

LIFE INSURANCE

the 5-minute guide

What can insurance provide?

Life insurance provides a death benefit and, depending on the type of insurance, the potential for income tax-deferred cash value growth.

The death benefit is used to cover expenses that come from the death of a family member such as burial expenses, estate taxes or remaining debt.

The proceeds may also be used for:

- The transfer of a business to the next owner
- Wealth transfer

The cash value can be accessed through loans and partial withdrawals to meet immediate or future income needs including:

- Mortgage or rent payments
- Supplemental college funding
- Supplemental income
- Reward for key employees

It is important to remember that loans or partial withdrawals will reduce any death benefit payable.

Also, if the contract were to lapse with a loan outstanding, the loan amount would be treated as a distribution and may be subject to income tax.

Types of Life Insurance?

Essentially, there are two primary types of life insurance:

- Term
- Permanent

What is term Life Insurance?

Term life insurance offers financial protection for a specific time period and pays a death benefit only if the insured dies within the term.

Term life insurance offers:

- Maximum protection for a low premium
- Modified plans to fit your circumstances
- Level premiums

Term life insurance does not build cash value. Some insurance companies, however, offer term life insurance policies that can be converted to permanent life insurance. Ask your financial advisor for details about conversion privileges.

Please keep in mind that the insurer may require you to provide evidence of good health at the end of each term in order to purchase continued protection. At that time, your premiums may increase.

What is permanent Life Insurance?

Unlike term life insurance, permanent life insurance can be very flexible and offers numerous living benefits.

Separate from the policy's death benefit, permanent life insurance builds cash value, accessible through loans and withdrawals.¹

You have the option to take loans from the insurance company using the cash value in your policy as collateral, and you do not have to pay the loan balance or interest back. However, any death benefit payable will be reduced by the total of the unpaid loan balance and any accrued interest.

Some permanent life insurance policies may even allow you to take zero-interest loan from your cash value after a specific number of years of owning the contract.

You may receive substantial tax benefits with permanent life insurance:

- The death benefit paid to your beneficiary(ies) is income tax-free
- When properly structured, you may be able to exclude the death benefit from your taxable estate
- The cash value in your policy has the potential to grow tax-deferred
- Tax deferral and compounding interest promotes quicker accumulation

People's Financial Advisors™

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What is whole Life Insurance?

Whole life insurance is a traditional type of life insurance, meaning premiums stay the same over the entire life of the policy.

With whole life insurance, you can expect:

- Guaranteed death benefit
- Tax advantages
- Guaranteed cash value with conservative accumulation
- Fixed level premiums over the life of the policy
- Long-term protection
- Loan provisions
- Potential for dividends with some policies

What is universal Life Insurance?

Universal life insurance is designed to give you more flexibility than a whole life policy, offering:

- Guaranteed death benefit
- Tax advantages
- Loan provisions and partial withdrawals¹

In addition to:

- Interest-sensitive growth
- Growth potential based on the insurance company's portfolio of investments
- Flexible premium payments and death benefits based upon your policy's minimums and maximums

¹Throughout this guide the discussion of loans and withdrawals assumes the contract qualifies as life insurance under Section 7702 of the Internal Revenue Code (IRC) and is not a modified endowment contract (MEC) under Section 7702A. Most distributions are taxed on a first-in/first-out basis as long as the contract meets non-MEC definitions under Section 7702A. Loans are partial surrenders from a MEC will generally be taxable, and if taken prior to age 59^{1/2}, may be subject to a 10% tax penalty. Surrender charges may apply to partial surrenders.

²Because neither People's Financial Advisors, nor any of its representatives give legal or tax advice, you should consult your attorney or tax advisor for answers to your specific tax questions.

Source: Nationwide Financial Services, Inc., *Life Insurance The 5-minute Guide*, 2004

WHAT IS VARIABLE UNIVERSAL LIFE INSURANCE?

Most variable universal life policies offer the same flexible premium and death benefit features of universal life:

- Guaranteed death benefit
- Tax Advantages
- Loan provisions and partial withdrawals¹

Variable life insurance policies combine permanent life insurance protection with the opportunity to invest in underlying investment options, providing:

- Investment-driven growth potential
- Greater potential growth through maximum funding

As you consider your choices, remember that the underlying investment options offered by variable investment life insurance policies are subject to market risk, including possible loss of principal.

Also, these funds are only available in variable insurance products issued by life insurance companies. They are not available to the general public.

Lastly, variable life insurance products have a cost associated with them and allow you to choose an appropriate amount of life insurance protection to fit your needs.

Advice Focused On You

At People's Financial Advisors, we understand the issues and challenges you're facing in determining what life insurance policy will meet your needs. That's why we've made a commitment to understand what's important to you and where you want to be. To schedule an appointment with one of our Financial Advisors call us at **1-800-392-3009**.

People's Financial Advisors

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- **May Lose Value**
- **Not a Deposit of or Guaranteed by a Bank or any Bank Affiliate**

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