

The proposed draft of BreadwinnersInsurance.com's new Life Insurance Buyer's Guide serves as a comprehensive resource for consumers navigating the life insurance market, emphasizing the importance of understanding various policy types and their implications. It categorizes life insurance into term insurance, which can be pure or include cash-value components like whole life or universal life policies. Key considerations for selecting a policy include ensuring adequate coverage, establishing proper beneficiary arrangements, and assessing the level of agent support. The primary purpose of life insurance is to provide financial support for families in the event of premature death, necessitating an evaluation of individual needs regarding coverage amount and duration.

The guide highlights that policies differ significantly in value, and costs vary, with pure term policies featuring straightforward premiums, while cash-value policies require a more complex evaluation of costs, including mortality charges, administrative fees, and investment management expenses. It warns consumers about potential misrepresentations by agents and the complexities associated with cash-value policies, which can be challenging to assess due to inadequate disclosure practices. While cash-value policies offer tax advantages such as tax-deferred growth and tax-free death benefits, the guide also cautions about the tax implications of surrendering cash-value. Additional benefits of cash-value policies include potential permanence, lower future mortality costs, and opportunities for increased coverage without additional medical examinations.

The guide advises that policy illustrations should not be used for direct comparisons until consumers understand the underlying assumptions. It provides definitions of various policy types, including annually renewable term, level premium term, universal life, and whole life, explaining their features and implications. The document also outlines key aspects of life insurance, such as conversion privileges, dividends, health classifications, and pricing practices. It stresses the importance of evaluating future insurance needs and health before allowing a conversion privilege to expire. Dividends from participating whole life policies are distributed when financial performance exceeds minimum guarantees, stemming from better-than-expected investment returns, lower mortality

claims, and reduced administrative costs. For tax purposes, dividends are not taxable if retained in the policy and only taxable to the extent they exceed total premiums if withdrawn.

Additionally, the document describes general portfolio policies, where life insurer assets may be managed directly or through separate accounts, with general portfolio products offering minimum guaranteed investment returns without daily market value adjustments. Health classes are assigned during underwriting based on the applicant's health, typically ranging from best to uninsurable, with the possibility of re-evaluation for upgrades but not downgrades. Lapse-supported pricing is a practice where insurers charge higher premiums initially to subsidize costs in later years, anticipating a certain percentage of policy lapses. Paid-up additions, resulting from retained dividends, increase death benefits without requiring additional premiums and can be surrendered for cash value. Participating policies allow policyholders to benefit from the insurer's profits through dividends, as actuaries use conservative assumptions for premium calculations. Persistency measures the retention of policies year over year, while lapse rates indicate the percentage of policies that are surrendered or lapse, both of which significantly affect an insurer's future performance. Lastly, separate account policies are variable products that allow policyholders to choose investment funds, with returns not guaranteed and values marked-to-market daily. Overall, the draft aims to empower consumers with essential knowledge to make informed decisions regarding life insurance.