

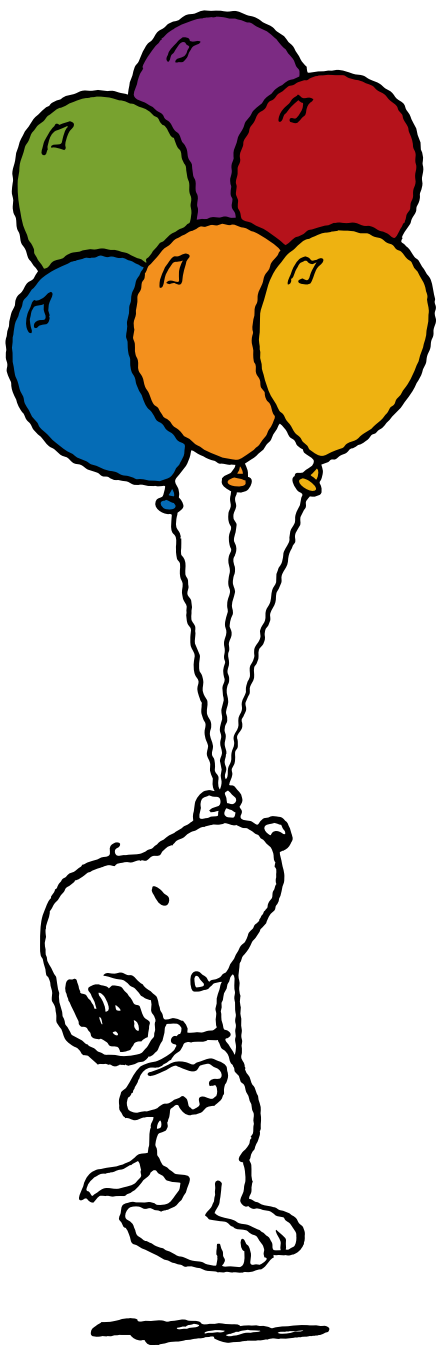
# Life Insurance

**MetLife**<sup>®</sup>

Life Advice

What to look for in life insurance





MetLife Consumer Education Center

**Deciding to protect those who depend on us with a sufficient amount of life insurance protection is a responsible and caring act.**

Life insurance can provide those who are left behind with a lifetime of financial security. This booklet offers straightforward information and practical advice about life insurance and the purchasing process.

**Table of Contents**

Life Insurance Defined . . . . .	1
Do I Need Life Insurance? . . . . .	1
Specific Types of Life Insurance . . . . .	1
How Much Do I Need? . . . . .	2
Choosing the Right Company . . . . .	3
Controlling Costs . . . . .	3
If You Already Have Life Insurance . . . . .	4
Increasing Coverage: Replace or Add . . . . .	4
For More Information . . . . .	4

---

This Life Advice® text about Life Insurance was produced by the MetLife Consumer Education Center and reviewed by LOMA (Life Office Management Association) and LIMRA (Life Insurance Management Research Association).

## Life Insurance Defined

Life insurance is an important part of a complete financial portfolio. Learning basic life insurance facts will help you make an informed decision about the type and the amount of life insurance that you need.

When you buy life insurance, you enter into a contract with an insurance company that promises to provide your beneficiaries with a certain amount of money upon your death. In return, you make periodic payments, called *premiums*. The premium amount is based on factors such as your age, gender, medical history, and the dollar amount of life insurance you purchase.

In the event of your passing, life insurance provides money directly to your beneficiaries. They can use the money for whatever they want, such as:

- Making up for your lost income
- Funding a child's education
- Paying off household debt
- Paying for your funeral and other related expenses

Certain types of life insurance may provide benefits for you and your family while you're still living. For example, permanent life insurance offers a cash value component, which can be put to good use during your lifetime.



## Do I Need Life Insurance?

Your income can be considered your family's most valuable asset. Your income is used to obtain the necessities of life and provide for life's comforts. The need for that income continues, whether or not you're here to provide it. The following situations signal a need to consider purchasing life insurance.

- You have a spouse, domestic partner, children, and/or an aging parent or disabled relative — and your retirement pension and savings are not enough to insure your dependents' future
- You have a sizable estate
- You own a business

Carefully chosen life insurance can help loved ones maintain their standard of living after your death.

## Specific Types of Life Insurance

Several types of life insurance are available to meet your needs. There are two main categories of life insurance: *term insurance* and *permanent insurance*.

**Term life insurance** offers protection for your loved ones for a specified period of time—usually from one to 20 years. If you stop paying premiums, the insurance stops. Term policies pay benefits if you die during the period covered by the policy; but they do not build cash value. If you want life insurance for a limited time—long enough to meet your anticipated responsibilities to those who depend on you—term life insurance may be right for you. A breadwinner might, for example, buy a term policy that matches the length of a home's mortgage. Premiums for term insurance are often higher as you get older.

Term life insurance snapshot:

- Easy to understand
- Affordable way to get maximum coverage
- Increases in cost after the specified period
- Builds no cash value

**Permanent life insurance** policies do not expire; they are intended to protect your loved ones permanently. Some types of these policies accumulate cash value, although they should not be purchased solely for that use, since their primary purpose is to provide protection.

Permanent life insurance policies have variations. Your insurance agent can provide you with specific details to help you choose the policy that best serves your needs.

If you value added security, flexibility, cash value and lifetime coverage, some form of permanent life insurance may be right for you.

Permanent life insurance snapshot:

- Protection for life, as long as you pay your premiums
- Can build equity in the form of a cash value
- Offers flexibility and many options to choose from
- Initially higher premiums than term life insurance, but more cost-effective in the long run

**Term and Permanent life together.** Don't think that you're limited to one or the other; you may find that a combination of term and permanent life meets your needs best.

For example, the foundation of your life insurance plan could be permanent life, supplemented by term life during your family-building, mortgage-paying years when coverage needs are typically higher.

## How Much Do I Need?

There are many ways to determine how much life insurance you may need. Many of these determinations depend on your personal situation and preferences toward retirement and lifestyle. Perhaps you, like many people, want enough life insurance to make sure your family can continue to live their current lifestyle after your death. If the primary purpose of life insurance is to provide annual income for your loved ones, the insurance amount will, ideally, be enough to replace what you would have earned until the age at which you would have retired.

Your goal should be to develop a life insurance plan (through one or more policies) that, following your death, compensates for the loss of your economic contribution. Here are two ways to determine how much life insurance you may need.

1. One method often used is to calculate *Replacement Income Need*, sometimes called *Human Life Value*. This is a well-established method to determining the financial contribution you can expect to make to your family from now until you would retire. It's more than just replacing your income; Human Life Value takes into account everything you provide for your family, including:

- Salary
- Benefits/health insurance
- 401(k) and retirement savings
- Personal services you perform for your family, such as child care, cooking, home maintenance, etc.
- Less, your personal consumption—annual spending on personal needs, such as food, clothing, entertainment, etc.

The chart below illustrates the amount of money that would be needed to replace lifetime earnings and household contribution at various ages and income levels. Find the age and income nearest yours to get a rough estimate of how much money would be needed in the event of your unforeseen death. Note, there are several financial assumptions already taken into consideration with these estimates.

This chart represents the amount of money you would need to receive today in order to replace a lifetime of earned income.

### Annual Income

Age	\$25,000	\$50,000	\$100,000
30	\$619,030	\$1,152,684	\$2,219,951
35	\$542,769	\$1,010,680	\$1,946,472
40	\$462,771	\$861,719	\$1,659,593
45	\$378,854	\$705,460	\$1,358,654
50	\$290,826	\$541,544	\$1,042,965
55	\$198,482	\$369,590	\$711,806

### Human Life Value Assumptions:

- Human Life Value amounts are adjusted for present value, assuming a 5% annual investment rate of return
- Annual salary increases of 4%
- Tax rate of 25%
- Annual personal consumption valued at \$10,000
- Annual services at home valued at \$5,000
- Annual fringe benefits valued at \$8,000
- Earned income stops at age 65



2. Another approach used in the financial services industry is called the *Survivor Needs Analysis*. This approach is based on replacing an amount of income needed for your surviving spouse and children to maintain a desired level of income and lifestyle. Your survivors' needs are then compared to their assets, existing life insurance and income sources to determine any additional life insurance requirements. This approach incorporates a vast array of financial data, relying on a number of assumptions.

Remember, the specific amount of life insurance you need to protect your loved ones depends on many factors—assumed rate of return on investments, future interest rates, inflation assumptions, future earnings, and future expenses. An insurance professional or financial advisor can help you determine an accurate figure and choose appropriate coverage.

## Choosing the Right Company

Once you have determined your life insurance objectives, speak to a qualified insurance professional to design the appropriate coverage for you. To ensure that you choose a good advisor, ask friends and colleagues for personal recommendations. To narrow your search, ask the following:

- **Is the insurance company financially secure?** Does it have a good claim payment history, good customer service, and competitive prices? Independent companies such as Standard & Poor's, A.M. Best, Moody's, and Fitch rate insurance companies, and provide information on their financial solvency.

Your state insurance department and the Better Business Bureau can provide valuable information on finding a good insurance company. Before buying any life insurance product, be sure to read the policy carefully and get clear answers to all of your questions.

## Controlling Costs

Here are some ways you can lower your premiums and save money in the long run:

- **Buy it now.** Premiums for the same coverage increase the older you become. And the longer you wait, the more you risk developing a health condition that could increase your premium further.
- **If you want permanent life but you're on a budget, consider some term for now.** You can save money initially by buying some term life in combination with permanent life. Then later, if your budget increases, consider converting the term policy to permanent life.



- **Consider group life insurance offered through your employer.** This form of life insurance coverage, known as group insurance, is generally less expensive than comparable plans offered to individuals. You can obtain coverage up to a certain level without providing evidence of good health, and group insurance plans typically provide for continued coverage during periods of disability. Most plans are administered through payroll deduction, a very convenient way to pay for coverage. Keep in mind that your group coverage may end or become more expensive when you leave your

job. Some plans allow you to continue your coverage after you leave simply by continuing your premium payments or converting your coverage to an individual policy.

- **Look for a guaranteed renewable policy if you buy term insurance.** That way you won't have to shop for a new policy (with higher premiums) when you're older, nor will you have to pay more if your health deteriorates. Keep in mind, guaranteed renewable policies can be complicated. Your insurance professional or financial advisor can help you fully understand these products.
- **Carefully consider additional riders,** which are optional forms of coverage, and make sure you really need them.
- **Shop around and compare coverage, and company quality.** Consider getting more than one quote on comparable policies, and ask questions about the policy's renewal and withdrawal provisions.

Regardless of what kind of insurance you purchase, keep in mind that most insurance policies contain exclusions, limitations, reductions of benefits and terms for keeping them in force. Your representative can provide you with costs and complete details.

## Tax Advantages of Life Insurance

**Tax-Deferred Cash Values.** Some types of permanent life insurance build cash value over time. Your policy's cash value grows on a tax-deferred basis. Tax deferred means that you do not pay taxes on the cash value accumulation. This benefit allows you to maximize the growth potential of your policy when paying additional premiums in the earlier years of your life.

**Access to Funds.** The cash value earned on a permanent life insurance policy can be withdrawn or borrowed against to help with big-ticket items, such as a college education or down payment on a home. As long as your policy remains in force, i.e., you've paid the policy premiums, you can generally access the cash value on a tax-free basis during your lifetime. Of course, withdrawals and/or loans and unpaid interest on loans will reduce the death benefit (i.e., the amount paid when the person insured under the policy dies).

**Direct Payment of Death Benefit.** Life insurance benefits are generally not subject to income tax. These benefits can go directly to your beneficiaries without going through probate. Life insurance proceeds can be used to pay funeral expenses and estate taxes without liquidating other assets. Keep this in mind when you review your life insurance and other financial plans. Check with a financial planner or tax professional to find out how recent and proposed changes to estate tax laws may affect your financial plans.

## If You Already Have Life Insurance...

If you currently have a life insurance policy, it's a good idea to review it every few years to make sure it still meets your needs. Check to make sure all beneficiaries and other information are current. Do any of the "ifs" below pertain to you? If so, it might be time to speak with your representative.

If you...

- Were recently married or divorced
- Have a child or grandchild who was recently born or adopted
- Provide care or financial help to a child or parent
- Want to ensure that financial resources are available to provide assistance or long-term care for a loved one
- Purchased a new home recently
- Have children or grandchildren who are about to enter college
- Refinanced your home mortgage in the past six months
- Receive an inheritance
- Retired or your spouse has retired
- Have started a business

## Increasing Coverage: Replace or Add?

You can trade or replace an existing policy, but you should think carefully before you do. Whether you switch policies within the same company or switch from one company to another, your new policy would be subject to new underwriting, which may affect how much you have to pay. For example, premium rates are partly based on age, so a new policy is likely to be more expensive. Changes in your health—or the way the new insurer takes your health into account—can also affect your premium.

You may lose some or all of the cash value in your current policy if you switch. Also, there is normally a new "contestability period" during which the insurer can cancel the policy and refuse to pay death benefits if information on the application was materially incomplete or misleading.

If you're planning to increase your total life insurance, it's generally better to keep your old policy and increase its face amount if you can, or simply add a new policy.

Suppose, for example, that you currently have \$250,000 worth of life insurance and your new objective is to have \$500,000. It may be better to keep the existing \$250,000 policy and buy a second \$250,000 policy to total \$500,000. Your existing policy premiums will generally be less than those for the new policy because you bought it when you were younger, and you won't lose any existing cash value. Be sure to ask your insurance professional or financial advisor about the best alternative for your specific situation.

## For More Information

### Free Brochures

The quarterly Consumer Information Center catalog lists more than 200 helpful federal publications. Obtain a free copy by calling 888-8-PUEBLO or on the Internet at [www.pueblo.gsa.gov](http://www.pueblo.gsa.gov).

### Helpful Websites

#### [www.fpanet.org](http://www.fpanet.org)

The Financial Planning Association provides information about financial planning and a listing of financial advisors by area.

#### [www.consumerfed.org](http://www.consumerfed.org)

The Consumer Federation of America will, for a fee, help you evaluate life insurance policies you are considering. Contact them by calling 202-387-6121 or on the Internet.

#### [www.iii.org](http://www.iii.org)

The Insurance Information Institute has a library of information to help you better understand your insurance policies and learn new ways to save money.

#### [www.naic.org/state\\_web\\_map.htm](http://www.naic.org/state_web_map.htm)

The National Association of Insurance Commissioners is the organization of state insurance regulators for all 50 of the United States, Washington DC, and five US territories. For information about insurance in your state, contact your state's Insurance Department. The NAIC website provides access to all 50 state insurance department websites.

#### [www.bbb.org](http://www.bbb.org)

The Better Business Bureaus can alert you to complaints against companies in your area. BBB provides objective advice, free business and charity reports, and educational information on topics affecting marketplace trust.

#### [www.metlife.com](http://www.metlife.com)

This website features a Life Insurance Selector tool that helps consumers determine what type of life insurance they may need and how much.



For information about other Life Advice topics, go to [www.metlife.com/lifeadvice](http://www.metlife.com/lifeadvice). To order up to three free Life Advice brochures, call **800-METLIFE (800-638-5433)**.

For the **if** in **life**<sup>®</sup>

**MetLife**<sup>®</sup>

Metropolitan Life Insurance Company

200 Park Avenue  
New York, NY 10166  
[www.metlife.com](http://www.metlife.com)

0812-0563 LAI04(0109)  
© 2009 METLIFE, INC. L0209017012(exp0211)(All States)(DC, GU, MP, PR, VI)  
PEANUTS © United Feature Syndicate, Inc.

**LIFE ADVICE**<sup>®</sup>

For more information call **1-800-METLIFE**  
or contact your local MetLife representative.

This brochure, as well as any recommended reading and reference materials mentioned, is for general informational purposes only. It is issued as a public service and is not a substitute for obtaining professional advice from a qualified person, firm or corporation. Consult the appropriate professional advisor for more complete and current information.

Text may be reproduced with written permission only. Reproduction of any graphical image, trademark or servicemark is prohibited.