Achievable

LIFE INSURANCE DUMP SHEET

Life insurance basics

Types of life insurance

- **Term life:** pure protection, no cash value, less expensive; premiums rise over time
- **Whole life:** permanent, builds cash value, level premium
- **Universal life:** flexible premiums and death benefit; builds cash value
- **Variable life:** cash value invested in separate accounts; the policyholder bears the investment risk, and the death benefit and cash value move with performance. Requires a securities license; regulated by the SEC and FINRA

Beneficiaries

- **Revocable:** can be changed at any time
- **Irrevocable:** cannot be changed without the beneficiary's consent
- **Per stirpes:** a deceased beneficiary's share goes to their heirs
- **Per capita:** divided only among the surviving named beneficiaries

Premium factors

- **Mortality:** the likelihood of death; higher for older people, raising the premium
- **Interest:** the insurer invests premiums, and the interest earned lowers the premium
- **Expenses:** operating costs (commissions, administration, profit) added to the premium

Policy riders

- **Waiver of premium:** waives premiums if the insured becomes disabled and cannot work
- **Guaranteed insurability:** buy more insurance later without proof of insurability
- **Accidental death benefit:** an extra payment if death is accidental
- **Return of cash value:** pays the cash value in addition to the death benefit
- **Payor benefit:** on juvenile policies, waives premiums if the payor dies or becomes disabled

Policy provisions

- **Contestable period:** first 2 years; the policy can be voided for material misrepresentation
- **Suicide clause:** suicide within 2 years refunds premiums only
- **Reinstatement:** restore a lapsed policy within 3 years with back premiums and proof of insurability
- **Misstatement of age:** the policy stays valid; the face amount is adjusted to the correct age

Group life insurance

- **Applicants:** employers, METs, labor unions, creditors
- **Issuance:** one master policy; members receive certificates
- **Underwriting:** no medical exams for most groups; rates based on size, age, and claims
- **Cancellation:** the employer may end the policy with 31 days' notice; the insurer only at renewal
- **Participation:** 100% for non-contributory plans, 75% for contributory
- **Conversion:** members can convert to an individual policy within 31 days without proof of insurability

Annuities

- **Purpose:** protects against outliving your money; guaranteed payments (often for life)
- **Premiums:** not tax-deductible, but grow tax-deferred
- **Purchase:** a single premium (immediate or deferred) or periodic payments (deferred)
- **Accumulation:** flexible contributions; withdrawals are taxable, with a 10% penalty under 59½
- **Annuitization:** converts the annuity into guaranteed periodic payments; irreversible
- Payout options:
  - **Life income:** for life; stops at death
  - **Period certain:** for a fixed period; a beneficiary receives any remaining payments
  - **Life with period certain:** for life, and guaranteed for a set period
  - **Refund:** a beneficiary receives any unpaid balance of the contract value
  - **Joint life:** two or more annuitants; stops at the first death
  - **Joint and survivor:** continues until the last annuitant dies
- **Taxation:** only the growth portion of each payment is taxed; no 10% penalty once annuitized
- **1035 exchange:** tax-free transfers life → life, life → annuity, annuity → annuity; never annuity → life
- **ERISA:** governs employer retirement plans; life insurance and annuities are ERISA-qualified only inside a specific employer-sponsored plan

Tax basics

- **Premiums:** not tax-deductible
- **Death benefit:** usually tax-free to the beneficiary
- **Cash value:** grows tax-deferred
- **Withdrawals:** taxable above cost basis (premiums paid)
- **Non-MEC:** basis is withdrawn first
- **Policy loans:** not taxable while the policy stays in force
- **Dividends:** not taxable (a return of excess premium)
- **Modified endowment contract (MEC):** fails the 7-pay test; taxed like an annuity (LIFO, plus a 10% penalty under 59½)