectancy is increasing "faster than expected -- in 1940, a 65-year-old man could expect to live another 12 years, today it's 15 years, and by 2040 it will be 17 years."² Life expectancy reached a record high of 76.7 years for everyone born in 1998.³

¹ "Buy-sell" agreements are binding legal documents under which partners or other individuals detail the circumstances under which an asset or assets (such as a business) will be bought / sold.

² National Center for Policy Analysis; from the World Wide Web, <http://www.ncpa.org/pi/congress/socsec/socsec19jj.html>

³ National Center for Health Statistics; from the World Wide Web, <http://www.cdc.gov/nchs/releases/99news/99news/aidsfall.htm>

Media – radio, television, newspapers, magazines, and online sources – seem to reinforce the much-touted, almost singular advantages of investments, especially given the extraordinary bull market of the 1990s. “Buy term and invest the difference” is a commonly used expression related to insurance types. Some people suggest that insurance buyers invest cash each month and build a potentially sizeable retirement nest egg – and forget life insurance.

Whether you personally need life insurance or some other financial vehicle, or both, or neither, depends on your personal situation. Virtually all financial planners agree, however, that one way or another, your survivors must be provided for. This Guide discusses “how” a bit later.

Most people encounter financial problems during life. Your ability to cope with and to overcome them depends entirely on how well you’ve prepared. In the next several pages, this Guide looks at common problems and at appropriate preparations for dealing with them.

There are several types of life insurance, serving different purposes. This Guide will also help you understand the role of each type.

Is Life Insurance Necessary for Growing Families?

Successful, healthy young parents often argue that their investment program will make them comfortable at retirement, and that their combined salaries leave plenty left over. Should something happen to one of them, their remaining income and their savings will be ample to deal with the shortfall.

“One reason most people buy life insurance,” says the *American Council of Life Insurance*, is to help ensure “that your dependents are not burdened with significant debt when you die.”

That “significant debt” may well stem from either or both of two factors: 1) the normal acquisitiveness of growing families, and 2) the sudden end of a key income stream in the case of a two-income family.

In one-income families, the loss of earnings can be financially devastating especially if the spouse has limited earning capacity due to education, training, or a commitment to staying home and raising the family. As a consequence of the loss of that single income, the survivors may have a reduced ability to pay back debts that otherwise might have been manageable.

In two-income families, if both incomes continue without interruption there's little doubt that life insurance probably *is* superfluous. But life insurance exists simply because life does not come with guarantees. In fact, there's no guarantee that those combined incomes will continue. If one of them stops permanently because someone dies too soon, not only may there be no extra money to fund aggressive savings, but there also may be insufficient funds for ordinary living expenses.

Growing families require a substantial financial lifeline which often is provided by dual incomes, as mentioned. This lifeline pays for food, shelter, clothing, transportation, medical care, heat, lights, and dozens of other routine expenses, as well as whatever other things the family wants. If one parent's income stops and there remains a young family to provide for, child care can typically be added to the equation. And regardless of the children's ages, college tuitions can be burdensome to accumulate capital for in advance – particularly from one salary.

Life insurance can provide survivors with resources they need to move on financially. “How much” and “what kind” of insurance will be discussed later. In the meantime, consider what it would take in additional cash to survive financially were a key income stream suddenly to stop.

Don't forget to consider inflation – optimistically and pessimistically. Don't forget college educations -- also affected by inflation. You will soon begin to see that the prospective shortfall in cash needed by families could be quite substantial. The bottom line is simply that for many people, one salary may not be able to replace two salaries generated by two working parents – not if you have financial goals that require work if they're to be accomplished.

Again, this Guide can help you with “how much” and “what kind” later.

Is Life Insurance Necessary for Families with College-Age Children?

Saving very substantial tuition dollars is for many parents a formidable challenge. Car payments, mortgages, clothes, and other expenses often leave too little cash available for the heavy investing required to generate college tuition dollars of the magnitude usually required, which is why many families have to borrow to finance college educations.

You're probably aware that many families refinance their homes to help pay tuitions. Refinancing, of course, also increases overall family debt.

One of the roles of life insurance is to help provide certainty about the disposition of debt. That is, life insurance policy proceeds can always be used both to pay off existing debts, and to help prevent the accumulation of new debts for survivors – such as tuition loans.

But what if your family did manage to save a substantial amount or perhaps all of the money required for college tuitions. Is life insurance still needed?

Consider the scenario of Mr. White, a salesman whose annual income was \$78,000. His spouse was a manager whose salary was \$45,000. Over the years, their wise investing had enabled them to accumulate \$181,000. The problem: when their children enter college soon, their projected room, board, and transportation costs for their full college education will be an estimated \$84,000 for all four years -- per student for three students. If you add clothing, parental visits, and possibly a car or transportation expense to and from a distant college for each student, the total is well over \$300,000, for a shortfall of more than \$120,000. Not only could Mr. White's savings disappear, but also much, or all, of the equity in his home.

In this case, Mr. White probably needs a life insurance policy for \$120,000 *if* he simply wants to “insure” his children's college education if he dies prematurely. Bear in mind that this education-*only* figure does not include cash to continue to pay the mortgage on the Whites' home, or final expenses, or any other living expenses.

If you are in your mid-40s or older with college-bound children and you are anxious to set aside more for retirement – but you can't, at least not easily, because of tuitions . . . what can you do?

Life insurance is NOT a “savings” vehicle. But the fact is *that life insurance can provide essential funds for tuitions, mortgages, car payments, estate taxes, children's weddings, and all the other expenses that continue regardless of what happened to you if you die prematurely.* You can plan your life insurance *and* your investment portfolios in ways which maximize your return on investments while minimizing your outlay for life insurance. This can help you achieve your capital accumulation goals for such things as retirement while providing assured liquidity for tuitions if your family income suddenly stops while your children matriculate.

Is Life Insurance Necessary for Older Couples Anticipating Retirement?

Since the huge expenses of raising and educating children are behind them, some older Americans may assume that their greatest need for life insurance has disappeared. But there are two factors which can impact older Americans more than others:

1. At older ages, the need for cash doesn't disappear, which is why many older people continue to work part-time at their professions or to find other part-time work. Older individuals may be more at risk for disability or illness, and older married couples depend on each other for help. Life insurance death benefits can help fund home care for the survivor. Equally important, those benefits help enable the survivor to cope financially – with both final expenses and long-term living expenses, including highly expensive prescription drugs not covered by Medicare.
2. Many older people have accumulated sizeable estates. If there is inadequate liquidity in their estate, parts of it may have to be sold off to pay estate taxes. Life insurance provides liquidity to preserve estate assets, and life insurance offers tax benefits which are discussed later. So *estate preservation* is a key reason for older people to have life insurance.

Is Life Insurance Necessary for Single Individuals?

Traditionally, life insurance is defined as *capital formation*. “Life insurance is purchased to provide immediate capital formation at your death; this is its exclusive feature – no other financial service product has it,” comments life insurance expert William D. Brownlie. “The primary and essential purpose of life insurance . . . is not to make you rich, but rather to make sure that you, and those important to you, never become poor.”

Life insurance isn’t available to everyone. As people age, many of us may ultimately cross the “line of insurability.” Most of us start out equally qualified to purchase life insurance. We’re young and healthy and can usually afford to pay the premiums. But as people age, some may not qualify because of medical conditions or other reasons. Or the cost of buying life insurance, if it indeed is still available because of health, becomes very costly because of age or other factors.

It is important to understand that *life insurance premiums are lower if you buy your policy when you’re young*, since you are actuarially less likely to die then, and because premium payments are normally spread over a longer number of years.

Single individuals may not require much life insurance if they have neither large estates nor survivors who depend on them financially. However, life insurance may be needed later to cover the costs for funeral expenses, estate taxes, charitable bequests, and so on, when it will cost more in annual premium outlay. Buying insurance while young reduces the size of that future annual cash outlay and provides coverage which may not be obtainable later.

Is Life Insurance Necessary in Business?

If certain individuals are essential to the operation of your small or medium-size business, life insurance may often be vital to business survival in the event that key person dies prematurely. Here are some examples of the uses of life insurance in business situations:

- **“Key Person” Policies:** Most small- to medium-size businesses may have one or more people who are central to the success and perpetuity of the business by virtue of their knowledge, established customer relationships, and other factors. If they suddenly pass away, the business might well be in financial peril as those with whom they had relationships may well reassess their situations. Sales receipts can slow, creditors might want payment in a hurry, etc. Key Person life insurance policies for which the business is the named beneficiary can help the business stay on a sound financial basis until the “Key Person” crisis has been overcome.
- **Buy-Sell Agreements:** Many business owners, partnerships in particular, fund “buy-sell” agreements with life insurance. When one partner or other key officer dies, a life insurance-funded buy-sell agreement can become effective, enabling quick succession funded by life insurance policy proceeds.
- **Family Businesses:** If a family member who is key to the success of a family business passes away, there can be a period of transition and confusion as

family members wrestle with both their personal loss and with whatever steps they may want to take to transition the company. As they deal with these matters, they may not give some of the “little things” complete attention, which can lead to deteriorating business at a time when business paralysis can be costly. Life insurance payable to the business not only can give the family a period of financial stability, but also it can enable modernization, remodeling, expansion, or even recruitment of qualified job candidates from outside the family.

- **Farms:** Unless the payment of estate tax liabilities is covered by the proceeds of a life insurance policy, the family or the business that owns the farm could be forced to sell it to raise the funds required to pay estate taxes. Funding future estate tax obligations with life insurance helps ensure that the farm can stay in business.

Overall, there are many prospective situations in business where life insurance can help ensure smooth transitions. If you are involved in a small- to medium-size business, consider its key people as assets; if you analyze what might result if those assets were lost, you may well find a situation where business life insurance could prove valuable to business survival.

Types of Life Insurance Policies; Advantages and Disadvantages

Policy Type ⁴	Characteristics; Advantages / Disadvantages
Group Term Life	<p>Usually provided by companies to their employees. In group plans, a number of employees are insured or covered under one policy, called the master contract. The employees receive a certificate of insurance which normally includes a summary of the policy's benefits. That protection lasts temporarily, which is why it's called "term."</p> <p><u>Is it for you?</u> Advantages: inexpensive; may be issued even to employees with impaired health. Disadvantages: group term policies do not provide protection for your entire life <i>or</i> after employment ceases. Coverage may be available upon retirement, but usually only for a limited number of years and at a premium rate which may be significantly higher than that paid while employed. Most financial professionals generally recommend Group Term policies be considered as low-cost "extra" coverage since they usually end when your employment ends. They should not be considered as the core of your life insurance program.</p>

⁴ Compiled from sources including the American Council of Life Insurers and LIMRA International

Individual Term

These policies pay a specified death benefit to your beneficiary, if you die while the policy is in force and have paid your premiums as required in the policy contract. Individual term policies provide a financial solution for dying too soon. Term insurance premiums are much higher at older ages and are generally not affordable for elderly individuals. For this reason, term insurance is not an appropriate life insurance solution for “living too long.” Individual term comes in several forms, including yearly renewable policies (premiums increase yearly) and level-term policies. With the latter, the premium remains unchanged for a specified term of years, after which the policy may be renewed at a higher rate *if* the insured is acceptable to the insurance company. As you have read, all term policies become more costly at older ages and in many cases may be unaffordable just when they may be needed most. **Is it for you?** Term insurance is often considered ideal for families that need high amounts of insurance but can’t afford higher-premium whole life policies. Term may also be used to fund some business insurance (key person and buy/sell) policies. If you want your insurance protection to be effective permanently, “term” insurance is not for you.

Traditional Whole Life

Whole Life insurance is precisely what its name implies: insurance that is in force for the “whole life” of the insured policyholder, and which will be in force when the policyholder dies if the policyholder has paid premiums as required. It’s also referred to as “permanent” insurance. Because the insurance company will pay a claim on every whole life policy paid for and retained until death, these policies cost more than “term” policies. The extra premium is invested by the company so it can earn some profit and accumulate the capital required to pay death benefits. “Participating” whole life policies “participate” in insurance company profits and receive dividend payments as a consequence. “Non-participating” policies, which may be less expensive, receive no dividends. Virtually all whole life policies build a “cash value” over time. If policies are cashed in prior to the insured’s death, the “cash value” may be paid to the insured. **Is it for you?** The key benefit of whole life policies is that they can be kept in force affordably later in life, when their death benefits are most likely to be needed. Also, if the policy is cancelled prior to the insured’s death, the insured may be entitled to a contractually guaranteed cash value. If you have a permanent need for life insurance, you should buy “permanent” or whole life insurance. The steeper policy premiums can be mitigated somewhat if you select a “graded premium” policy, which begins with lower premiums that rise over a set period of years. Many companies offer such policies.

Universal Life

Universal Life is a Whole Life Plan with flexible premiums. (In fact the technical name of Universal Life Policies is *adjustable premium whole life*.) With Universal Life policies, working closely with your financial professional you can custom-tailor a number of policy components:

1. You decide how many years you wish to pay premiums.
2. You decide how long the death benefit is to be in force (for example, until age 65, 75, 85, or even 95).
3. You decide the gross interest rate you assume that will be credited to the policy's cash value.⁵
4. You make a determination regarding current and maximum mortality charges.⁶

Although the four items you just read may sound confusing, when you discuss Universal Life policies with an experienced financial professional, you will quickly find that these items represent some of Universal Life's most popular features – its flexibility. These features actually make it simple for you to tailor a policy to do many of the things you want it to. Bear in mind, however, that fluctuations in the performance of underlying investments will affect the results achieved by Universal Life policies.

Is it for you? If you prefer traditional whole life but want the flexibility Universal Life offers, consider it. But you'll need to study the "gross interest rate" and "mortality charges" to see how these elements affect your ability to achieve your financial objectives.

⁵ Rates are not guaranteed.

⁶ Rates are not guaranteed.

Variable-Universal Life

Differs from both Universal and Whole life because (1) the premium does not change and (2) it generates a cash value, which is usually referred to as *the separate investment account*. Since the U. S. Securities and Exchange Commission considers Variable-Universal Life a security, not a life insurance product, it is sold only by prospectus, like other securities. The “separate investment account” includes no guaranteed interest rate. The “separate investment account” may consist of several types of mutual funds.

Is it for you? Variable-Universal Life proponents argue that these products offer the “solution for consumers who would otherwise desire to buy term and invest the difference. However, before you invest in Variable-Universal Life you should find out who will be responsible for managing your selected investments, since fluctuations in investment performance will affect results. Find out about the track record of the money manager or managers....”⁷

Variable Life has the potential to significantly increase the policy’s value at death, which is a key reason for its popularity. Variable Life policies are also used as retirement vehicles; for more, see the next section, concerning Section 1035 exchanges.

⁷ “How To Pick A Life Insurance Company,” Chapter 2, Life Insurance Boot Camp, William D. Brownlie.

Tax Advantages of Life Insurance; About Section 1035 Exchanges

In addition to the important uses described here for life insurance policy proceeds, there are other factors that make life insurance a desirable financial product: its tax advantages. The three most important are:

- **Policy proceeds are almost always exempt from federal income tax.** Regardless of the amount of life insurance you buy, death benefits paid to beneficiaries are exempt from federal income taxes except in certain cases.
- **Life insurance policies may be exempt from estate taxation.** If you “own” a life insurance policy for which you are the insured, the policy’s death benefit may be includable in your gross estate, for estate tax purposes. This is why many financial advisors recommend that someone else (your spouse, for example) own your policy, since this effectively prevents it from being included in your gross estate. (When you buy a policy, you can designate the owner.)
- **You can exchange cash value life policies for income you cannot outlive.** See Section 1035 (a) Exchanges, below, for details.

It’s important to understand that you can change the name of the “owner” of existing policies simply by notifying the insurance company in the manner required. Again, *not* owning the policy removes its proceeds from potentially being part of your taxable estate.

Federal estate taxes will be levied on your estate *if* your estate, including life insurance proceeds (if you are the “owner” of your policy), exceeds the exemption set by the U. S. government. Smaller estates are not subject to federal estate taxes. The Taxpayer Relief Act of 1997 increased the federal estate and gift tax exemption to \$1-million by the year 2006. The exemptions grow from current levels until then:

TAXABLE YEAR	EXEMPTION
1999	\$650,000
2000	\$675,000
2001	\$675,000
2002	\$700,000
2003	\$700,000
2004	\$850,000
2005	\$950,000
2006 and thereafter	\$1-million

Estates smaller in size than these exemptions may still be subject to *state* estate taxes.

Section 1035 (a) Exchanges: Tax-Free Exchanges Involving Your Policy’s Values

A significant advantage of cash value life insurance policies and certain other policies is that you may be able to exchange them for other types of financial products, without adverse tax consequences. For example, instead of simply letting the “cash value” of a policy lay dormant, at some point you may prefer to exchange the policy for an annuity which can provide income you cannot outlive. Or you may wish to exchange your policy for another type of life policy – for example, a paid-up policy, for which you need pay no premiums beyond those already paid.

Internal Revenue Code Sec. 1035(a) allows the exchanges of certain life insurance and annuity contracts without the resulting gain in policy value being subject to income taxes. To qualify for a tax-free exchange, an “absolute” or final, unchangeable assignment of the existing contract must be executed to either the same or the new insurance company, whichever applies. The new company surrenders the contract and replaces it. Nontaxable exchanges include:

1. Exchanging a life policy for another life policy or for either an endowment or an annuity contract.
2. Exchanging an endowment for an annuity or another endowment, provided that payments to the insured begin no later than would have been the case with the exchanged contract.
3. Exchanging an annuity contract for another annuity contract.
4. Exchanging a life insurance policy, endowment contract, or fixed annuity contract for a variable annuity contract with the same or a different company.

Section 1035 exchanges may be highly useful in managing your financial affairs particularly as you approach retirement. Your financial professional can help you decide whether a Sec. 1035 exchange might be beneficial to your long-term financial well-being.

How Much Life Insurance Is Enough?

As you have read, life insurance has a value at all stages of life. But, how much is enough?

First, consider that life insurance is commonly purchased for these reasons:

- To replace the income of the insured, for the insured's family;
- To pay for "final expenses" such as funeral costs and estate and inheritance taxes, so the insured's survivors won't have to sell non-liquid assets to pay bills;
- By companies, to fund partnership buyouts, stock purchases, or fringe benefits for employees.

The purpose or objective usually determines the amount. If the amount needed isn't apparent, there are several generally accepted approaches to arrive at an amount of life insurance that is appropriate:

- **Earnings multiple.** Typically, financial professionals recommend that people have capital on hand equal to ten times annual earnings, but they usually *sell policies* covering between five times and seven times earnings. To determine how much in the way of capital or liquid assets an insured has, assets other than the home are sometimes used.

Life insurance is then added to these other liquid assets to generate the desired multiple of earnings.

- **Multiples-of-salary-factors.** This method, developed in the 1970s, calculates your needs as a percentage of gross earnings which your survivors need for “x” years.
- **Present-value needs calculation.** Required yearly income is derived largely from both principal and interest paid on invested policy proceeds.
- **Cash flow needs analysis.** Determines after-tax income, living expenses, and assets and liabilities. This method recognizes changing needs caused by such events as children growing and leaving for college, or going off on their own.
- **Federal estate and gift tax unified credit analysis.** Requires the expertise of an experienced estate planner.

As you can see, most of the methods for determining how much life insurance is enough require some financial expertise – such as that of a financial professional. The next section asks, “What Company, and Which Professional?”

Getting Sound Advice: How to Pick Your Insurance Company, Your Financial Professional, and Your Policy

There are two types of life insurance companies – mutual companies, owned by their policyholders, and stock companies, owned by shareholders. Most commonly, they market life insurance one of these two ways:

- **By Direct Marketing** – through the media, such as in magazines, direct mail, or on radio, TV, the Internet, inside banks, and through toll-free phone numbers; or

- **Through the “General Agency” system**, where a General Agent, Managing Partner, or Branch Manager distributes a life insurance company’s products in a defined territory. Many of the people who sell through this system are highly trained, college-educated specialists who have also earned the CLU (chartered life underwriter) designation, the ChFC designation (chartered financial consultant), CFP (certified financial planner), or licensed life insurance advisor (LIA). Many are full-time financial professionals for one life insurance company.

Which way to purchase life insurance is best for you? That’s clearly your choice, but bear in mind that both delivery systems have their own unique costs. Companies that sell through the media must pay heavy advertising fees, often including high-cost celebrity endorsements. And traditional life insurance companies not only spend to educate their professional representatives, but also compensate them well for their work.

About The Organizations That Rate Life Insurance Companies

You don’t need to review every life insurance company to compare their relative merits. You might consult one of the five top insurance rating companies. Of these, perhaps the two best known are A. M. Best Company, Inc., and Moody’s Investors Service, Inc.

In materials which life insurance companies may provide you, they often print their ratings.

Best’s ratings are:

- Superior: A++, A+
- Excellent: A and A-
- Very Good: B++, B+
- Good: B and B-
- Fairly Good: C++, C+
- Fair: C and C-
- Below minimum standards: D
- Under state supervision: E
- In liquidation: F

Moody's Ratings are markedly different; they are:

- Aaa - Exceptional
- Aa - Excellent
- A - Good
- Baa - Adequate
- Ba - Questionable
- B - Poor
- Caa - Very Poor
- Ca - Extremely Poor
- C - Lowest

Ratings are based on many factors, including overall financial resources and stability, low rate of turnover, and others.

Picking a company, financial professional, and a policy. When you are considering whether to buy term, non-term life insurance, and other financial service products, an understanding of (1) *design*, (2) *value*, and (3) *cost* provides fundamental information needed for making a reasonable, comprehensive financial planning decision for all stages of your life.

If your needs are simple and easily defined, perhaps the direct-sell companies are all you need. But if you have or expect to earn or acquire substantial capital, it is probably in your best interests to seek out a highly trained, well-educated financial professional affiliated with a company whose reputation precedes it.

That professional should have at least one of the designations cited earlier. Equally important, he or she must be thoroughly conversant with all the technical aspects of life insurance and related investment products and services, and should be able to show you the compound rate of return for the products he or she recommends.

It's important not only to buy from professionals who know their business and who work for highly rated companies, but also to acquire products that give you genuine value for your premium dollars. The more professionalism you seek in both the company and its representatives, the more useful the advice you'll receive.

Insurance Policy Options

Consider adding a “*Waiver of Premium*” Rider to your policy. This inexpensive option waives (that is, temporarily discontinues) your policy premiums when you’re disabled, as defined in the rider.

You can buy other options as well. A “*Guaranteed Insurability Rider*,” available with many policies, guarantees your ability to buy more insurance – sometimes at the rate you paid for your current policy -- for a specified period, even if your health changes. If you expect to need/buy more insurance, these are very desirable options.

Many companies also offer “*Accidental Death Riders*.” Unless you have high exposure to accidental death (for example, if you drive 250,000 miles a year), these riders may not be worth the expense. A very small percentage of people actually die in accidents; these Riders are generally a very good source of revenue for the companies that sell them. If you think you want one anyway, go ahead. An advantage: they usually provide inexpensive term-type (non cash value) coverage.

Should You Ever Replace a Life Insurance Policy?

“Replacing” a life insurance policy is serious business.

“Replacing” means terminating your current policy and buying another, with either the same company or a different one. If someone suggests you do this, you should consider carefully what they are proposing, since it is often NOT in your best interests, according to most financial professionals. In any case, you should never terminate an existing policy until after the replacement policy is in force, to prevent loss of life insurance protection.

On the other hand, Section 1035 exchanges *may* be in your best interests; see “Tax Advantages of Life Insurance; About Section 1035 Exchanges.”

You may wish to work with professionals who have the CLU (chartered life underwriter) designation, the ChFC (chartered financial consultant) designation, CFP (certified financial planner), or licensed life insurance advisor (LIA). The American Society of CLU and ChFC, a national organization

of insurance and financial service professionals, developed a **Replacement Questionnaire (RQ)** designed for use by financial professionals to uncover answers to key questions. Those answers can help you judge any replacement recommendation.

Consumers considering policy replacements should ALWAYS ask their financial professional about the advantages and disadvantages of the transaction. They should also ask:

- If I replace my policy, how soon within the new policy will I have access to the same amount of cash value that I currently have in my existing policy?
- What is the difference in guaranteed values between the two policies?
- Can the payment of a death claim be challenged if I die within two years of buying the new policy? [Most new policies include a two-year “contestability” period during which the company may “contest” the validity of claims. Replacing a policy may mean you’ll go through this period twice, once for the old policy and once again on the replacement policy.]
- If interest rates decline, how will the proposed policy perform? How would my existing policy perform?

Filing A Life Insurance Claim & Receiving Payment

Filing a claim requires you to submit:

- Original Certified Death Certificate
- Beneficiary’s Statement (to comply with IRS rules)
- Information completed and submitted on the company’s required forms

Beneficiaries can elect to receive the payment in a lump sum or in installments, or the policy may offer other alternatives. Here’s another situation in which a well-trained, highly experienced professional can give you sound counsel related to your specific situation. That advice is even more valuable when you’re filing a claim because it’s not an easy time to focus on such matters.

Life insurance claims are almost never denied. Most policies do exclude suicide during the first two years the policy is in force.

A Final Note . . .

As you've read, buying life insurance can be a fairly complex task.

Deciding how much life insurance you should buy, if any, depends on how you want your survivors to be provided for when you die. The greatest attraction of life insurance is that it can help lessen the financial problems caused by either "living too long" or "dying too soon." Either way, it can be an incredibly welcome asset

The actual cost for life insurance (that is, the sum of paid premiums minus benefits to be paid for the length of time the policy is in force) cannot be determined by any standardized method of cost disclosure. Each method is based on a **current cost/benefit statement** (often called a ledger illustration) provided by the insurance company for a policy being considered for purchase. Life insurance purchasers should focus not just on cost, but also on policy design (features/benefits/advantages) and value in their considerations.

A Word About AXA Advisors

AXA Advisors provides financial strategies, investment, and insurance solutions for consumers and businesses throughout the United States.

AXA Advisors is a member of the global AXA Group, a financial services powerhouse operating in 50 countries with \$655 billion in assets under management (as of 12-31-98) ... and one of the largest insurance providers in terms of premiums, worldwide.

Through its network of 7,000 financial professionals, AXA Advisors works closely with clients to help define their financial goals ... then provides access to an extensive portfolio of investment and insurance products from leading companies ... including its affiliates, The Equitable Life Assurance Company of the United States, and the investment firms of Alliance Capital Management L.P. and Donaldson, Lufkin & Jenrette, Inc.

What sets AXA Advisors apart from other financial services organizations is its people.

AXA Advisors financial professionals are among the best in the business, many with backgrounds in law, accounting, financial planning, estate planning, or investments ... all professionals dedicated to achieving success for their clients.

In fact, AXA Advisors has more associates with both the Chartered Life Underwriter (CLU) and Chartered Financial Consultant (ChFC) designations* than any other financial services firm.

Your financial professional from AXA Advisors can work closely with you to identify your needs and goals, assess your current plan, and implement an individual strategy designed to meet your financial objectives.

For more information on how to put AXA Advisors to work for you, your family and your business, you are invited to call 000-000-0000, or visit us at our Web Site (www.axa-advisors.com).

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