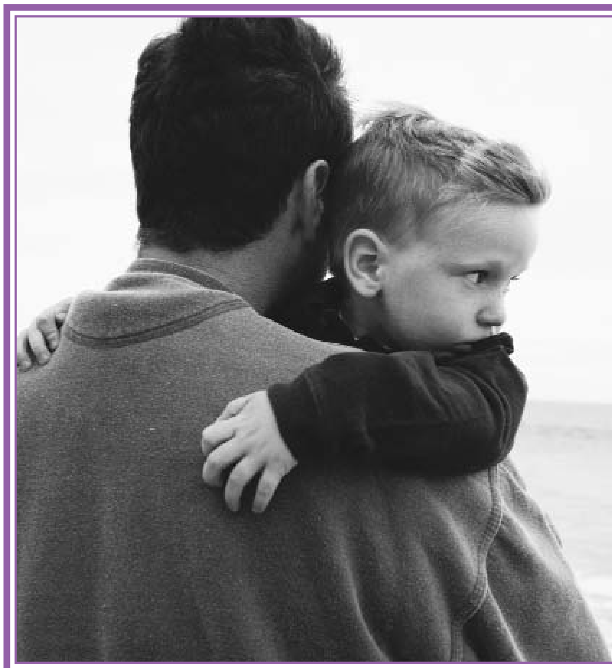
A Consumer's Guide To



Life Insurance

NYSUT A Union of Professionals Member Benefits Trust

NYSUT Member Benefits Trust wants members to be the best-informed consumers in the state. This Consumer's Guide is one of our contributions to achieving that goal. We hope you will find it helpful and informative.

Your family depends on you to provide for their financial security. If you were to die, would your spouse and children be able to maintain their current standard of living without any financial hardship? If your answer is "no" or even "maybe," you should purchase enough life insurance to protect your family.

Life insurance can seem very complicated because of the unfamiliar terms used by insurance agents: whole life, cash value, waiver of premium, universal. However, the basic principle of life insurance is quite simple: your beneficiary receives a death benefit when you die. If you keep this principle in mind, buying life insurance will probably be easier than you thought.

This brochure is designed to provide you with some basic information about:

- the need for life insurance
- the different types of life insurance
- how to select the correct type of life insurance
- how to buy the proper amount of life insurance

Do I really need life insurance?

If you're single with no one to support, you may not need to buy life insurance. On the other hand, if you are responsible for caring for a spouse, children or elderly parents, life insurance can make up for the loss of your paycheck upon death. Generally, families with young children should buy the greatest amount of insurance because the children will need to be supported for many years.

There are three basic types of life insurance you can purchase: term, whole life and universal.

Term Insurance - With term insurance, you pay for a certain amount of coverage for a limited period of time, the "term." The most common term policies are 1-, 5- or 10-year *renewable* term and 10-, 15- or 20-year *level* term. If you die within that period, the insurance company will pay to your beneficiary the amount of insurance you've purchased.

A one-year term life policy, sometimes called a Yearly Renewable Term or Annual Renewable Term, has a level face amount of insurance that is renewed each year, with the premiums based on the insured's attained age. The premium increases each year, but the face amount of insurance remains level. Because the premium goes up each year like stairs, this type of premium is known as step-rate premium. The 5- and 10-year policies work the same way. The policy name reflects the number of years the premium will remain level before it goes up.

For example, a 5-year renewable policy at age 30 will have a level premium and face amount for five years. In the sixth year, (at the insured's age of 35), the premium will increase, but the insurance will remain the same.

This type of term policy is only renewed up to a specified age, e.g., to age 70, after which the policy can no longer be renewed. This feature is important because you will be guaranteed life insurance even if your health diminishes over the years.

The level term policy is written for a specified number of years, e.g., 10, 20, 25, or 30 years. The amount of life insurance remains the same but cannot be renewed at the end of the term period.

Whole Life - Whole life insurance contains both insurance and cash value accumulation. A whole life policy does not need to be renewed. The name of the policy describes how long it is effective - your "whole life" (until death or age 100, whichever comes first). If you are still alive at age 100, the policy will pay its full amount to you. Each year you pay a premium, which usually does not change.

Because whole life insurance is permanent insurance, cash values build during the policy period. The cash value is relatively small in the early years of the policy and usually does not begin to accumulate until the policy is in force for at least three years. The cash value increases each year thereafter until the insured reaches age 100, when the cash value will equal the face amount of the policy. As the cash value increases, the insurance protection decreases, keeping the death benefit level. For example, suppose you purchase a $100,000 whole life insurance policy. If you die the day after buying the policy, the insurer would pay a $100,000 death benefit. However, if you die after building up a cash value of $30,000, the insurer would only pay a $70,000 death benefit. Your beneficiary would receive the $30,000 cash value and $70,000 death benefit.

Whole life insurance is also called permanent life insurance or cash value life insurance. If the word "variable" is included in the name, i.e., variable whole life, the policy allows you to select, from a list of investment options, where to invest your whole life cash value.

Universal Life - Universal life insurance is similar to whole life insurance - but with these important differences: premiums are flexible, not fixed; the death benefit is adjustable; and the insurance company's expenses and other charges are disclosed. You receive an annual report that illustrates the cost of your death benefit, expenses charged by the insurance company, surrender value, cash value and amount of insurance in force. You're also told the interest rate you're being paid on your cash value.

There are two options affecting the death benefit of universal life insurance. The first option provides a level death benefit. The second option provides an increasing death benefit.

If the word "variable" is included in the name, i.e., variable universal life, the policy allows you to select, from a list of investment options, where to invest your universal life cash value.

Which type of insurance should I buy?

The type of life insurance you purchase depends on how much you need and on how much you can afford. Most people should buy term insurance - especially young parents with children.

Term life insurance provides coverage for a limited time and costs less at younger ages than a comparable amount of whole life or cash value life insurance, which covers an insured for the rest of his or her life. Term insurance has become increasingly popular; it costs less because there is less likelihood that an insured will die during the term, whereas with cash value insurance, a policy will pay off whenever an insured dies. However, the premium for term insurance increases dramatically as an insured grows older, but the premium for permanent insurance usually remains level throughout the lifetime of the policy.

Furthermore, term insurance is affordable for families with tight budgets. In later years, the higher cost of term insurance should be offset by reduced financial obligations and reduced coverage needs.

Many people who can afford a whole life or universal life policy purchase it because it is a "forced" savings plan. If you do not have the opportunity or the discipline to save money, this may be an appropriate way to save; however, before using a whole life or universal life policy as your savings vehicle consider all of your options. Employer-sponsored savings plans that reduce your take-home pay will accomplish the same goal and may provide a better rate of return.

If you're thinking of buying a whole life policy, you won't be able to compare rates of return. Whole life policies do not tell you their rates of return. You're better off investigating universal life policies, which provide their rates of return.

How much life insurance should I buy?

If you don't buy enough insurance, you risk leaving your dependents financially unprotected. If you buy too much insurance, you're spending money unnecessarily. Basically, you can calculate your insurance needs by deducting your assets from the expenses you anticipate your dependents will have after your death.

Three types of expenses should be considered: final expenses, daily expenses and major expenses. **Final expenses** include funeral expenses, final medical expenses for which you're not insured, and probate expenses. **Daily expenses** include expenses for housing, food, clothing and child care. **Major expenses** include items such as education and emergencies.

Remember, you're not calculating daily and major expenses for a month or a year, but for the length of time you would have brought home a paycheck.

When determining your assets, include your savings, stocks and bonds, tax-deferred annuity and benefits from your pension plan, profit-sharing plan, and Social Security. However, don't include assets, such as the equity in your home or a car, which your surviving dependents will not want to use to acquire cash.

What else should I know?

There are several often-asked questions about life insurance that you may still be unsure about.

- What is a waiver of premium amendment?

  A waiver of premium amendment to the policy says that you do not have to pay the premium while you are disabled. Insurers charge for this amendment. Experts suggest that this coverage should be considered in a life insurance policy since the probability of becoming disabled is 7 to 10 times greater than death at younger and middle ages.

- What is an accidental death amendment?

  With an accidental death amendment, your beneficiary will receive two or three times the amount specified in the policy if an accident causes your death. This amendment is usually not worth the additional cost. If you have the correct amount of coverage to protect your dependents, you don't need to buy more insurance.

- Can I withdraw or borrow against the money I've spent for a life insurance policy?

  If you purchase a term insurance policy, you are only paying for the death benefit so there is no money to withdraw or borrow. Whole life and universal life insurance policies will allow you to withdraw the entire cash value or borrow against it; however, if you withdraw the entire cash value, you may lose the death benefit. You can make a partial withdrawal under a universal life policy but not a whole life policy.

Please note:
Some people purchase life insurance to maximize their pension. Many important factors need to be taken into consideration before doing this. You should speak with your personal financial adviser to determine whether this is a direction you want to pursue.

Want more information?

If you would like more information about the various types of life insurance endorsed by NYSUT Member Benefits Trust, contact:

NYSUT Member Benefits Trust
(800) 626-8101
e-mail: *benefits@nysutmail.org*
Web site: *www.memberbenefits.nysut.org*

For information about contractual expense reimbursement/endorsement arrangements with providers of endorsed programs, please contact NYSUT Member Benefits Trust or refer to your NYSUT Member Benefits Trust Summary Plan Description.

NYSUT Member Benefits Trust offers Consumer's Guides on these additional topics:

- Automobile Insurance
- Disability Insurance
- Homeowners and Renters Insurance
- Legal Services
- Long-Term Care Insurance

2M, 11/06, I-084