

Life insurance is a contractual agreement between the insured and an insurer, wherein the insurer commits to pay a specified sum to a designated beneficiary upon the insured's death in exchange for premium payments. This coverage is designed to provide financial protection for loved ones, replacing lost income, settling debts, covering final expenses, and potentially creating an estate for heirs. The amount of life insurance required varies based on personal circumstances such as marital status, family size, financial obligations, and future goals, making it advisable to regularly reassess coverage needs as life situations evolve. The affordability of life insurance is influenced by factors including policy type, coverage amount, age, and health, and consulting a financial professional can aid in selecting an appropriate plan.

A life insurance contract encompasses legal provisions, the application, and a policy specifications page that details the death benefit, premium requirements, and any additional options or riders. Common riders include the waiver of premium during disability and guaranteed insurability without further medical exams. There are two primary types of life insurance: term and permanent. Term life insurance offers coverage for a specified period, with benefits payable if the insured dies within that term, while permanent life insurance, which includes whole life, universal life, variable life, and variable universal life, provides lifelong coverage as long as premiums are paid. Whole life features fixed premiums and guaranteed death benefits, universal life allows flexible premium payments and adjustable coverage, and variable life policies have cash values that fluctuate based on investment performance, with variable universal life combining features of both.

Beneficiaries must be designated to receive policy proceeds, and changes can be made unless an irrevocable beneficiary is named. Life insurance can be purchased through employers, licensed agents, or directly from insurers, and it is crucial to evaluate the financial strength of the insurance company using ratings from services like A.M. Best or Moody's. Variable life policies require a prospectus that outlines investment risks and costs, which should be reviewed carefully before purchase. Understanding the types of policies, their workings, and the implications of beneficiary

designations is essential for effective life insurance planning.

The policy also outlines the mechanics of premium payments and cash value accumulation for a Variable Universal Life Insurance policy. When premiums are paid, the insurer deducts sales expenses and premium taxes, with the remaining amount credited to the cash value account. This account incurs monthly charges for expenses and the cost of pure insurance, known as mortality cost. The cash value earns interest at a variable rate influenced by the performance of a segregated portfolio within the company's general account, with a guaranteed minimum interest rate specified in the policy. If the portfolio performs better than the guaranteed rate, the excess interest is credited to the policy. However, if the cash value is insufficient to cover expenses and insurance costs, and no additional premiums are contributed, the policy may lapse or the coverage amount may be reduced.

In terms of investment, policyholders can choose subaccounts for their cash value, which are securities-based, although a fixed account option may also be available. While significant growth in these investments can enhance cash value, poor performance can lead to a decrease in value. Policyholders are allowed to take a policy loan up to the cash surrender value minus annual loan interest, with repayment restoring cash value. Any outstanding loan balance, including interest, will be deducted from the death benefit paid to the beneficiary. It is important to review the prospectus provided by the insurance company or a financial professional, as it contains critical information regarding investment objectives, risks, and expenses associated with the policy.