

Life insurance is a contractual agreement between an insurance company and the policyholder, providing a death benefit to beneficiaries in exchange for premium payments. It serves various purposes, including income replacement, mortgage protection, and covering funeral costs. The two primary types of life insurance are term and permanent. Term life insurance offers coverage for a specified period, typically ranging from 10 to 30 years, and is generally more affordable, although premiums increase with age. In contrast, permanent life insurance, which includes whole and universal life, provides lifelong coverage and accumulates cash value, making it more expensive. Life insurance is designed to offer financial protection for loved ones in the event of premature death, delivering tax-free benefits that can assist with immediate expenses and future financial needs. The flexibility of life insurance allows policies to adapt as the policyholder's needs evolve over time, making it essential for individuals to assess their financial responsibilities and goals when selecting a policy to ensure the coverage aligns with the standard of living they wish to secure for their dependents.

The LIMRA 2021 Barometer Study reveals that many Americans overestimate the cost of life insurance, and a significant portion of households would experience financial hardship shortly after losing a primary income. The study also indicates a growing trend among younger individuals purchasing life insurance. When considering life insurance, it is crucial to evaluate factors such as family income replacement needs, burial costs, and education expenses for children. Purchasing life insurance necessitates careful consideration of personal circumstances and potential financial obligations for beneficiaries. Cash value insurance offers advantages such as lifetime protection, fixed premium costs, and the potential for retirement income through tax-deferred cash value accumulation. However, permanent insurance policies come with higher premiums and require a long-term commitment, making it vital to select a policy that aligns with specific financial goals and needs.

The insurance policy document outlines various financial considerations relevant to individuals,

particularly in the context of life insurance. It notes that the average cost for in-state students attending a four-year public college in 2022-2023 is \$23,250, while out-of-state students pay an average of \$40,550, and private college students spend about \$53,430. The document highlights the impact of inflation, citing an annual Consumer Price Index (CPI) of 7.7% in October 2022, significantly above the targeted rate of below 2%. It also addresses outstanding debts, including mortgages, vehicle loans, credit cards, student loans, and medical bills, as well as the financial needs of adult dependents and parents requiring care or assistance. Additional factors to consider in total coverage estimates include charitable contributions and the current value of one's estate.

The document distinguishes between permanent life insurance policies (such as Whole Life, Variable Life, Universal Life, or Universal Indexed Life) and temporary or term policies. Permanent policies, while more expensive, can provide long-term value and help build a retirement cushion, with cash value that grows tax-deferred. Policyholders may have options to borrow against the cash value, surrender the policy, or utilize a tax-free conversion to an annuity through the IRS 1035 Exchange process. In contrast, term policies offer coverage for a specified period and must be renewed or replaced to maintain protection, making them suitable for those with temporary insurance needs or limited budgets. Ultimately, the best policy choice depends on individual circumstances and financial goals. The document concludes with a disclaimer, stating that the information provided is not intended as investment, tax, or legal advice, and encourages consultation with financial, legal, or tax professionals for personalized guidance.