DEFINING YOUR NEEDS

When you buy life insurance, you want a policy which fits your needs without costing too much. Your first step is to decide how much life insurance you need, how much you can afford to pay, and the kind of policy you can get that meets your cost and coverage goals. Then, find out what various companies charge for that kind of policy.

There are many reasons for purchasing life insurance among which are the following:

- Family protection to provide financial security to surviving family members upon the death of the insured person.

- Insurance to cover a particular need such as paying off a mortgage or consumer debt upon the insured's death.

- Business insurance to compensate a company on the death of a key employee or to provide a surviving partner the resources to buy out the deceased partner's share of the business.

- To provide funds to pay estate taxes or other final obligations necessary to settle a deceased person's estate.

- To provide the funds necessary for the deceased person's burial expenses.

Accumulation of funds to supplement retirement income if you are going to make a good choice when you buy life insurance, you need to understand which kinds are available. If one kind does not seem to fit your needs, ask about the other policies which are described in this guide. If you need more information than is given here, you should check with a life insurance agent or company or consult books on life insurance which are available at your public library. Also, the Department of Insurance has a toll-free hotline listed in this brochure to assist you.

CHOOSING THE AMOUNT

You should elect an amount necessary to meet the needs you are trying to satisfy.

CHOOSING THE TYPE OF LIFE INSURANCE

There are two basic types of life insurance, term insurance and cash value insurance. There are many variations on them.

Term Policies provide life insurance for a specified period of time. These policies provide benefits in the event of death, but they generate no “cash value”. If you have a limited amount to spend, and only need insurance for a finite period of time, you may be able to get more coverage by buying term insurance than by buying cash value insurance. Keep in mind that the cost of term insurance increases as you get older, which may make it more expensive than cash value insurance in the long run. Today’s term policies usually have two sets of premiums - guaranteed maximum premiums, and “current premiums”, which are usually much lower, but which can be changed by the company. The company cannot increase current premium above the guaranteed maximum premiums shown in the policy.

When you buy term insurance you need to make a choice as to how long you want the protection. You may renew the policy without a physical examination for the period of years specified in the policy. Some term insurance can be converted to cash value insurance up to a specified age with no physical examination. Premiums for the converted insurance will most likely be higher than the premiums you would be paying for the term insurance.

Cash-Value Insurance combines death benefits with an accumulation feature. The buyer of a cash value policy pays more in the early years than for term insurance, but the money not needed to pay for the cost of the death benefit accumulates at interest. If the policy is surrendered before the insured dies, there may be a cash value paid to the owner. Make sure the agent/broker provides you with the method by which the cash value is determined and that they obtain this information based on the policy's guaranteed value. As a general rule, it is not a good idea to buy cash value life insurance if you plan to surrender early.

If all premiums are paid, cash value insurance usually lasts for the whole life of a person, and pays death benefits to the beneficiaries named in the policy upon the death of the insured. The cash value can be used as loan collateral for borrowing funds at the interest rate specified in the policy. Any outstanding loans are deducted from policy proceeds at death or surrender. Some of these products may enjoy tax advantages. A policy lapse or surrender may create a taxable event and may generate a Form 1099. Be sure to check with your tax advisor.

Some of the most popular types of cash value insurance are described below:

Whole Life Insurance (also known as straight life, ordinary life and traditional permanent insurance) has guaranteed premiums and death benefits, and a minimum interest rate which will be credited to the funds accumulated in the policy. On some whole life policies higher interest rates may be credited to those funds depending on the future performance of the company's investments.

Universal Life differs from whole life insurance in that it allows the policy owner to vary, with limitations, the amount and timing of premium payments and the death benefit. Cash values are accumulated by crediting premium payments and interest to a fund from which deductions are made for expenses and cost of insurance. The rates at which the interest is credited are declared by the company or may be specified in the contract. Like term insurance, universal life insurance policies usually have two sets of premiums - guaranteed maximum premiums, and "current premiums", which may be lower, but which can be changed by the company, up to the maximum. They also include a minimum interest guarantee. Because of its flexibility, a universal life policy can also be structured to operate like term insurance.

Variable Life differs from whole life insurance and universal life insurance in that policy owners direct the distribution of their premium payments among several different accounts or funds rather than of the company's choosing. Typical account choices are: common stock, bond, mortgage, and money-market accounts. With this type of policy, the death benefit and cash value benefits vary in relation to the value of the investments underlying the policy. If the value of the accounts increases, so will the benefits; if the value of the account decreases, so will the benefits, subject to a minimum guarantee. Variable life insurance is more risky to the policy owner than the other forms of cash value insurance, but there is a possibility of greater returns.

Variable Universal Life Insurance combines the flexibility of universal life insurance with the investment account features of variable life insurance.

AVAILABILITY OF LIFE INSURANCE

Agents

Most people apply for life insurance through an agent, licensed by the State, who may represent one or more companies. If you use an agent, choose carefully. Agents earn a commission on your business. A professional agent will do more for you than just sell you a policy. They should assess your needs, answer your insurance questions and help you establish your goal. They should advise you, and help you update your insurance. If you are considering the purchase of a variable policy, the agent must have an insurance license and a registration with the National Association of Securities Dealers. Variable products usually involve securities.

Group Insurance

Many employers offer life insurance under a group plan, and sometimes pay part or all of the premium. A medical exam is usually not required for insurance purchased this way, and the insurance can be much cheaper than coverage purchased as an individual. Under California law, group life insurance must be convertible to permanent insurance at the insured's option when the insured's coverage under the group policy terminates. The converted policy will probably be much more expensive than the group insurance.

Some employers will allow insurers to send agents or enrollers into their premises to offer insurance to their employees. Policies offered in this manner are different from group insurance, and you should evaluate the materials shown to you in the same way as if you were considering a purchase of an individual policy through an agent.

Mail order or through the internet

Some insurance companies solicit through the mail or through the internet to the prospective buyer who mails a completed application directly to the company. These types of insurance may cost less because you receive little or no personal assistance, but they may also cost more because of the expenses of mass mailings. Also internet advertising may not provide what you really need. Before you buy by mail or through the internet consult an expert who can help you determine the best policy for you.

FINDING A GOOD BUY

Guarantees

Determine the guarantees on premiums, death benefits, expenses, cash value, mortality changes and cost of insurance. Get these guarantees in writing.

Sales Illustrations

It is likely that an agent will show you one or more life insurance sales illustrations. An illustration consists of a series of numbers indicating how the policy works. The illustration usually shows the guaranteed results under the policy for each year in the future, and the results if all the non-guaranteed items continue unchanged at their present level. This will probably not happen - actual results may be better or worse than the non-guaranteed amounts shown in the illustration (but not worse than those that are guaranteed).

Using Indexes

Your chances of finding a good buy are better if you use the index numbers that have been developed to aid you in shopping for life insurance. The Buyer's Guide that each insured is required to provide a purchaser explains these index numbers in detail. They are good tools to help you compare the merits of similar policies.

HOW TO PROTECT YOUR INVESTMENT

Recently, high-risk investment strategies have threatened the solvency of some companies and thus the safety of policy benefits. Be sure to check out the insurer's industry rating (as provided by independent rating services) before committing your funds. Also, make sure that your life insurance company is licensed in California. Owners and group insurance certificate holders of life insurance policies issued by companies licensed in California may be partially protected in the event of the failure of the insurer by the California Life and Health Insurance Guarantee Association.

INFORMATION SOURCES

Additional information about the insurance companies can be found by reading insurance company rating service reports. Five major insurance rating companies grade insurers on their financial health and ability to pay claims. These companies are: A.M. Best, Standard & Poors, Moody's Investor Service, Duff & Phelps, and Weiss Research. You should check two or three of these services to get a good look at the company's condition. They can usually be found in your local library.

IMPORTANT THINGS TO REMEMBER

Check with your agent to make sure the policy is actually issued by a company license to do business in California.

Identify your need.

Select the type of policy and amount that best fills your need.

Investigate the reliability and stability of the life insurance company through the insurance rating organizations and the California Department of Insurance Hotline at **1-800-927-HELP.**

In most cases California law will only apply if the contract was issued in by a company authorized to do business in California.

Review all illustrations and other sales presentations carefully, and ask for them to be confirmed in writing with a copy to be retained by you.

Be sure that you are dealing with an entity licensed to do business in California.

GLOSSARY OF LIFE INSURANCE TERMS

Accelerated Benefit Provision - A provision in many new policies which will allow the policy owner to receive a portion of the death benefit early if the insured person is diagnosed with a terminal illness or permanently confined to a nursing home.
Accidental Death Benefit - A rider added to a policy that provides an additional benefit if the insured dies from accidental causes.
Certificate - A document provided to a person insured under a group insurance policy evidencing that the coverage exists.

Evidence of Insurability - Medical and other information about a person applying for insurance that the life insurance company keeps confidential, but uses to decide whether the policy can be issued and what premiums to charge.
Face Amount-The amount to be paid to the beneficiary when the insured dies. It will be reduced by any unpaid policy loans and interest on those loans and may be increased by any dividends.
Free Look - A required period, of 10 or more days after a policy has been delivered to the policy owner, during which the policy can be returned for a refund of all amounts paid.
Grace Period-A period (usually 31 days) after the premium due date, during which an overdue premium may be paid without penalty. The policy remains in force throughout the period.
Guaranteed Insurability-An option that permits the policy holder to buy additional stated amounts of life insurance at certain times in the future without having to provide new evidence of insurability.
Illustration - A document used in life insurance sales presentations showing year-by-year numbers indicating how a policy will work. Usually it assumes that amounts being paid today will continue in all future years.
Insured - The person on whose life an insurance policy is issued.
Lapse - Discontinuation of insurance without cash values when required premiums are not paid. If cash value exists there be nonforfeiture provisions available.
Loan Value - The amount which can be borrowed by the policy owner from the company using the value of the policy as collateral. Usually the interest rate payable on the loan varies based on an index defined in the policy
Mode of Premium Payment - The frequency of premium payments during the policy year. Premium payments can usually be made on annual, semiannual, quarterly or monthly modes.
Mortality Table -A statistical table showing the death rate (probability of death) at each age.
Non-Forfeiture Options - Provision in the policy which allow policy owner to chooses how the cash value of the policy will be used if the policy is surrendered or lapses due to non-payment of premium.

Ownership - All rights, benefits, and privileges under a policy are controlled by the owner, who is usually the insured. Ownership may be transferred or assigned to someone else by written request of the current owner.

Paid-Up Insurance -Insurance on which it is guaranteed that no further premium need be paid.

Participating Insurance - Insurance on which the policy owner is entitled to share in the surplus earnings of the company through dividends which reflect the difference between the premium charged and the actual earnings and costs of providing coverage.

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

Policy Year - A one-year period starting on the day and month the policy was issued. The first policy year starts on the date of issue, and ends on the day before the policy's first anniversary.

Premium - The payment a policy owner is required to make for an insurance policy to remain in force.

Rated Policy - A policy issued with an additional premium to cover the extra risk involved if an insured has impaired health, a hazardous occupation or hobbies, or is a private pilot.

Reinstatement - The restoring of a lapsed or surrendered policy to full force and effect. The company requires evidence of insurability, and payment of all amounts necessary, including interest, to put the policy into the condition it would have been in had the lapse or surrender not occurred. The company is not obligated to reinstate a policy.

Rider -A provision added to a policy that provides additional benefits.

Settlement Option- The manner in which the insured or beneficiary may choose to have the policy proceeds paid.

Suicide Clause - A policy provision which reduces or eliminates the amount to be paid if the insured dies of suicide within the first two policy years.

**Standard Risk - **The classification of an applicant for a life insurance policy who fulfills the physical, occupational, and other requirements on which most of a company's policies are issued. Someone whose characteristics are more favorable may be classified as a "Preferred Risk". When the characteristics are less favorable, the applicant may be characterized as "Rated", or refused coverage altogether.

Surrender-To voluntarily terminate or cancel a policy for its cash value or other nonforfeiture options.

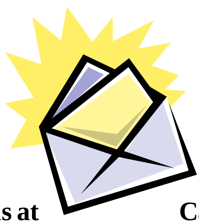
**Underwriting - **The process of evaluating applicants for insurance and classifying them fairly so the appropriate premium rates may be charged. This may involve a physical examination of the applicant.

**Waiver of Premium - **A rider added to policy that will pay the premiums during the total disability of the insured.

TALK to US

Do you have a question, comment or concern? There are several ways to talk to us:

1. **Call** us at our consumer Hotline at **(800) 927-HELP**
   Callers within the Los Angeles area please dial **(213) 897-8921**
   Telecommunication Device for the Deaf dial **(800) 482-4TDD**



2. **Write us at** **California Department of Insurance**
   300 South Spring St., South Tower
   Los Angeles, CA 90013

3. **E-mail** us through our website at
   www. 927help@insurance.ca.gov

4. **Visit us in person on the 9th Floor at the address above**
   Monday through Friday 8:00 AM to 5:00 PM P.S.T.
   Excluding State Holidays