

**Consumers Guide to
Alabama Life Insurance
Provided by**

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Consumer's Guide to Alabama Life Insurance

You may already own some life insurance, either through your employer's group plan, as part of your veterans' benefits or through a policy you bought yourself. But perhaps you think you need additional life insurance protection. If you have no life insurance, you may be thinking of buying some. Or maybe you have questions about the financial strength of a company. Whatever the case, this booklet can help you make the right decisions about life insurance. It tells you how life insurance works, describes the most popular types of policies, suggest how to decide what policy to purchase and whom to buy it from.* The main purpose of life insurance is to provide financial security for your family. It helps to ensure that, when you die, your family will have the financial resources it needs to protect their home and car and provide the income needed to run a household. It is a contract between you and an insurance company. That contract requires that the company pay someone you name -- your beneficiary or beneficiaries -- a certain amount of money when you die. Your survivors can use that money as they see fit. The money is not subject to federal or state income tax (although it may be subject to death or estate taxes). With life insurance, you can provide a guaranteed financial nest egg for your family's future.

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- If you have some general questions about life insurance that are not answered in this booklet, you might want to call the National Insurance Consumer Helpline at (800) 942-4242. NICH is a consumer information telephone service sponsored by insurance industry trade associations. Trained personnel and licensed producers are available to answer questions about various insurance matters, to refer consumer complaints to appropriate sources and to send consumer brochures on request. The Helpline operates from 8 am to 8 pm, Eastern Time, Monday through Friday.

Who Sells Alabama Life Insurance?

More than 2,000 companies in the United States sell life insurance. They range in size and services from large companies that sell to all segments of the public to smaller companies that provide coverage tailored to a specific group. Most insurance companies sell their policies through a network of producers. In three states (New York, Massachusetts and Connecticut), some savings banks sell life insurance. Some insurance companies offer policies by mail. Life insurance companies sell either "non-participating" or "participating" policies. Most non-participating policies have fixed payments -- premiums -- based on what the company believes it will cost to provide insurance protection. Some newer non-participating policies have premiums that may be changed periodically, subject to a maximum rate stated in the policy. The amount of the premium charged for a non-participating policy depends on what the company believes it will cost to provide coverage to the policy holder. Participating policies, on the other hand, have somewhat higher premiums with a built in "cushion" to allow for fluctuations

in the company's earnings and expenses. At the end of the year, the company computes its actual costs and refunds to the policyholder any portion of the premium it does not need. The refund is called the "policy dividend." Those who buy participating policies can expect their cost to be "reduced" through periodic policy dividends, which are not taxable.

Who Buys Alabama Life Insurance?

People from all walks of life, income levels, single and married, buy life insurance. It is such an essential part of financial planning that Congress has accorded life insurance a special tax status. There is no federal or state income tax on death benefits and the increase in cash value in a whole life policy accumulates on a tax-deferred basis. More than 8 in 10 families in the United States have some form of life insurance coverage today. Most people who own life insurance are family breadwinners who want to make sure that in the event they die, the future financial needs of dependents, such as a spouse, children or elderly parents, are met. However, people also purchase life insurance to build up cash reserves for a future event, such as retirement, paying college tuition or estate taxes. Men and women alike purchase life insurance to protect their families. But in recent years, women have become a more significant part of the life insurance market. A growing number of women are heads of households. They purchase life insurance policies, as homemakers do, to ensure the availability of funds for child care and household maintenance in the event of their death.

How Does Alabama Life Insurance Work?

You get life insurance by buying a policy (a contract). When you do so, you join a risk sharing group. The company promises to pay, at the time of your death, a sum of money to the person or persons selected by you (the beneficiaries), who are named in the policy. This promise is given in return for your agreement to pay a sum of money (the premium) to the company over a specified period of time. The principle governing life insurance is easy to understand. It is possible to determine approximately how long a group of people will live. For example, the average lifespan of a group of 37-year-old men who are non-smokers, who exercise regularly, aren't overweight and whose parents and grandparents lived normal life spans, can be foretold with reasonable accuracy. Mathematicians cannot tell when a specific person in the group will die, but they can estimate the approximate number of people who are likely to die the first year, the next year and so on, until the last of that generation. Insurers gather information about applicants -- such as age, gender, health, occupation and hobbies -- so that they can group together people with similar characteristics and calculate a premium based on the group's level of risk. Those with similar risks pay the same premiums. This process is known as risk classification or underwriting, and by providing equal treatment for equal risks, it allows insurers to treat all

policyholders fairly. Life insurance companies gather the information they use to determine premium levels by having potential policyholders complete an application. Understandably, insurance applicants and policyholders have concerns about the confidentiality of medical and other personal information given to insurers. The insurance industry has a long history of safeguarding sensitive information, such as evidence of chemical dependency or alcoholism, or cancer or some other life-threatening condition. This respect for personal privacy and medical confidentiality extends both to people applying for insurance and to policyholders.

Types of Alabama Life Insurance

There are two basic types of life insurance policies -- term insurance and whole life insurance. All other kinds of policies are variations of these two types:

Term insurance offers protection that insures your family for a specified and finite period of time -- usually one, five, 10 or 20 years, or up to age 65. A term insurance policy pays a benefit only if you die during the period covered by the policy. If you stop paying premiums, the insurance stops. At the end of the term, the coverage ends, but it can be continued for another term if you have a "renewable" policy. Under such a policy, you will not have to provide evidence of insurability to renew the policy, but each time you renew, your premiums will be higher because you are older. If you have term insurance that is "convertible," you can exchange it for a whole life policy without a medical examination, but you should expect to pay a higher premium. The amount of the whole life insurance premium remains the same for the rest of your life. Term insurance is initially cheaper than other types of policies that offer the same amount of protection. Therefore, it gives you the greatest immediate coverage per dollar. For this reason, it is useful to those consumers who need large amounts of coverage for a known period of time -- for example, home buyers, parents of young children or people with high current obligations. Term insurance is also available in other forms. One common type reduces coverage over time, paying less to the beneficiary as time passes. It is often used to protect a long term decreasing debt, such as a home mortgage.

Whole life insurance (often referred to as straight life or permanent life) is protection that can be kept in force for as long as you live. By choosing to pay a premium that does not increase as you grow older, you average out the costs of your policy over your lifetime on a yearly basis. The "cash value" is an important feature of whole life insurance. This is a sum that increases over the years on a tax-deferred basis. If you cancel your policy, you can get the cash value in a lump sum. You pay taxes only if the cash value plus any policy dividends you may have received exceed the sum of the premiums you have paid. Most policies contain a table that enables you to tell how much cash value it has. You should consult your producer or company for further information. Cash value has many uses. For example:

1. Using your policy as collateral, you can borrow from the company up to the amount of your current cash value. If you die and the loan has not been repaid, the amount owed plus interest will be deducted from the death proceeds paid to your beneficiary.
2. If you miss paying a premium, the company can -- with your authorization -- draw from the cash value to keep the policy in force.
3. If you wish to stop paying premiums, the accumulated cash value can be used to fund a paid-up policy that provides a reduced level of protection, or the policy can be continued as term insurance for a specific period of time.
4. You can use the cash value to purchase an annuity that provides a guaranteed monthly income for life.
5. You can give the policy up completely and the insurance company will pay you the cash value.

There are several variations of whole life insurance:

One is **modified life**, with a premium that is relatively low in the first several years but that increases in later years. It is intended for those who want whole life insurance but wish to pay lower premiums in their younger years.

Limited-payment life remains in force for your entire life, but premiums are paid over a shorter period than other whole life insurance policies. For example, you might make payments for 20 years or until age 65 rather than spreading them over your lifetime. Because the premiums are paid within a shorter period, premium rates are higher than for other types of whole life insurance.

A **single-premium whole life** policy provides protection for the duration of the insured's life, in exchange for the payment of the total premium in one lump sum at the time of application.

Combination plans are simply policies that combine term and whole life insurance in one contract. Frequently, premiums for combination plans do not rise as the insured grows older.

Universal life insurance is protection under which a policyholder may pay premiums at any time, in virtually any amount, subject to certain minimums. The policyholder can also change the amount of insurance more easily than under traditional policies. In a universal life insurance policy, the amount of the cash value reflects the interest earned at current interest rates and the total amount and timing of premiums paid, minus the cost of insurance and expense charges. The level of cash value is "interest-sensitive," which means that the amount you accumulate varies according to the general financial climate. Rates are usually guaranteed for one year, and then a new rate is determined. The rates used can be no lower than a guaranteed rate specified in the policy (typically 4 or 4.5 percent).

Current assumption whole life insurance, which is also known as fixed premium universal life or interest-sensitive whole life, is a variation of universal life insurance. It involves fixed premiums and fixed death benefits, and, as in other universal life policies, its growth in cash value depends on market conditions.

Variable life insurance provides death benefits and cash values that fluctuate according to the investment experience of policy funds managed by the life insurance company. Policyholders decide where their money will be invested. Some investment options commonly offered by insurance companies include stock, bond or money market funds. Thus, policyholders have the opportunity to obtain higher cash values and death benefits than with policies calculating benefits based on a fixed rate of return. Conversely, policy holders also assume the risk of poor investment performance. Life insurance producers selling variable life must be registered representatives of a broker dealer licensed by the National Association of Securities Dealers and registered with the Securities and Exchange Commission. If you are interested in a variable life policy, be sure your producer gives you a prospectus that includes an extensive disclosure about the policy.

Two types of variable life policies exist: **Scheduled premium variable life insurance** and **flexible premium variable life insurance**. Premium payments under a scheduled premium policy are fixed as to timing and amount, while policyholders who own a flexible premium policy may change the timing or amount (or both) of premium payments.

Second-to-die life insurance, which is also called dual life or survivorship insurance, is primarily an estate planning tool that pays a death benefit only upon the death of the insured who survives the longest. Its main purpose is to pay estate taxes upon the death of the second insured. Because it is based on joint life expectancy, its premium is less than the total premiums for individual policies on the same lives. Second-to-die life insurance can take the form of a variety of traditional or interest-sensitive types of products. It may include premium flexibility to allow vanishing premiums or a minimum annual premium. Second-to-die life insurance has both personal and business applications.

Which Policy Should You Buy?

Buying life insurance, as with any other major purchase, is a personal decision. For example, term insurance is useful on a temporary basis if you are young and want to make sure a spouse and young children would be taken care of if you were to die unexpectedly. For young, healthy people, it is also relatively inexpensive. For the older, more established family, the fixed premium and cash value buildup of a whole life policy might be more attractive. If you do purchase whole life insurance, be sure you intend to keep it for the recommended long-

term period. Allowing such a policy to lapse in its early years can be quite expensive. One option that is often suggested is to buy term insurance and take the "difference" between the annual premium for whole life and the annual premium for term and invest it in some other financial instrument. However appealing this suggestion might appear, you need to ask -- and answer -- some hard questions. Can you discipline yourself to invest the "difference" year after year? Do you trust your ability to select investments that will earn what you need over the next 10 or 20 years? Are you certain that you won't touch your investment until you need it, say at age 60 or 65? The following chart highlights the characteristics of each of the basic types of life insurance. It should help you decide which type of insurance best suits your needs.

Types of Alabama Life Insurance

TERM

- Protection for a specified period of time
- May be renewable and convertible to whole life insurance
- Low initial premium
- Premium rises with each new term
- Typically no cash value

HOLE LIFE

- Permanent protection
- Fixed premium
- Fixed death benefit
- Fixed cash value
- Earnings generated by the policy are not taxed while the policy is in force

UNIVERSAL LIFE

- Permanent protection
- lexible premium
- Flexible death benefit
- Cash value reflects premiums paid and market conditions
- Earnings generated by the policy are not taxed while the policy is in force

CURRENT ASSUMPTION HOLE LIFE

- Permanent protection
- Fixed premium, but company can adjust premium rates after issue
- Fixed death benefit

- Cash value reflects market conditions. Premiums may be reduced to zero -- "vanish" -- for one or more years if investment results are favorable
- Earnings generated by the policy are not taxed while the policy is in force

VARIABLE LIFE

- Permanent protection
- Fixed or flexible premiums
- Policyholders control the investment of their cash values in separate stock, bond, money market or other accounts
- Death benefits and cash value vary in relation to the performance of invested funds
- Earnings generated by the policy are not taxed while the policy is in force

SECOND-TO-DIE LIFE

- Permanent protection provided through either traditional or interest-sensitive product types
- Premium flexibility to allow for "vanishing" premium or minimum annual premium; policy may allow for adding or changing insureds
- Policy insures two lives and pays upon the second death
- Primarily an estate planning tool to pay estate taxes

How Much Life Insurance Is Enough?

Even if you know why you need life insurance, there is no simple answer to the question of how much is enough. Most people buy life insurance to replace income that would be lost with the death of a breadwinner. The policy provides funds to help replace the deceased's paycheck and may also provide income for long-term needs, such as retirement, college costs or estate taxes. Life insurance also provides money for immediate needs, such as expenses for final illness and burial. And some people use proceeds from life insurance policies for readjustment money -- temporary funds for family members who will need time to make important decisions about moving or looking for a job. In essence, it is up to the individual purchaser to figure out how much life insurance is enough. Some experts suggest that life insurance should equal five times your total annual take home pay. However, this rule of thumb may not always apply because no two families are alike. You will need to answer some important questions about yourself before deciding how much life insurance to buy.

HO ARE YOU?

Are you a young, single person with few or no responsibilities for others? A single parent with children to support? About to retire and caring for your own parents? Are you a parent with dependent children? A middle-aged widow or widower with

no children, but a parent to support? These are not idle questions. If you can identify your responsibilities, your financial resources and, in the event of your death, who should be protected financially and in what amounts, you will make a wiser insurance purchase. By completing the Personal Financial Statement that follows, you will have an excellent basis for analyzing your life insurance needs. Be sure to include your spouse as you carefully consider the portrait you are creating of yourself and your family's future needs -- and how you can best meet them.

Personal Financial Statement - Current Net Worth

ASSETS

Individual (Married) Assets

Business

Other

LIFE INSURANCE

As a part of your life insurance

As a part of a family life insurance

CASH OR EQUIVALENT FUNDS

Checking

Emergency fund

Term insurance

Other accounts

Money market funds or certificates of deposit

Other

INVESTMENTS

Bonds

Stocks

Mutual funds

PERSONAL PROPERTY

Individual (Married) Assets

As a

Wife, children, spouse, other family, etc.

Motor vehicles

LIABILITIES

Mortgages

Installment loans

Reduction loans

Other loans

Total assets
 Total debts
TOTALS
 Total \$
 Total Assets \$
 Total Liabilities \$
 Total \$

Estimate of Family Resources and Expenses After Policyholder's Death

ASSETS

Survivor's salary _____ Interest _____ Dividends _____ Rent
 received _____ Annuity income _____ Benefits _____
 Social Security _____

Veterans

Life insurance

Pension

Trust income _____ Investment income _____ Other income _____

SUBTOTALS

TOTAL \$ _____

EXPENSES

Housing _____
 Rent _____

Mortgage

Utilities

Other _____
 Food _____

Home

Away

_____ Clothing/upkeep _____ Transportation _____

Education _____ Entertainment and recreation _____ Medical and

dental expenses _____ Child care expenses _____ Insurance

premiums _____

Life

Health

Disability

Auto

Other

_____ Payments _____

Loan

Installment

_____ Taxes _____

Local

State

Property

Income

Other

SUBTOTALS

TOTAL \$ _____

TOTALS

TOTAL INCOME \$ _____ TOTAL EXPENSES \$ _____ You should now have a better grasp of your income, assets, expenses and liabilities. This will help you determine the financial resources available to your family and the amount of income that would be needed in the event of the policyholder's death. You should adjust these figures periodically to take into account changes in family circumstances, new living arrangements, inflation and other variables.

Choosing an Agent

After you have identified your beneficiaries' needs, the next order of business is to find an agent. There are a number of ways to do this. Collect several names and then shop around. A life insurance agent is an important person in your life and, as you would with a doctor, lawyer or banker, you should be satisfied with an agent's reputation and qualifications. All states require that producers be licensed to sell life insurance. Professional designations, in the form of initials following an producer's name, indicate that he or she has devoted considerable time to the study of life insurance and family financial services. Those designations include "CLU" -- Chartered Life Underwriter, "ChFC" -- Chartered Financial Consultant and "LUTCF" -- Life Underwriters' Training Council Fellow. In addition, membership in the National Association of Life Underwriters indicates that the agent subscribes to both the professional and ethical standards of that organization. When you first talk to an agent, be sure that he or she is willing and able to explain various policies and other insurance-related matters. An agent should look for ways to get you the right type and amount of insurance at an affordable price. Make certain that your agent reviews your coverage from time to time, advises you about other financial services and assists you when problems develop. If you are not convinced that an agent understands your needs or is providing the service you want, get another agent.

Comparing Costs

The next order of business is to shop for a good buy. Your chances are better if you use a special cost index developed to help in shopping for life insurance and available from the producer or the insurance company. The price of a given type of policy can vary from one company to the next. Moreover, companies are not equally competitive for all policies. Thus, one company might have a competitively priced policy for 24-year olds but not for 35 year olds. The cost index provides you with a number that reflects the price of a policy - a policy with a smaller index number is generally a better policy with a higher index number. Your producer or life insurance company can give you more information about the cost index. In addition, it is important to remember the following points:

1. Cost comparisons can only be made between similar life insurance plans.
2. Index number comparisons should only be made for your age, for the kind of policy you intend to buy and for the amount of insurance you plan to purchase.
3. Small variations in index numbers might be offset by other policy features or differences in the quality of service you get from the company or agent.
4. Base your decision not only on a low index number, but also on whether you can afford the premium; whether you understand its cash values, if any, its dividends, if any, and its death benefits.

5. Do not use the cost index to determine whether your current policy should be replaced by a new one. The index applies only to comparisons of new policies.

Choosing A Company

When buying a life insurance product, you should use the same care you would when making any sizable purchase. Ask your agent for financial information about the company you are considering. There are a number of commercial insurance rating services that rate the claims-paying ability and financial strength of insurance companies. These published ratings can be found in public and business libraries. Rating firms consider several important factors when developing a rating, including profitability, capital adequacy, liquidity, investment risk and management quality. While all major rating services analyze each of these areas, analytical methods vary and different services do not weigh all factors the same way. When choosing a rating service, find out whether its company evaluations are comprehensive and what is being measured. Be sure you understand what the various services measure and what the different ratings mean. Also, check the rating date to be sure the information is current. Ratings provide a snapshot of a company's financial condition, companies can be upgraded -- or downgraded -- from one report to the next. Keep in mind that not all companies are rated by every service. Companies usually have to pay rating services for a comprehensive review. A company's lack of a rating is not a poor reflection on that company; it simply has not gone through the evaluation process with a particular service. Finally, remember that while ratings can be helpful, they are only one factor, albeit a very important one, worth considering when choosing a company. A company's reputation for service to customers is another factor you should consider.

Before the Purchase

When buying life insurance, you should read the contract carefully and, if necessary, ask your producer for a point-by-point explanation of the language. To help the consumer, many insurance companies are writing their newer contracts so that they are more understandable. Keep in mind, however, that these are legal documents and you should be familiar with what they promise, even though some technical terms are used. In addition, the National Association of Insurance Commissioners and many state insurance departments have prepared buyer's guides to help you further understand life insurance terms, benefits and relative costs. Buyer's guides are distributed through your agent and insurance company, so be sure to ask for one. If you have more questions about companies or policies, many state insurance departments provide consumer information.

After the Purchase

After buying life insurance, keep in mind that you may have a "free look" period that entitles you to change your mind. If you do so, the company will return your premium, without penalty. It is a good idea to provide your beneficiaries with your agent's name and a photocopy of your policy. If you have a lawyer, he or she should also have this information and know who your beneficiaries are. Your beneficiaries should know where your policy is kept, because they may have to send it to the company upon your death, along with a copy of your death certificate, in order to get your policy's proceeds. It isn't necessary to keep life insurance policies in a safe deposit box, but the name of the company and policy number should be kept in a secure place in case the policy is misplaced or lost. Your beneficiaries need not take your insurance proceeds in one lump sum. Many people select other options, such as a monthly income and a specific sum set aside for other purposes, perhaps retirement or college costs. Ask your producer about the settlement options available to you.

Switching Policies

If you already own life insurance, think twice if someone suggests that you replace it. You should ask your producer or company for an opinion about the new proposal, so you hear both sides of the matter. Before you surrender your insurance protection, make sure you are still insurable. (Check medical requirements and any other important matters.) Also, remember that you are now older than when you first purchased your policy, and a new one may cost more because of your age. Moreover, an older policy may have provisions that are not duplicated in some new ones. This does not mean that you should reject the idea of replacing a policy you already have, but rather that you should proceed with caution.

Getting Benefits Before You Die

More and more companies are offering policies that provide accelerated death benefits or "living benefits." These products allow policyholders, under certain circumstances, to get access to part of the death benefits of their life insurance policies prior to death. Most accelerated death benefit policies fall into three basic models. They are the longterm care model, which gives policyholders access to benefits should they require extended health care; the catastrophic illness or dread disease model, for benefits needed to help pay medical costs resulting from a number of specified conditions; and the terminal illness model. Under this last model, the insured can obtain his or her death benefits following a diagnosis of terminal illness, if death is likely to occur within a specified number of months.

10 Things To Do

Remember that your need for life insurance coverage will change. Your income might go up or down, your family size might change. Therefore, your basic life insurance needs can vary over time. It is wise to review your coverage periodically. Here are 10 rules to remember when buying life insurance.

- Understand and know what your life insurance needs are before any purchase, and make sure that the company you choose can meet those needs.
- Buy your life insurance from a company that is licensed in your state.
- Select a producer who is competent, knowledgeable and trustworthy.
- Shop around and compare costs.
- Buy only the amount of life insurance you need and can afford.
- Ask about lower premium rates for non-smokers.
- Read your policy and make sure you understand it.
- Inform your beneficiaries about the kinds and amount of life insurance you own.
- Keep your policy in a safe place at home and, in addition, keep your insurance company's name and your policy number in a safe deposit box.
- Check your coverage periodically or when ever your situation changes, to be sure it meets your current needs.

Conclusion

This booklet should provide you with much of the basic information you need to make an informed decision about buying life insurance. But, of course, you should explore your specific needs further and discuss options with your producer as you move closer to a final decision about your life insurance purchase. By learning about the product, your needs and price differences, you will have gone a long way toward meeting your own insurance requirements. It will take time and patience on your part, but as an educated consumer you can make a wise decision about buying life insurance.

Glossary of Life Insurance Terms

Accelerated Death Benefits -- Benefits available in some life insurance policies prior to death.

Accidental Death Benefit -- A provision added to a life insurance policy for payment of an additional benefit in case of death as a result of an accident. This provision is often called "double indemnity."

Annuity -- A life insurance product that provides an income either for a specified period of time or for a person's lifetime.

Automatic Premium Loan -- A provision in a life insurance policy that any premium not paid by the end of the grace period (usually 31 days) will be automatically paid by a policy loan if there is sufficient cash value.

Beneficiary -- The person or financial instrument (e.g., a trust fund) named in the policy as the recipient of insurance money in the event of the policyholder's death.

Cash Value (Cash Surrender Value) -- The amount available in cash upon surrender of a policy before it becomes payable upon death or maturity.

Convertible Term Insurance -- Term insurance that offers the policyholder the option of exchanging it for a permanent plan of insurance without evidence of insurability.

Cost Index -- A way to compare the costs of similar plans of life insurance. A policy with a smaller index number is generally a better buy than a comparable policy with a larger index number.

Cost-Of-Living Rider -- An option that permits the policyholder to purchase increasing term insurance coverage. The death proceeds increase by a stated amount each year, to coincide with an estimated increase in the cost of living.

Current Assumption Whole Life -- A variation of universal life insurance, this product involves fixed premiums and fixed death benefits. Its cash value growth depends on market conditions. If they are favorable and if premiums paid in the policy's first year are large enough, premiums for one or more years may be reduced to zero.

Dividend -- An amount of money returned to the holder of a participating policy. The money is a partial refund of the premium paid. It results from actual mortality, interest and expenses that were more favorable than expected when the premiums were set.

Double Indemnity -- (*See Accidental Death Benefit.*)

Face Amount -- The amount stated on the face of the policy that will be paid in case of death or at maturity. It does not include dividend additions or additional amounts payable under accidental death or other special provisions.

Grace Period -- A period (usually 31 days) following each premium due date, other than the first due date, during which an overdue premium may be paid. All provisions of the policy remain in force throughout this period.

Guaranteed Insurability -- An option that permits the policyholder to buy additional stated amounts of life insurance at stated times in the future without evidence of insurability.

Insured -- The person on whose life an insurance policy is issued.

Lapsed Policy -- A policy terminated at the end of the grace period because of nonpayment of premiums. *(See Nonforfeiture Values.)*

Level Premium Insurance -- Insurance for which the cost is distributed evenly over the premium payment period. The premium remains the same from year to year, and is more than the actual cost of protection in the earlier years of the policy and less than the actual cost in the later years. The excess paid in the early years builds up a reserve to cover the higher cost in the later years.

Living Benefits -- *(See Accelerated Death Benefits.)*

Loan Value -- *(See Policy Loan.)*

Mortality Table -- A statistical table showing the death rate (probability of death) at each age.

Mutual Life Insurance Company -- A life insurance company owned by policyholders who share in the company's surplus earnings.

Non-forfeiture Values -- The value of the policy if cancelled, either in cash or in another form of insurance. Also available to the policyholder if required premium payments are not paid.

Non-participating Insurance -- Insurance on which no dividends are paid.

Paid-up Insurance -- Insurance on which all required premiums have been paid.

Participating Insurance -- Insurance on which the policyholder is entitled to share in the surplus earnings of the company through policy dividends that reflect the difference between the premium charged and the cost to the company of providing the insurance.

Policy -- The printed document issued to the policyholder by the company stating the terms of the insurance contract.

Policy Dividend -- *(See Dividend.)*

Policy Loan -- Under an insurance policy, the amount that can be borrowed at a specified rate of interest from the issuing company by the policyholder, who uses the value of the policy as collateral for the loan. In the event the policyholder dies

with the debt partially or fully unpaid, the insurance company deducts the amount borrowed, plus any accumulated interest, from the amount payable.

Premium -- The payment, or one of the regular periodic payments, that a policyholder makes to own an insurance policy.

Producer -- An authorized representative of an insurance company who sells and services insurance contracts.

Reinstatement -- The restoration of a lapsed policy to full force and effect. The company requires evidence of insurability and payment of past due premiums plus interest.

Renewable Term Insurance -- Term insurance providing the right to renew at the end of the term for another term or terms, without evidence of insurability. The premium rates increase at each renewal as the age of the insured increases.

Rider -- An amendment to an insurance policy that modifies the policy by expanding or restricting its benefits or excluding certain conditions from coverage.

Risk Classification - *(See Underwriting.)*

Settlement Option -- One of several ways, other than immediate payment in a lump sum, in which the insured or beneficiary may choose to have the policy proceeds paid.

Stock Life Insurance Company -- A life insurance company owned by stockholders who share in the company's surplus earnings.

Straight Life Insurance - *(See Whole Life Insurance.)*

Term Insurance -- A plan of insurance that covers the insured for only a certain period of time (the term), not for his or her entire life. The policy pays death benefits only if the insured dies during the term.

Term Rider -- Term insurance that is added to a whole life policy at the time of purchase or that may be added in the future.

Underwriting -- The process of classifying applicants for insurance by identifying such characteristics as age, sex, health, occupation and hobbies. People with similar characteristics are grouped together and are charged a premium based on the group's level of risk. The process includes rejection of unacceptable risks.

Universal Life Insurance -- A flexible premium life insurance policy under which the policyholder may change the death benefit from time to time (with satisfactory

evidence of insurability for increases) and vary the amount or timing of premium payments. Premiums (less expense charges) are credited to a policy account from which mortality charges are deducted and to which interest is credited at varying rates.

Variable Life Insurance -- Life insurance under which the benefits relate to the value of assets behind the contract at the time the benefit is paid. The assets fluctuate according to the investment experience of funds managed by the life insurance company.

Waiver Of Premium -- A provision that sets certain conditions under which an insurance policy would be kept in full force by the company without the payment of premiums. It is used most frequently for those policyholders who become totally and permanently disabled, but may be available in certain other cases.

Whole Life Insurance (Straight Life or Permanent Life) -- A plan of insurance for life, with premiums payable for a person's entire life.