Types Of Individual Life Insurance

This chapter explains the major types of life insurance policies, their characteristics and functions, and who is best served by each type. As you are reading about a policy, ask yourself what makes this type of policy different from the others. The process of determining the suitability of certain policies for different types of insured can make it easier for you to distinguish between the many types of policies covered in this chapter.

TERMS TO KNOW

Adverse selection — insuring of risks that are more prone to losses than the average risk
Agent/Producer — a legal representative of an insurance company; the classification of *producer* usually includes agents and brokers; *agents* are the agents of the insurer
Applicant or proposed insured — a person applying for insurance
Attained age — the insured's age at the time the policy is issued or renewed
Beneficiary — a person who receives the benefits of an insurance policy
Cash value — a policy's savings element or living benefit
Death benefit — the amount paid upon the death of the insured in a life insurance policy
Deferred — withheld or postponed until a specified time or event in the future
Endow — to have the cash value of a whole life policy reach the contractual face amount
Face amount — the amount of benefit stated in the life insurance policy
Insured — person covered by the insurance policy; may or may not be the policyowner
Insurer (principal) — the company that issues an insurance policy
Lapse — policy termination due to nonpayment of premium
Level premium — the premium that does not change throughout the life of a policy
Nonforfeiture values — benefits in a life insurance policy that the policyowner cannot lose even if the policy is surrendered or lapses
Policyowner — the person entitled to exercise the rights and privileges in the policy
Policy maturity — in life policies, the time when the face value is paid out
Premium — the money paid to the insurance company for the insurance policy
Securities — financial instruments that may trade for value (for example, stocks, bonds, options)

A. Term Life

There are many types of life insurance products available for consumers. Although all life insurance products offer death protection, each type also includes its own unique features and benefits and is designed to serve different insureds' needs.

Regarding the length of coverage, all life insurance policies fall into 2 categories: temporary and permanent protection.

1. General Nature

Term insurance is *temporary* protection because it only provides coverage for a specific period of time. It is also known as pure life insurance. Term policies provide for the greatest amount of coverage for the lowest premium as compared to any other form of protection. There is usually a maximum age above which coverage will not be offered or at which coverage cannot be renewed.

Term insurance provides what is known as **pure death protection**:

- If the insured dies during this term, the policy pays the death benefit to the beneficiary;
- If the policy is canceled or expires prior to the insured's death, nothing is payable at the end of the term; and
- There is no cash value or other living benefits.

Know This! Term insurance provides the greatest amount of coverage for the lowest premium.

Know This! Term insurance has no cash value.

Although term insurance may be purchased for several different reasons, it is most generally purchased to provide temporary coverage, a large amount of coverage for a relatively small premium, or both. It would make little sense to purchase permanent insurance to insure a short-term debt if that is all the coverage is needed for.

Even from the perspective of a long-term need for insurance, term insurance can provide a significant amount of coverage for a relatively small outlay of premium, when compared to the premium that is charged for a permanent form of insurance. Term insurance has been instrumental in introducing young people to the habit of obtaining life insurance in order to provide various forms of protection, mainly because of its affordability. Young professionals who are just starting their practices and have not reached their earnings potential may still have a need for a large amount of coverage. For them, term insurance provides protection in the early years of their careers, until they can afford to purchase some form of permanent insurance.

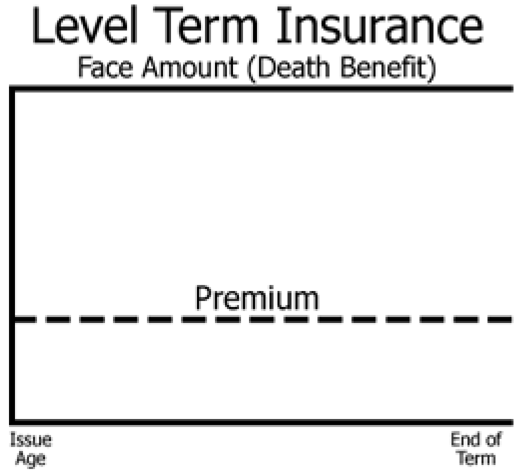
2. Basic Types of Term Contracts

There are three basic types of term coverage available, based on **how the face amount (death benefit) changes** during the policy term:

- Level;
- Increasing; and
- Decreasing.

Regardless of the type of term insurance purchased, the premium is level throughout the term of the policy; only the amount of the death benefit may fluctuate, depending on the type of term insurance. Upon selling, renewing, or converting the term policy, the premium is figured at attained age (the insured's age at the time of transaction).

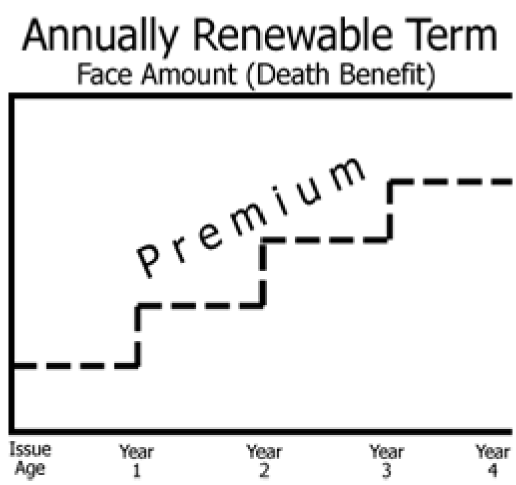
Level, Decreasing, and Increasing Term



Level term insurance is the most common type of temporary protection purchased. The word *level* refers to the death benefit that does not change throughout the life of the policy.

Know This! "Level" in level term insurance refers to the death benefit, which does NOT change.

Annually Renewable Term

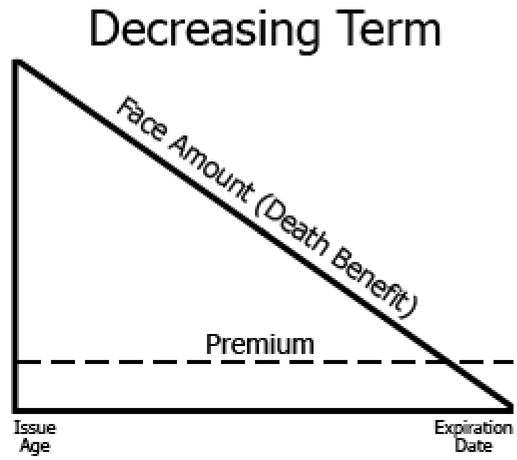


Annually renewable term (ART) is the purest form of term insurance. The death benefit remains level (in that sense, it's a level term policy), and the policy may be guaranteed to be renewable each year without proof of insurability, but the premium increases annually according to the attained age, as the probability of death increases.

Level Premium Term

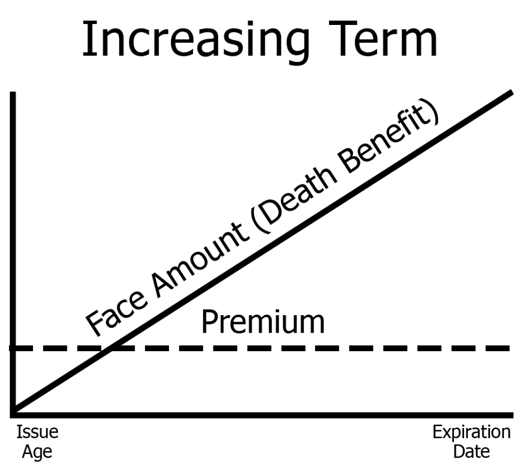
Level premium term, as the name implies, provides a level death benefit and a level premium during the policy term. *For example,* a $100,000 10-year level term policy will provide a $100,000 death benefit if the insured dies any time during the 10-year period. The premium will remain level during the entire 10-year period. If the policy is renewed at the end of the 10-year period, the premium will be based on the insured's attained age at the time of renewal.

Decreasing Term



Decreasing term policies feature a level premium and a death benefit that decreases each year over the duration of the policy term. Decreasing term is primarily used when the amount of needed protection is time sensitive, or decreases over time. Decreasing term coverage is commonly purchased to insure the payment of a **mortgage or other debts** if the insured dies prematurely. The amount of coverage thereby decreases as the outstanding loan balance decreases each year. A decreasing term policy is usually convertible; however, it is usually not renewable since the death benefit is $0 at the end of the policy term.

Increasing Term



Increasing term features level premiums and a death benefit that increases each year over the duration of the policy term. The amount of the increase in the death benefit is usually expressed as a specific amount or a percentage of the original amount. Increasing term is often used by insurance companies to fund certain riders that provide a *refund of premiums* or a gradual increase in total coverage, such as the cost of living or return of premium riders.

This type of policy would be ideal to handle inflation and the increasing cost of living. It is also often added to another policy as a rider, such as with return of premium policies.

Return of Premium

Return of premium (ROP) life insurance is an *increasing term* insurance policy that pays an additional death benefit to the beneficiary equal to the amount of the premiums paid. The return of premium is paid if the death occurs within a specified period of time or if the insured outlives the policy term.

ROP policies are structured to consider the low risk factor of a term policy but at a significant increase in premium cost, sometimes as much as 25% to 50% more. Traditional term policies offer a low-cost, simple-death benefit for a specified term but have no investment component or cash value. When the term is over, the policy expires, and the insured is without coverage. An ROP policy offers the pure protection of a term policy, but if the insured remains healthy and is still alive once the term limit expires, the insurance company guarantees a return of premium. However, since the amount returned equals the amount paid in, the returned premiums are not taxable.

Example:

A healthy 30-year-old insured pays $380 annually for a $250,000, 30-year term policy. At the end of the 30 years, the insured will have paid a total of $11,400 in premiums which will be returned if the insured is still alive. The insurance company has determined that $250 per year, or $7,500 over 30 years, will cover the actual cost of protection. The excess funds, which the insurer invests, provide the cash for the returned premiums.

3. Special Features

Most term insurance policies are renewable, convertible, or renewable and convertible (R&C).

Renewable

The **renewable** provision allows the policyowner the right to renew the coverage at the expiration date *without evidence of insurability*. The premium for the new term policy will be based on the insured's current age. *For example*, a 10-year term policy that is renewable can be renewed at the end of the 10-year period for a subsequent 10-year period without evidence of insurability. However, the insured will have to pay the premium that is based on their attained age. If an individual purchases a 10-year term policy at age 35, they will pay a premium based on the age of 45 upon renewing the policy.

Convertible

The **convertible** provision provides the policyowner with the right to convert the policy to a permanent insurance policy *without evidence of insurability*. The premium will be based on the insured's attained age at the time of conversion.

B. Whole Life Insurance

Permanent life insurance is a general term used to refer to various forms of life insurance policies that build cash value and remain in effect for the entire life of the insured (or until age 100) as long as the premium is paid. The most common type of permanent insurance is whole life.

Whole life insurance provides lifetime protection, and includes a savings element (or cash value). Whole life policies endow at the insured's **age 100**, which means the cash value created by the accumulation of premium is scheduled to equal the face amount of the policy at age 100. The policy premium is calculated assuming that the policyowner will be paying the premium until that age. Premiums for whole life policies usually are higher than for term insurance.

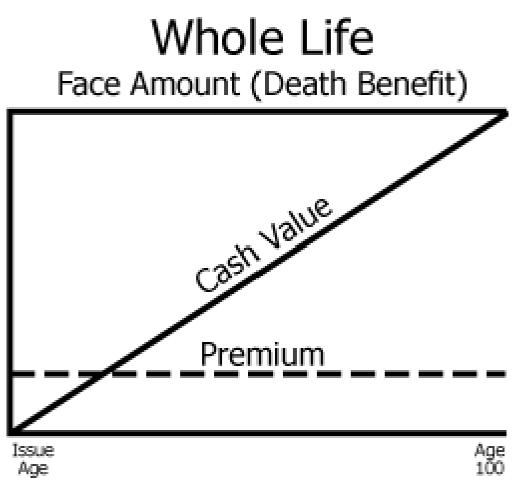
The following are key characteristics of whole life insurance.

- **Level premium —** the premium for whole life policies is based on the issue age; therefore, it remains the same throughout the life of the policy.
- **Death benefit —** the death benefit is guaranteed and also remains level for life.
- **Cash value —** the cash value, created by the accumulation of premium, is scheduled to equal the face amount of the policy when the insured reaches age 100 (the policy maturity date), and is paid out to the policyowner. (Remember: the insured and the policyowner do not have to be the same person.) Cash values are credited to the policy on a regular basis and have a guaranteed interest rate.
- **Living benefits —** the policyowner can borrow against the cash value while the policy is in effect, or can receive the cash value when the policy is surrendered. The cash value, also called nonforfeiture value, does not usually accumulate until the third policy year and it grows tax deferred.

Know This! Whole life insurance provides lifetime (permanent) protection and accumulates cash value.

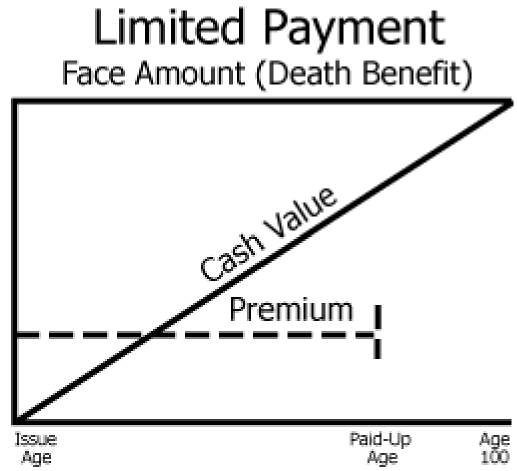
The three basic forms of whole life insurance are straight whole life, limited-pay whole life and single premium whole life; however, other forms and combination plans may also be available.

1. Ordinary (Straight) Life



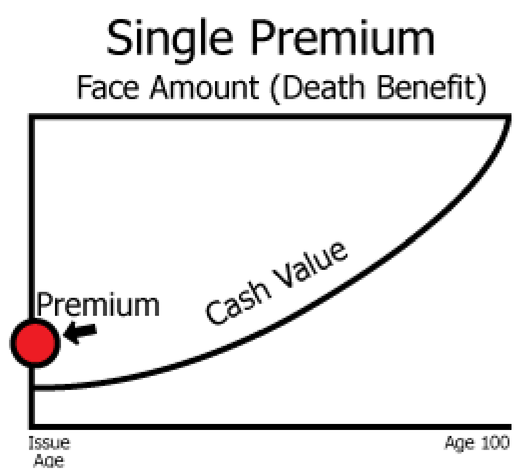
Straight life (also referred to as *ordinary life* or *continuous premium whole life*) is the basic whole life policy (illustrated above). The policyowner pays the premium from the time the policy is issued until the insured's death or age 100 (whichever occurs first). Of the common whole life policies, straight life will have the lowest annual premium.

2. Limited-pay Life and Single Premium Life



Unlike straight life, limited-pay whole life is designed so that the premiums for coverage will be completely paid-up well before age 100. Some of the more common versions of limited-pay life are 20-pay life whereby coverage is completely paid for in 20 years, and life paid-up at 65 (LP-65) whereby the coverage is completely paid up for by the insured's age 65. All other factors being equal, this type of policy has a shorter premium-paying period than straight life insurance, so the annual premium will be higher. Cash value builds up faster for the limited-pay policies.

Limited-pay policies are well suited for those insureds who do not want to be paying premiums beyond a certain point in time. *For example*, an individual may need some protection after retirement, but does not want to be paying premiums at that time. A limited-pay (paid-up at 65) policy purchased during the person's working years will accomplish that objective.



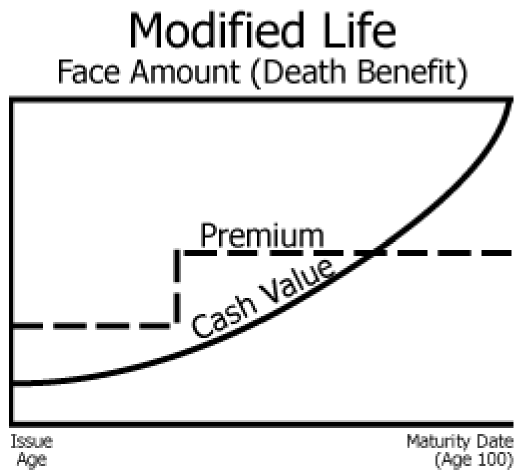
Single premium whole life (SPWL) is designed to provide a level death benefit to the insured's age 100 for a one-time, lump-sum payment. The policy is completely paid-up after one premium and generates immediate cash.

3. Indexed Whole Life

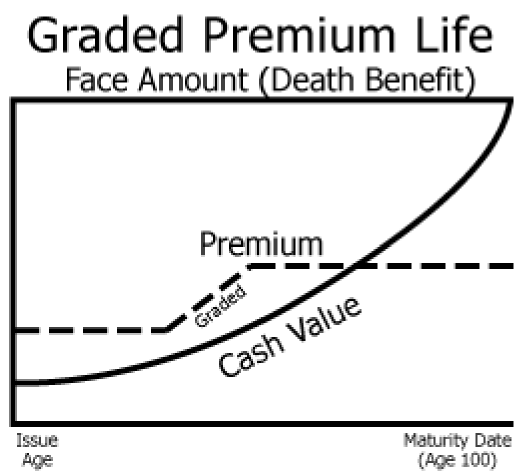
The main feature of **indexed whole life** (or equity index whole life) insurance is that the cash value is dependent upon the performance of the equity index, such as S&P 500 although there is a guaranteed minimum interest rate. The policy's face amount increases annually to keep pace with inflation (as the Consumer Price

Index increases) without requiring evidence of insurability. Indexed whole life policies are classified depending on whether the policyowner or the insurer assumes the inflation risk. If the policyowner assumes the risk, the policy premiums increase with the increases in the face amount. If the insurer assumes the risk, the premium remains level.

4. Modified and Graded Premium Whole Life



Modified life is a type of whole life policy that charges a lower premium (similar to term rates) in the first few policy years, usually the first 3 to 5 years, and then a higher level premium for the remainder of the insured's life. The higher subsequent premium is typically higher than a straight life premium would be for the same age and amount of coverage. These policies were developed to make the purchase of whole life insurance more attractive for individuals who, for example, are just starting out and have limited financial resources, but will be able to afford the higher premiums in the future as their income grows.



Graded-premium whole life is somewhat similar to modified life in that premiums start out relatively low and then level off at a point in the future. A graded premium whole life policy typically starts with a premium that is approximately 50% or lower than the premium of a straight life policy. The premium then gradually increases each year for a period of usually 5 or 10 years, and then remains level thereafter.

Example:

After meeting with his agent, an applicant determined that the straight life policy's $700 premium was more than he could afford at the moment. As a result, he chose a graded-premium whole life policy that charged just $350 for the first year. The premium slowly increased over 10 subsequent years, but by then the applicant was better prepared to pay a higher premium.

Modified Life and Graded-Premium Life policies are useful as a compromise between straight life and convertible term insurance since the premium is less than straight life in the early years, but some cash value is being accumulated. The actual premiums paid over the life of the contract for a modified or graded premium policy are actually the same as paying for a straight life policy to age 100.

5. Indeterminate Premium Whole Life

Indeterminate premium whole life policies have the premium rate that may vary from year to year. These policies specify two premium rates: a **guaranteed** level premium stated in the contract (maximum premium), and a **nonguaranteed** lower premium rate that the policyowner actually pays for a set period of time. After the initial period (usually 2-3 years), the insurer establishes a new rate which could be raised, kept the same or lowered, based on the company's expected mortality, expense and investments. The premium, however, can never be higher than the guaranteed maximum.

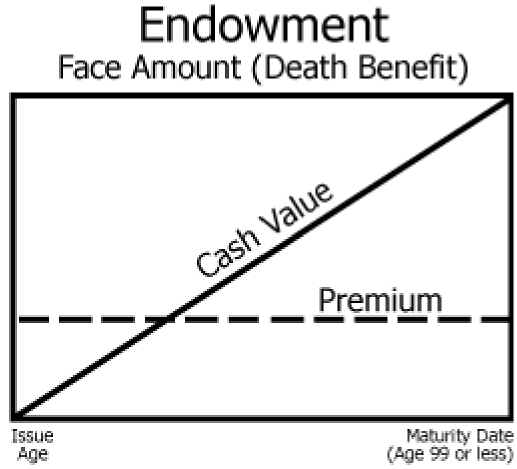
6. Interest-sensitive Whole Life (Current Assumption)

Interest-sensitive whole life, also referred to as **current assumption** life, is a whole life policy that provides a guaranteed death benefit to age 100. The insurer sets the initial premium based on current assumptions about risk, interest and expense. If the actual values change, the company will lower or raise the premium at designated intervals. In addition, interest-sensitive whole life policies credit the cash value with the current interest rate that is usually comparable to money market rates, and can be higher than the guaranteed levels. The policy also provides for a minimum guaranteed rate of interest.

Interest-sensitive whole life provides the same benefits as other traditional whole life policies with the added benefit of current interest rates, which may allow for either greater cash value accumulation or a shorter premium-paying period.

	TERM LIFE	**WHOLE LIFE**
Type of protection	Temporary	Permanent until age 100
Premium	Level	Level
Death benefit	• Level • Increasing • Decreasing	Level
Living benefits	Not available	• Cash values • Policy loans • Nonforfeiture values

C. Endowment



Endowment policies are another type of whole life insurance that have all the same features as regular whole life policies with a slight variation in the maturity date. They provide a permanent, level death protection if the insured should die prematurely, and they accumulate cash values. Premiums can be paid up until the endowment date, for a limited period of time, or in a lump sum single payment. The **primary difference** between a whole life policy and an endowment is that an endowment matures (endows) at an earlier age (before age 100). Because the cash value in an endowment has to build up faster since the funds are intended to be used while the insured is alive, the premium for an endowment is considerably higher than an ordinary straight life policy. The sooner the policy endows, the higher the premium will be.

D. Flexible Premium Policies

There are several other types of whole life policies. While they all have the same key characteristics, they may also offer unique features based on how the policyowner pays the premium or how the premium is invested. Flexible premium policies allow the policyowner to pay more or less than the planned premium.

1. Adjustable Life

Adjustable life was developed in an effort to provide the policyowner with the best of both worlds (term and permanent coverage). An adjustable life policy can assume the form of either term insurance or permanent insurance. The insured typically determines how much coverage is needed and the affordable amount of premium. The insurer will then determine the appropriate type of insurance to meet the insured's needs. As the insured's needs change, the policyowner can make adjustments in his or her policy. Typically, the policyowner has the following options:

- Increase or decrease the premium or the premium-paying period;
- Increase or decrease the face amount; or
- Change the period of protection.

The policyowner also has the option of **converting** from term to whole life or vice versa. However, increases in the death benefit or changing to a lower premium type of policy will usually require proof of insurability. In the case of converting from a whole life policy to a term policy, the insurer may adjust the death benefit. The policyowner may also pay additional premiums above and beyond what is required under the permanent form in order to accumulate greater cash value or to shorten the premium-paying period.

Although adjustable life policies contain most of the common features of other whole life policies, the **cash value** of an adjustable life policy only develops when the premiums paid are more than the cost of the policy.

2. Universal Life

Universal life insurance is also known by the generic name of *flexible premium adjustable life*. That implies that the policyowner has the flexibility to increase the amount of premium paid into the policy and to later decrease it again. In fact, the policyowner may even skip paying a premium and the policy will not lapse as long as there is sufficient cash value at the time to cover the monthly deductions for cost of insurance. If the cash value is too small, the policy will expire.

Since the premium can be adjusted, the insurance companies may give the policyowner a choice to pay either of the two types of premiums:

- The **minimum premium** is the amount needed to keep the policy in force for the current year. Paying the minimum premium will make the policy perform as an annually renewable term product.
- The **target premium** is a recommended amount that should be paid on a policy in order to cover the cost of insurance protection and to keep the policy in force throughout its lifetime.

Know This! If an insured skips a premium payment on a universal life policy, the missing premium may be deducted from the policy's cash value. The policy will NOT lapse.

Universal life policies are offered as **unbundled** products, which means that all the pricing elements are disclosed separately by the insurer, unlike traditional term or whole life insurance in which the policyowner is charged a single gross-premium amount.

As well as being a flexible premium policy, universal life is also an interest-sensitive policy. Although the insurer guarantees a **contract interest rate** (usually 3 to 6%), there is also potential for the policyowner to get a **current interest rate**, which is not guaranteed in the contract but may be higher because of current market conditions.

A universal life policy has two components: an **insurance component** and a **cash account**. The insurance component of a universal life policy is always **annually renewable term insurance**.

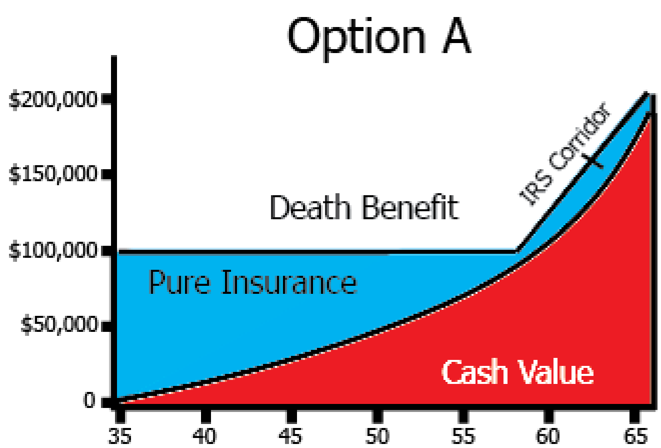
Universal life policies allow the **partial withdrawal** (partial **surrender**) of the policy cash value. However, there may be a charge for each withdrawal and there are usually limits as to how much and how often a withdrawal may be made. During the withdrawal, the interest earned on the withdrawn cash value may be subject to taxation, depending upon the plan. The death benefit will be reduced by the amount of any partial surrender. Note, however, that a partial surrender from a universal life policy is not the same as a policy loan.

Example:

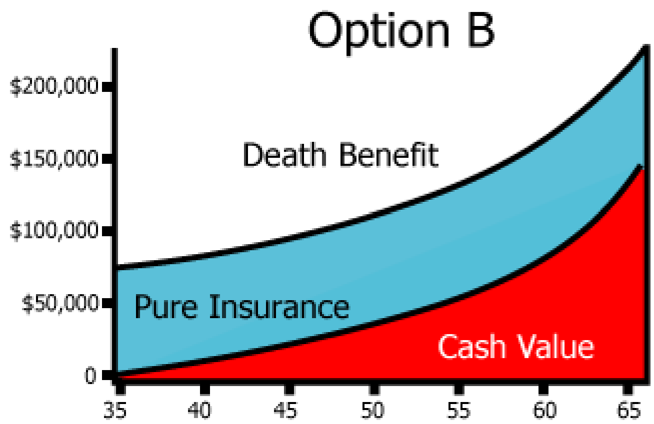
Betty owns a universal life policy with a $100,000 face amount with $25,000 of cash value built up. She needs to access some cash in the sum of $5,000. She can take that money out of her cash value as long as she pays a fee to the insurance company and she will not need to repay the $5,000. She will need to pay taxes if any of that $5,000 is taxable monies. Betty's policy will remain enforce with $20,000 of cash value after her partial surrender.

At the time that an individual applies for a universal life policy, he or she selects the level of premium, cash value, death benefit and premium-paying period that is desired. If the policyowner wishes to accumulate a certain amount of cash value by a certain period of time, say 20 years, the cash value can be targeted to accumulate to that amount by the 20th year and the amount of premium required to accomplish that objective will be calculated. If no cash value is ever factored into the premium, or, in other words, zero cash value is targeted for age 100, the policy will look and function just like a level term policy to age 100. If the minimum premium is paid each year, then the policy will function just like an annually renewable term policy.

Universal life offers one of two death benefit options to the policyowner. **Option A** is the *level death benefit* option, and **Option B** is the *increasing death benefit* option.



Under **Option A (Level Death Benefit option)**, the death benefit remains level while the cash value gradually increases, thereby lowering the *pure insurance* with the insurer in the later years. Notice that the pure insurance is actually decreasing as time passes, lowering the expenses, and allowing for greater cash value in the older years. The reason that the illustration shows an increase in the death benefit at a later point in time is so that the policy will comply with the "statutory definition of life insurance" that was established by the IRS and applies to all life insurance contracts issued after December 31, 1984. According to this definition, there must be a specified "corridor" or gap maintained between the cash value and the death benefit in a life insurance policy. The percentages that apply to the corridor are established in a table published by the IRS and vary as to the age of the insured and the amount of coverage. If this corridor is not maintained, the policy is no longer defined as life insurance for tax purposes and consequently loses most of the tax advantages that have been associated with life insurance.



Under **Option B (Increasing Death Benefit option)**, the death benefit includes the annual increase in cash value so that the death benefit gradually increases each year by the amount that the cash value increases. At any point in time, the total death benefit will always be equal to the face amount of the policy plus the current amount of cash value. Since the *pure insurance* with the insurer remains level for life, the expenses of this option are much greater than those for Option A, thereby causing the cash value to be lower in the older years (all else being equal).

E. Variable Products

Fixed life insurance or annuities are contracts that offer guaranteed minimum or fixed benefits that are stated in the contract. **Variable** life insurance or annuities are contracts in which the cash values accumulate based upon a specific portfolio of stocks without guarantees of performance. Variable annuities keep pace with inflation, and are determined by the value of securities backing it.

Variable life insurance (sometimes referred to as *variable whole life insurance*) is a level, fixed premium, investment-based product. Like traditional forms of life insurance, these policies have fixed premiums and a guaranteed minimum death benefit. The cash value of the policy, however, is not guaranteed and fluctuates with the performance of the portfolio in which the premiums have been invested by the insurer. The policyowner bears the investment risk in variable contracts.

Know This! In variable contracts, the policyowner bears the investment risk (assets in a separate account).

Because the insurance company is not sustaining the investment risk of the contract, the underlying assets of the contract cannot be kept in the insurance company's general account. These assets must be held in a **separate account**, which invests in stocks, bonds, and other securities investment options. Any domestic insurer issuing variable contracts must establish one or more separate accounts. Each separate account must maintain assets with a value at least equal to the reserves and other contract liabilities. Assets in the separate account cannot be commingled with assets in the general account.

A variable policy's death benefits and cash values are based on a distinct pool of investments, which are held in accounts separate from the insurer's general account. These separate accounts back reserves on all nonvariable contracts that insurer sells. This separate account acts as a **mutual fund** (sometimes called a unit trust). The policyowners specify where the cash value should be invested. As with any mutual fund, there are several available options, such as money market funds, common stock funds, bonds funds and other types of funds.

1. Variable Life vs. Variable Universal Life

Variable universal life insurance is a type of insurance that combines many features of the whole life with the flexible premium of universal life and the investment component of variable life, making it a securities version of the universal life insurance.

Variable universal life insurance, like universal life itself, has the following features and characteristics:

- A flexible premium that can be increased, decreased or skipped as long as there is enough value in the policy to fund the death benefit;
- Increasing and decreasing the amount of insurance; and
- Cash withdrawals or policy loans.

Unlike universal life, most of the investment vehicles in variable universal life policies do not guarantee return.

2. Regulation of Variable Products (SEC, FINRA and State)

Variable life insurance products are **dually regulated** by the State and Federal Government. Due to the element of investment risk, the federal government has declared that variable contracts are **securities**, and are thus regulated by the Securities and Exchange Commission (SEC), and the Financial Industry Regulatory Authority (FINRA). Variable life insurance is also regulated by the Insurance Department as an insurance product.

Agents selling variable life insurance products must:

- Be registered with FINRA;
- Be licensed by the state to sell life insurance; and
- Have received a securities license.

POLICIES COMPARED

Adjustable Life

- ***Key Features:*** Can be Term or Whole Life; can convert from one to the other
- ***Premium:*** Can be increased or decreased by policyowners
- ***Face Amount:*** Flexible; set by policyowner with proof of insurability
- ***Cash Value:*** Fixed rate of return; general account
- ***Policy Loans:*** Can borrow cash value

Universal Life

- ***Key Features:*** Permanent insurance with renewable term protection component
- ***Premium:*** Flexible; minimum or target
- ***Face Amount:*** Flexible; set by policyowner with proof of insurability
- ***Cash Value:*** Guaranteed at a minimum level; general account
- ***Policy Loans:*** Can borrow cash value

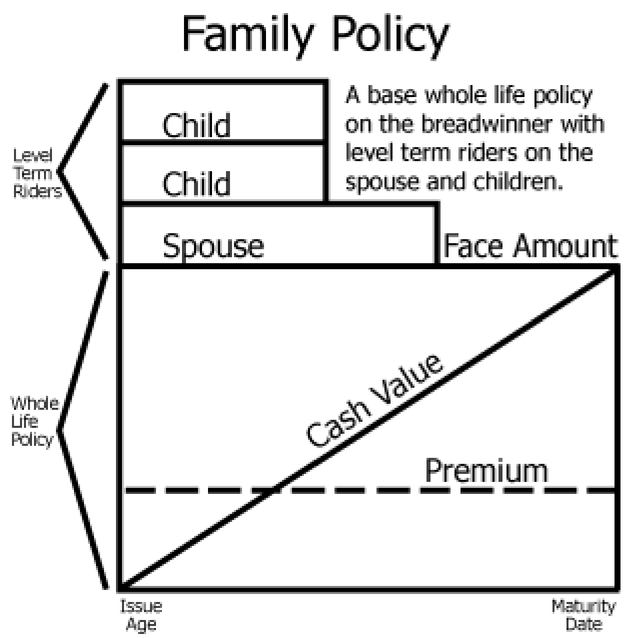
Variable Life

- ***Key Features:*** Permanent insurance
- ***Premium:*** Fixed (if Whole Life); flexible (if Universal Life)
- ***Face Amount:*** Can increase or decrease to a stated minimum
- ***Cash Value:*** Not guaranteed; separate account
- ***Policy Loans:*** Can borrow cash value

F. Combination Policies And Variations In The Basic Forms

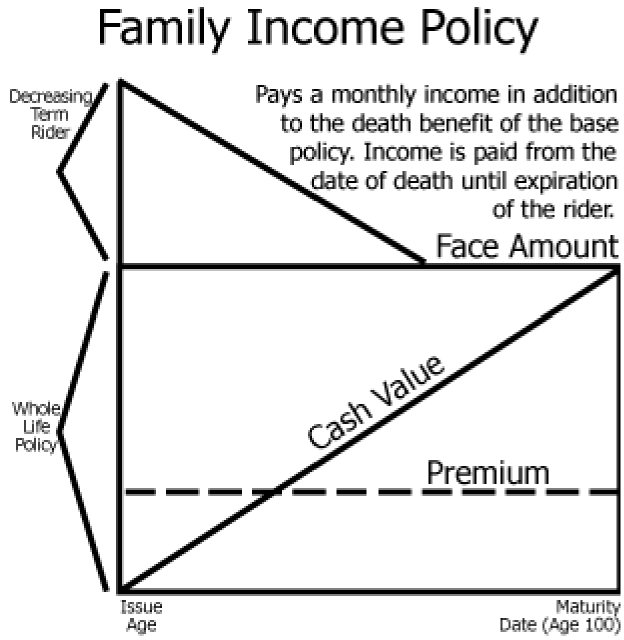
In addition to the traditional forms of life insurance and the interest-sensitive policies, insurers have developed a variety of other policies or insurance plans which are primarily the result of combining or packaging two or more coverages. Most of these plans use a combination of permanent insurance and term insurance to fill the insurance needs of an individual or multiple individuals.

1. Family Policy



A **family protection** or **family policy** combines **whole life** with **term insurance** to cover family members in a single policy, providing coverage on every member of a family. The family policy typically provides whole life insurance on the breadwinner of the family and convertible term insurance on the other family members. The spouse has the opportunity to convert his or her term coverage to permanent coverage up until age 65. Children are automatically covered after birth for a specified period of time, usually 30 or 31 days. To continue coverage for the newborn after the initial period, the parents must inform the insurer of the birth within that time period. The children may convert their term coverage to permanent coverage when they turn the age of 21, or the maximum age for coverage as a dependent that is stated in the policy, without evidence of insurability.

2. Family Income Policy



The Family Income Policy is a combination of **decreasing term** insurance and **whole life insurance** on the breadwinner of the family. The policy is designed to provide an income period which begins from the effective date of the policy and commonly runs for twenty years, but it is also issued for ten years or even to age 65. This income period is funded with decreasing term insurance. If the insured should die any time during the income period, the term coverage will provide the surviving family with a monthly income for the remainder of the income period. At the end of the income period, the face amount of the whole life coverage is paid to the beneficiary. If the insured dies after the income period, only the whole life portion will be paid to the beneficiary. This type of policy provides a family with a monthly income upon the death of the insured while maintaining permanent coverage until the end of the income payments.

For example, if one purchases a 20-year family income policy and dies five years after the policy is issued, the decreasing term portion of the plan would provide his or her surviving family with a monthly income for 15 years. At the end of the 15-year period, the whole life death benefit would then be paid to the family.

3. Joint Life

Joint life is a single policy that is designed to insure two or more lives. Joint life policies can be in the form of term insurance or permanent insurance. The premium for joint life would be less than for the same type and amount of coverage on the same individuals. It is more commonly found as *joint whole life*, which functions similarly to an individual whole life policy with two major exceptions:

- The premium is based on a **joint average age** that is between the ages of the insureds; and
- The death benefit is paid upon the **first death only**.

A premium based on joint age is less than the sum of 2 premiums based on individual age, so it is common to find joint life policies issued on spouses. This is particularly so if the need for insurance is such that it does not extend beyond the first death. Joint life policies are used when there is a need for two or more persons to be protected; however, the need for the insurance is no longer present after the first of the insureds dies.

For example, a married couple purchasing a house may use a Joint Life policy for mortgage protection if both spouses work and earn close to the same amount of income. If one spouse dies, the insurance pays the mortgage for the surviving spouse.

Joint Life is also used to insure the lives of business partners in the funding of a buy-sell agreement and other business life needs. A buy-sell is a business continuation agreement that determines what will be done with the business in the event that an owner dies or becomes disabled.

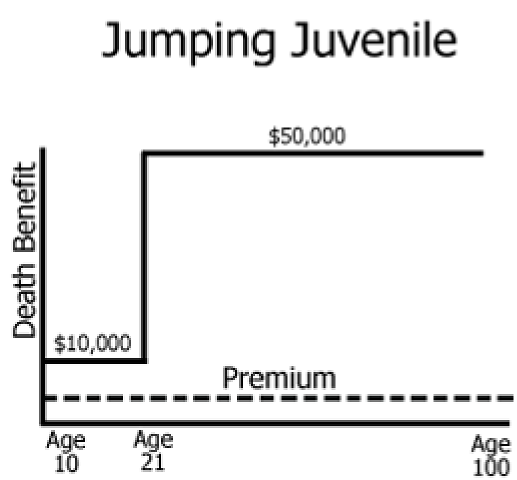
Know This! Premium rates on a joint life policy are determined by averaging the ages of both insureds.

4. Survivorship Life (Second to Die)

Survivorship life (also referred to as "second-to-die" or "last survivor" policy) is much the same as joint life in that it insures two or more lives for a **premium that is based on a joint age**. The major difference is that survivorship life **pays on the last death** rather than upon the first death. Since the death benefit is not paid until the last death, the joint life expectancy in a sense is extended, resulting in a lower premium than that which is typically charged for joint life, which pays upon the first death. This type of policy is often used to **offset the liability of the estate tax** upon the death of the last insured.

Know This! Joint life = first to die; survivorship life = second to die (last survivor).

5. Jumping Juvenile Life



Juvenile life insurance is, as the name implies, any life insurance written on the life of a minor. A common juvenile policy is known as the “jumping juvenile” policy because the face amount increases at a predetermined age, often age 21. The face amount jumps, but the premium remains level.

6. Double or Triple (Multiple) Protection

Multiple protection policies combine permanent insurance with level term insurance for the multiple protection period. These policies pay double or triple the face amount if the insured dies during a specified period, which is usually determined as a number of years (such as 10 or 20) or to a specified age (such as to age 65). If the insured dies after the specified period, the policy only pays the face amount. *For example,* a double protection policy of $100,000 written to age 65 would decrease the face amount to $50,000 after the insured's age 65.

7. Term Riders

Term riders allow for an additional amount of temporary insurance to be provided on the insured, without the need to issue another policy. They are usually attached to a whole life policy to provide greater protection at a reduced cost.

8. Limited Benefit

These policies cover certain expenses from specifically named illnesses, injuries or circumstances. As an example, cancer policies pay benefits for the actual treatment of cancer and cover no other illness. Some also pay benefits for conditions or diseases caused or aggravated by cancer and/or its treatment.

G. Educational Highlights

Take another look at the topics discussed in this chapter. Try to answer the following questions on your own and then verify the correct answers:

1. *If a policy offers pure death protection, what does this mean? What does this reveal about the cash value of the policy?*
   It means that there is no cash value.
2. *With annually renewable term insurance, what happens to the premium as one's age increases?*
   The premium increases each year with the age of the insured.
3. *Many policies are both renewable and convertible. What are the similarities between these two provisions?*
   With both a renewable policy and a convertible policy, the premium for the renewed or converted policy will be based on the insured's current age at the time of renewal or conversion. Also, evidence of insurability is not required for either provision.
4. *How does continuous premium straight life differ from 20-year limited pay life?*
   The premiums for straight life will be spread over the insured's lifetime, thus enabling the insurance company to charge a lower annual premium. When the premium-paying period is condensed to a 20-year duration, a higher annual premium is required.
5. *Does the death benefit of an Adjustable Life policy automatically increase with inflation?*
   Adjustments to the death benefit can be made by the policyowner, and not automatically, and would usually require evidence of insurability.
6. *As time progresses, what happens to a premium in a Graded Premium Whole Life Policy?*
   The premium gradually increases each year for the first few years of the policy (5 to 10) and then remains level thereafter.
7. *How does the premium for Joint Life compare to the premium on two policies covering the same two individuals for the same death benefit?*
   The premium for joint life would be less than for the same type and amount of coverage on the same individuals; it is based on a joint average age that is between the ages of the insureds.

8. *Who is the insured under a Juvenile Life policy?*
   Juvenile life insurance is, as the name implies, any life insurance written on the life of a minor.
9. *What are the death benefit options in Universal Life policies?*
   Option A is the level death benefit option, and Option B is the increasing death benefit option.
10. *Which authorities regulate Variable Life policies?*
    Variable life insurance products are dually regulated by the State and Federal Government: The Securities and Exchange Commission (SEC), the Financial Industry Regulatory Authority (FINRA), and the State Department of Insurance