

## Choosing the Right Life Insurance



Life insurance plays an important role in your financial portfolio and estate plan. It provides your family and loved ones with an added layer of financial security, and when used strategically, it may also support your long-term personal goals and objectives.

Ultimately, the purpose of life insurance is to replace the financial contributions lost when a family member passes away. It pays out a sum, known as a death benefit, to beneficiaries, who can use the money to pay virtually any expense, including costs associated with funeral costs, outstanding debt, medical expenses, utilities, health care, and future payments related to college and retirement.

However, with the wide variety of insurance policies available in the marketplace, selecting the right one can be challenging. To help you navigate the space, here is an overview of the terminology, available options, and criteria for identifying the right policy for you and your family.

### KEY INSURANCE POLICY TERMS

**Beneficiary:** The individual designated to collect the proceeds of an insurance policy

**Death benefit:** The payout allocated to the beneficiary upon the death of the insured

**Premiums:** The amount paid to the insurance company in exchange for coverage

**Cash value:** The portion of a life insurance policy that earns interest and may be available for use before the policyholder's death

**Dividends:** The partial return of a premium to the policyholder by the insurance company

## Types of Life Insurance

### TERM LIFE INSURANCE

A term life insurance policy provides a death benefit during a specific time period. The term refers to how long the policy lasts, often 10, 20, 30 years or more. If you die during the coverage period, your beneficiary receives the death benefit. If you outlive the term period, coverage ends, and you do not receive any benefit.

Once your term life insurance expires, you may be able to renew the policy. This, however, often comes at a higher price and may require a medical examination to ensure your insurability.

Some term insurance policies allow conversion at specified points, enabling you to convert your term policy to a permanent policy. This option can be valuable in the event that your life circumstances change and coverage is necessary for a longer term than initially expected.

#### Benefits of Term Life Insurance

- **Affordability:** Since term life insurance only offers a death benefit and does not include a savings benefit, it is the most economical type of life insurance policy.
- **Flexibility:** The length of coverage can be selected based on your specific needs, i.e., children's college graduation, retirement, etc.
- **Simplicity:** The only decisions you need to make are how much coverage you want and how long it will last.
- **Lenient medical requirements:** A medical exam is not necessarily required.

#### Who is the Ideal Candidate for Term Life Insurance?

Since term life insurance typically offers the most coverage for the lowest initial premium, it is suitable for those who want high levels of coverage during a specific time for temporary needs or when the need for protection is greatest. This makes it a good choice for those on a tighter budget or those just starting to build a family.

**Tip:** If selecting a term policy, carefully consider the coverage period. If you will possibly need to extend it, your age, health status or other factors may make doing so very expensive.

## Permanent Life Insurance

A permanent life insurance policy refers to life insurance products that provide a death benefit to beneficiaries while accumulating cash value over time. Cash values accumulate on a tax-deferred basis and are typically funded by your premiums.

### UNDERSTANDING YOUR BENEFITS: CASH VALUE VS. FACE AMOUNT

	Cash Value	Face Amount (Death Benefit)
<b>What It Is</b>	The portion of your policy you can access during your lifetime	The amount paid to your beneficiary when you pass away
<b>When You Receive It</b>	If you surrender the policy or borrow against it	Upon death (or policy maturity)
<b>What Affects It</b>	Interest, fees, insurer performance, and investment results	Typically fixed (unless reduced by loans/withdrawals)
<b>Key Consideration</b>	Loans or withdrawals reduce the death benefit if not repaid	Provides financial support to beneficiaries

## Benefits of Term Life Insurance

- **Lifelong coverage:** With permanent life insurance, you have coverage for life – as long as you pay your premiums.
- **Living benefits:** Through this insurance, the cash value can be built over time, accumulating on a tax-deferred basis. The money can be used for any purpose, i.e., a down payment on a home, college tuition, retirement, etc.
- **Choice:** There is a range of permanent life insurance options with different features, i.e., guaranteed rate of return, choice in investment, variable premiums, etc.

## Common Types of Permanent Life Insurance

1. **Traditional whole life insurance** provides a guaranteed premium, death benefit and rate of return on cash values – as long as you make your payments – and the opportunity to earn dividends. Dividends, though not guaranteed, allow an insurance company to share part of its favorable results with policyholders.
2. **Universal life insurance** offers flexibility in making premium payments after the initial payment, allowing you to choose how much and when you pay premiums. Reducing or increasing premiums will impact the growth of the cash value component of the account and possibly the death benefit. You can also purchase universal life insurance with a no-lapse guarantee. This “secondary guarantee” helps ensure that the policy won’t lapse under any circumstances, making it a popular option for estate planning purposes.
3. **Variable life insurance** allows you to make investment decisions related to your cash value account through subaccounts with a range of investment options. This policy assumes a higher level of investment risk with a greater potential for reward as the death benefit and cash values can vary with the performance of the investment portfolio.
4. **Variable universal life insurance** is a hybrid product that combines the flexibility of universal life insurance with the investment choice of a variable policy, providing you with the power to allocate your premium to a variety of investment options with varying degrees of risk and reward. Note that most variable universal life policies offer a rider that helps ensure the death benefit at a certain level, regardless of the subaccount’s performance, provided that a stated minimum premium is paid for a predetermined number of years.
5. **Joint or survivorship life insurance** is available for married couples who opt to purchase insurance together within the same policy. These policies can be designed in two formats:
  1. **First-to-die:** The death benefit is paid upon the death of the spouse who dies first.
  2. **Second-to-die:** No death benefit is paid until both spouses are deceased. These policies are commonly used in estate planning to create a pool of funds to pay estate taxes and other expenses.

## Who is the Ideal Candidate for Permanent Insurance?

Permanent life insurance is a good choice for those with long-term needs that last beyond an isolated event and can provide family and loved ones with the stability to maintain their lifestyles upon the death of the insured. It can also be a key component in an estate planning strategy.

**Tip:** If you need or want to stop paying premiums, you can use the cash value to continue your current insurance protection for a specified time or reduce the amount of your death benefit.

## Considerations to Discuss with a Financial Advisor

All policies are not created equally. Ask your financial advisor about what's suitable for you and consider the following:

**Timeframe:** How many years would you like your policy to cover? Is there a specific goal you are striving to achieve through your life insurance policy?

**Price:** Policies fluctuate widely in price. Some include specific provisions as standard features, while others may require you to pay extra to add these features as "riders" to your policy.

**Accelerated death benefits:** This feature allows a terminally ill person to collect a significant portion of his or her policy's death benefit while that person is still alive.

**Disability waiver of premium:** This provision waives premiums when a policy owner suffers a long-term disability, typically lasting more than six months.

**Accidental death benefits:** This clause doubles or triples the benefit in the case of death by accident.

**Convertibility:** When purchasing a term policy, consider what type of permanent policies the insurance company offers in the event you seek to convert.



### YOU'RE NOT ALONE IN THE DECISION

You do not need to navigate the insurance landscape alone. We are here to help you align your insurance coverage with your long-term financial goals and can collaborate with other insurance specialists and agents as necessary. Even if you already have coverage, regularly reviewing it to make sure it still reflects your life circumstances is best practice. Please reach out to us for assistance.



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