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The Nine Most Important Facts about Life Insurance

Suppose you've decided to buy a house. If you're like most people, you don't just call up a real estate agent and say, "I'm looking to buy a nice house at a reasonable price." You probably have at least a mental list of the things that are most important to you in a home.

For starters, the home has to be the right size for your family; if you have six kids, you're not going to be interested in a two-bedroom bungalow. Maybe you prefer a certain neighborhood; perhaps you need a good-sized yard or a two-car garage or lots of storage space. *Before you can start looking, you have to know what your family's needs are.*

You also have to know something about the real estate market in the area where you want to live. What are local home prices like? Is it a buyer's or a seller's market? Is what you want widely available or hard to find? In short, you need to know some basic facts before you begin.

The same is true with life insurance. You must know the basics about what life insurance can and cannot do for you in order to shop for it wisely, and you need to know what your needs are before you make a purchase.

This chapter covers the nine most important things to know about life insurance. It will give you a clear, thorough and reliable introduction to the subject, and it will provide you with all the basics you need to get started.

● FACT #1 ●

Do Not Buy Life Insurance Thoughtlessly or in a Hurry

Can you imagine buying a \$100,000 house on impulse or buying a \$15,000 car without test-driving it?

Few people buy homes or cars without first considering and evaluating their potential purchases carefully. Yet many of these same people think nothing of buying a life insurance policy without first considering their families' needs, without comparing policies, prices and insurance companies, and without first making sure that the policy is truly right for them.

Consider this: You will probably spend more money on your life insurance than on any other single purchase, except your house, that you make in your entire life. Can you really afford *not* to spend your life insurance dollars wisely? Does it make sense to spend thousands of dollars more than you need to—or, worse, to lose many thousands of dollars in potential benefits and dividends—just to save yourself the time and trouble of shopping intelligently for life insurance now? *You must buy life insurance even more carefully than you would buy a car.*

Many people in the United States and Canada who own life insurance have policies that are wrong for them—or, at the very least, are far less than ideal. Many of these people ought to have a different amount of coverage; others should and could be earning more on their policies; many are paying more (perhaps far more) than they have to pay; still others are insured by the wrong companies; and some own the wrong type of insurance altogether! How did most of these folks end up this way? They weren't stupid, and they certainly weren't trying to buy inappropriate policies. They simply weren't careful when they went shopping for life insurance, and they bought their insurance thoughtlessly or in a hurry.

This book shows you how to be one of the smart minority of people who own the right type of insurance, have the right type and amount of coverage, are insured by a reliable company and are paying no more than they have to for the insurance they need.

What makes a good life insurance policy? The simplest answer is that a good life insurance policy provides your family with guaranteed money to cover their expenses after you die. These expenses might include more than just the cost of supporting themselves and maintaining their current life-style. They might also include the cost of your funeral, your children's college education, the taxes on your estate or any of a variety of other items.

A good **term insurance** policy can do all of this. A good **whole life** insurance policy does all of this and much more: It also enables you to accumulate cash for your retirement, very safely, partly or entirely tax-free and at a good rate of return. As you will soon see, a good whole life plan can be a tremendous vehicle for accumulating cash with big tax advantages. You can also use a whole life policy as equity to borrow against, just like any other property. As you will also see, whole life insurance is the best kind of life insurance for most people—but it is not the right kind of insurance for everyone.

When shopping for life insurance, plan to put in 20 to 40 hours of your time. The whole process will still be far shorter and simpler than buying a house or condo, and your relatively small investment of energy and time now will pay off enormously in the years to come. It may also pay off immediately, in the form of smaller premiums, greater benefits and more security.

• FACT #2 •

Choosing the Right Life Insurance Company Is Absolutely Essential to Getting the Right Policy—and Getting Your Money's Worth

It's easy to believe that all life insurance companies are more or less the same. After all, they all seem to make similar promises. They even have similar names. Can there really be much difference between Massachusetts Indemnity and Massachusetts Mutual? Or between American General and General American? Or between Northwestern National Life and Northwestern Mutual Life?

You bet there is a difference—often an enormous one. A similarity of names means nothing; two insurance companies with similar names are likely to be just as different as two different women named Nancy. Names alone mean nothing; in fact, a life insurance company in serious financial trouble may have a name that evokes complete trustworthiness and reliability.

Why is choosing the right company so important? It all boils down to one word: security. When you buy life insurance, you are really buying security for yourself and for the people you care about. In fact, you are buying two different kinds of security: financial and psychological. First, you're buying financial security

for your family or business, either after you die, when you retire, or both. Just as important, however, you're also buying your and your family's *peace of mind right now*. You're buying the security and peace of mind of knowing that enough money will be there when you need it. This psychological security can come *only* from knowing that your insurance company will live up to (or come close to living up to) its projections in your policy. Any insurance policy that does not provide both of these types of security is worth very little.

You buy life insurance for (1) the guaranteed benefits it pays when you die, (2) the favorable, very safe and very sound return on your money it pays while you are still alive or (3) both of these reasons. In any of these three cases, however, you are still essentially buying a form of security.

Let's suppose for a moment that this security is taken away. What if, when you die, your family gets only 60 percent of the death benefit you expected they would receive—and thought you had paid for? Or what if, when you retire, instead of collecting the \$350,000 you had expected to accumulate through your life insurance policy, you collected only \$184,000? Or what if, just before you decide to cash in your policy, your insurance company is declared insolvent? In each of these cases, you haven't bought security at all; you've been gambling with your money. You might have done better putting your money into a mutual fund, the stock market or a bank.

Yet all of these scenarios can and do happen. And in the past few years they have been happening more frequently. Several members of Congress, as well as the governors of several states, have recently called for new regulations to prevent the life insurance industry from following in the path of the savings and loan industry. Because of increased competition, shrinking profit margins, bad investments, mismanagement and other industry problems, some life insurance companies are headed for financial trouble—or are in trouble already. The result is that some policyholders wind up with policies that cost more and/or are worth far less than they expected.

Life insurance is essentially a promise to pay. An insurance policy that does not live up to (or come close to living up to) its projections is not a policy worth owning. And unless your policy is issued by a stable, reliable company, it may not come anywhere near living up to its projections. For this reason, choosing a good life insurance company is crucial.

Real security in a life insurance policy comes from knowing that your insurance company will still be there 20, 40 or 70 years from now; that the death benefit will be paid in full and on time; and that the approximate amount of cash you expect to accumulate in your policy *does* accumulate. The only way to achieve this security is to buy your life insurance from a quality

company. (This doesn't necessarily mean a big-name company, however.)

Chapter 5 of this book provides you with everything you need to know to locate the most reliable and financially stable companies in the life insurance industry.

● FACT #3 ●

Finding a Good Life Insurance Agent Is Every Bit as Important as Buying Your Insurance from a First-Rate Company

Imagine for a moment that you're shopping for a station wagon. You go to a nearby car dealer and look over the new station wagon in the showroom. After a few minutes a car salesperson wanders over, and you ask, "What kind of mileage does this wagon get?"

"Gee, I don't know," he says.

"Well, does it have four or six cylinders?"

"I'm not sure."

"You're not sure? Will it be able to haul five kids and a hundred pounds of baseball equipment?"

"Beats me," the salesperson says, "but I don't think this is the right car for you anyway. Let me show you this snappy little sports car. It seats two and can go from zero to 60 in seven seconds."

By now you've probably decided to walk out of the showroom. The car salesperson is clearly incompetent. He appears to have no regard at all for what you want or need and little or no knowledge about the products he's selling. He probably tried to steer you toward the sports car only because it was the most expensive car in the showroom.

Poor insurance agents are no different. They are uninformed about many of the products they sell; they are unwilling to take the time to determine what your real life insurance needs are; and they are primarily interested in selling you whatever policy will earn them the biggest commission, no matter how inappropriate that policy may be for you.

Now let's pretend you're at another car dealer. This time, however, you get a salesperson who knows her stuff. She sees you looking over a station wagon and asks, "May I answer any questions for you?"

"Yes," you say. "We're looking for a good family car."

"How many are in your family?" she asks.

"Eight," you tell her. "Me, my wife, five kids and my wife's mother."

"And how old are your kids?"

"Let's see. Wendy is 11, Brian's 12, Andrea's 14 and the twins are 16."

"Wow!" the salesperson says. "That's quite a family. You're looking at one of the best station wagons made today, but I must tell you that it may be too small

and underpowered for what you need. I'd recommend one of our minivans; they've got a lot more room than the wagon, and they've got a much higher resale value. If you don't want to spend the money on a new minivan, you might want to consider getting one that's two or three years old; it should last until Wendy gets out of high school, and then you can trade it in for something just for the two of you."

This salesperson took the time to ask you what your needs were, to try to match your needs (and your financial resources) with the most appropriate product and to explain *why* that product meets your needs better than certain others.

Good life insurance salespeople will do the same thing. They will take the time to ask you questions and assess your needs and financial goals; then they will work hard to find (and if need be, to design) the policy that is best for you. They will be aware of the many different life insurance products that are available from a wide range of companies, they will help you to make an informed and intelligent choice, and they will help you design an overall financial plan that best suits you and your family. Then, after they have sold you your policy, they will continue to provide you with faithful, honest, personal service year after year. On top of all this, really first-rate agents will also reevaluate your coverage periodically and show you how you can get the most from your policy *and* save money on it in each of the years to come.

A poor life insurance agent is nothing more than an order taker or a salesperson. A good agent, on the other hand, is your advocate, adviser, confidant and insurance troubleshooter. Are most life insurance agents good ones? No. Are there plenty of good ones out there? Absolutely.

● FACT #4 ●

Shop for an Agent *Before* Shopping for a Policy

If you've ever bought a TV, VCR or piece of stereo equipment from a discount store, then the following scenario will probably sound familiar.

You knew exactly what you wanted. After comparing prices, you learned that the discount store offered the lowest price in town. So you went in, grabbed the item off the shelf, had your purchase rung up by a disinterested clerk and went on your way. Everything went well for seven months or so; then your purchase went on the fritz. Since it was still under warranty, you took it back to the store for repairs. The same bored clerk told you impatiently, "We don't do repairs here. You'll have to mail it to the factory in Omaha; it'll take six to eight weeks to fix." Suddenly you wondered whether you made your purchase at the right place.

Like electronic equipment, life insurance policies sometimes need servicing—a fact that consumers and consumer advocates alike often forget. Maybe you need to change your coverage—perhaps because you've had a couple more kids or because your income has gone way up or way down. Maybe you want to start building up cash faster for your retirement. Or maybe you just have some questions about your policy or your insurance company. In each of these cases you need someone reliable whom you can go to for help—someone trustworthy, responsive, knowledgeable and willing to offer you high-quality personal service.

Buying life insurance means more than just purchasing a product. It also means establishing a relationship of trust with an agent who has demonstrated that he or she deserves that trust. *I believe that people need to be educated on life insurance, and you need an agent who is willing to educate you. Life insurance is as much a service as it is a product.* In addition to a good policy at a reasonable price, you need an agent who will work for you and with you and who will provide the support, advice and assistance you need, year after year.

There's a still more practical reason for shopping for an agent before you shop for the right policy: A good agent will do most of the shopping for you. A knowledgeable, reliable agent will take the information you give him or her and use it to design one or more policies that meet all of your needs and goals. A good agent also knows which insurance companies are well managed and trustworthy and won't try to sell you a policy from any company that isn't.

Once you've found a reliable agent, everything else about buying life insurance gets much easier. In chapter 2 of this book I'll show you, step by step, how to choose the right agent—one who is honest, helpful and knowledgeable; who really cares about you; and who will take the time and trouble to help you evaluate your needs, financial goals and financial resources.

● FACT #5 ●

The Question To Ask Is Not, "Which Is Better: Term Insurance, Whole Life or Universal Life?" The Correct Question Is, "What Are My Goals and Needs, and What Form of Insurance Best Serves Them?"

Which do you think are more useful, cats or dogs? The answer to this question, of course, depends on what your needs are. If you have mice in your barn, a cat is going to do a far better job of getting rid of them than even the most eager-to-please dog. But if you're a duck hunter and you want your kills retrieved, a dog is going to be a much more useful hunting companion than a cat.

The question of term insurance versus whole life versus universal life is similar. They are all different products, they serve different purposes, and they are most useful in different circumstances. There is also a fourth type of life insurance, called a **blended policy** or **blend**, which is essentially a combination of whole life and term insurance. I'll be discussing all of these types of insurance in detail in future chapters. Here, however, are their basic characteristics:

Term insurance is life insurance at its simplest: Each year (or more often) you pay a premium, which increases as you grow older. When you die, any person, group or organization you choose gets a sum of money, called a **death benefit**, from your insurance company.

Whole life (also called *permanent insurance*) is a multipurpose form of life insurance. As with term insurance, your beneficiary gets a death benefit when you die. But a whole life policy is also a vehicle for accumulating cash with tax advantages *while you are still alive*. A whole life policy usually appreciates each year, much like a savings account. If you choose, you can borrow against your whole life policy while you're still alive or even cash it in and receive the funds that have accumulated in it. These accumulated funds are called **cash values**.

Traditional whole life policies have an annual premium that stays the same every year and that normally must be paid as long as you own the policy. Recently, however, some new options have been introduced. Some policies now have flexible premiums, and some limit the number of premiums required to 20 or 10 or even fewer—while still providing coverage, accumulation of cash values and borrowing privileges throughout your lifetime.

Every life insurance policy is a variation of either term insurance or whole life—or a combination of the two. The variations on these two basic life insurance plans are virtually endless.

Universal life is one such variation: It is essentially a form of whole life with a flexible premium and a flexible death benefit. **Blends** are another common variation. A typical blend includes some whole life coverage (complete with cash accumulation) and some term coverage, and offers many of the best features of each.

Which type of insurance is best for you depends entirely on your personal circumstances. If you have four young kids, an annual household income of \$31,000, a total of \$1,000 in assets and \$500 to spend on life insurance this year, you need as much term insurance from a reliable company as that \$500 can buy. On the other hand, if all your kids have grown up and moved away and you have \$400,000 in the bank, a good whole life policy is probably far more appropriate.

No doubt you've heard all kinds of simple absolutes about life insurance from consumer advocates on radio shows, in newspapers and in magazines. The

most common of these include: “Buy term insurance and invest the difference.” “Whole life is one of the best and safest investments you can find.” “Universal life is the great innovation in life insurance planning.” “Get several quotes and buy the cheapest policy.” There is a kernel of truth in each of these statements, but only a kernel. In fact, each contains just enough truth to get people into trouble.

The problem with each of these statements is that it tries to make life insurance decisions into absolutes. This simply isn’t realistic. Wouldn’t I sound silly if I said, “Everyone should have a dog, and nobody should have a cat”? Or “Everyone should eat apples; no one should eat oranges”?

Once a good insurance agent knows a little bit about you and your finances, he or she will tell you, up front and straightforwardly, whether you will be best served by a term policy, a whole life plan, a universal life plan, a blend or even two or more different policies.

● FACT #6 ●

It Is Your Agent’s Job To Help You Determine Your Financial Goals, Needs and Resources

We’re all familiar with the image of the stereotypical insurance agent who talks his or her way into your home and, with forced heartiness and cheerfulness, tells you why his or her product is so wonderful. Agents who truly know their business, however, do exactly the opposite. They have no product to sell you; instead, they are selling themselves and their services.

Good agents know precisely what questions to ask to help you set and achieve your financial goals. They are sensitive to your unique needs and to the fact that your needs may change over the years. They are aware that as your needs change, so may your approximate amount of coverage and perhaps even the type of insurance you own. They also are willing and able to help you determine exactly what you can realistically afford to spend on life insurance, both now and in the years to come.

Words like *needs*, *goals* and *resources* can often sound rather vague, however, so let me be more specific about each one:

- **Needs.** How much money will your family need to survive each year if you were to die today? In 10 years? In 20? How much will they need to pay for funeral expenses? For estate taxes? What will it cost to send your ten-year-old to college eight years from now? How much income will your spouse receive from Social Security when he or she turns 65 ten years from now? How much will your spouse collect from his or her pension or from annuities and other investments? How much income can you expect to

receive each year from your pension when you retire? How about from annuities and other investments? From Social Security?

- **Goals.** When do you want to retire? How much in assets do you need to have accumulated by that time? How much money do you want or need to live on each year once you have retired? What major purchases do you want to make in the years to come? What percentage of your assets do you want to pass on to your children and/or grandchildren?
- **Resources.** What is your current income? How do you expect this income to change in the years to come? What assets and investments do you currently have, and how much are they worth? What are your total annual expenses, including income taxes? After necessities, taxes and other commitments, how much of your income do you have left to spend?

Your goals, needs and available resources are determined by a variety of factors: your age, your marital status, the size of your family, your assets and investments, your health and several other important considerations. A savvy life insurance agent takes all of these threads and helps you spin them together into an overall financial plan. This plan will, of course, include life insurance.

● FACT #7 ●

Illustrations Are Not Guarantees

This four-word sentence sums up the single biggest misunderstanding that many consumers and business owners have about life insurance.

Virtually every term life insurance policy sold today has two sets of premiums: **illustrated** premiums and **guaranteed** premiums. **Premiums** are nothing more than the cost of your insurance; instead of paying insurance bills, you pay insurance premiums.

It may sound strange that an insurance policy would have two sets of bills, but nearly all term insurance policies (and certain specialized whole life plans) do. When you are first offered one of these policies, the policy proposal will include schedules of both illustrated and guaranteed premiums for each of the years to come. Except, perhaps, for the first few years of the policy, the guaranteed premiums will be higher—sometimes much higher—than the illustrated premiums. This can be a bit confusing, so let me explain further.

Illustrated premiums—also called *current*, *currently billed* and *net* premiums—are the premiums you will be charged if the insurance company earns the profits it hopes and plans to in the years to come, if the assumptions and projections it has made regarding the life spans of its policyholders turn out to be correct, and

if it decides to pass on its good fortune to its customers. In other words, if all goes well for the company, the illustrated premiums are the premiums you will be asked to pay in future years. *However, the insurance company has no legal obligation to charge you these lower illustrated premiums.*

Guaranteed premiums are the highest premiums the company agrees to charge you, no matter what happens. If your guaranteed premium for next year is \$889, your insurance company cannot legally ask you to pay a penny more than that, even if it lost millions of dollars last year and half of its policyholders all dropped dead last week.

A stable, well-managed insurance company will meet its illustrations year after year. A less stable one may charge you the illustrated premiums for the first few years of your policy but then edge closer and closer to the guaranteed rates with each passing year. Since guaranteed premiums can sometimes be up to twice as high as illustrated premiums, you could end up paying far more for your life insurance than you had planned or expected.

Illustrations and guarantees work in a different way for most whole life policies. In the great majority of these policies, there is only one set of premiums. These premiums are guaranteed, and normally they are the same for each year of the policy. For example, if the premium on your whole life policy is \$941, this is the amount you will pay each year for as long as you own the policy. No matter what happens, you will not be asked to pay more.

However, while whole life policies have only one set of premiums, they do normally have two sets of **cash values**. This term sounds far more technical than it really is. The *cash value* of a whole life policy is simply the amount of money you will get if you decide to cash in the policy. This amount almost always goes up each year; the longer you hold onto your policy, the higher a cash value it has.

With few exceptions, whole life policies have both a guaranteed cash value and an illustrated cash value (also called a *surrender value* or *cash surrender value*). The **guaranteed cash value** is the absolute minimum the policy will be worth if and when it is cashed in, no matter what happens. The **surrender value** (or *illustrated cash value*) is the amount the policy will be worth if (1) the insurance company's profits are as high as expected, (2) its assumptions and projections about the death rate of its policyholders turn out to be reasonably accurate and (3) the company decides to pass on its success to its customers. In other words, the surrender value is the amount the insurance company *hopes* to pay you if and when you cash it in.

At first, the difference between a policy's guaranteed cash value and its surrender value usually isn't

much, but that difference increases as the years pass. If you keep your policy for 20 years or more, that difference can become enormous. In fact, I recently looked at a policy that, after 25 years, has a surrender value (illustrated cash value) of \$141,404 but a guaranteed cash value of only \$36,600. After 10 more years, the surrender value becomes \$373,191, but the guaranteed cash value rises to only \$55,500. That's a difference of well over 600 percent. In dollars, it's a difference of over \$315,000! Universal life policies, like whole life policies, also have both guaranteed cash values and surrender (illustrated) values.

Some whole life policies may also have both illustrated death benefits and guaranteed death benefits. Unlike term policies, in which the death benefit is fixed and guaranteed at a specific amount (for example, \$200,000) from the day you buy the policy, some whole life policies have two kinds of death benefits. The **guaranteed death benefit** is fixed at a specific amount from the day you buy your policy, and this amount stays the same for as long as the policy remains in force, just as with a term insurance policy. The **illustrated death benefit** is a higher death benefit that the insurance company hopes and plans to pay in the event of your death, but the company is not required to pay this higher benefit. Typically, the illustrated death benefit equals the guaranteed death benefit in the first year or two of the policy; then it steadily rises each year thereafter.

All guarantees refer to the minimum amounts the insurance company must pay you or to the maximum amounts that it may charge. All numbers other than guarantees are illustrations only and are not binding on the insurance company. So why have illustrations in the first place if they aren't binding? Because well-run, stable and reliable life insurance companies make it a point to meet, come close to or even do better than their illustrations year after year. The best life insurance companies have a long history of meeting their illustrations for decades—in some cases for well over a century.

A poorly managed or financially shaky company, on the other hand, may provide you with exactly the same illustrations—and perhaps even better-looking ones. But this company may not have a history of regularly meeting its illustrations; in fact, at times in the past, it may have managed only to meet its guarantees. Buying a policy from such a company means taking the very real risk that it may not meet its illustrations in the future.

So that you can see what a huge difference this can make, let's look at a specific example. We can use the very same whole life policy that I discussed above. When this policy is 35 years old, its surrender value (illustrated cash value) will be \$373,191, while its guaranteed cash value will be only \$55,500. Let's imagine

that Rock Solid Life Insurance Company issued this policy. Because it is a well-managed company that invests its money wisely, it meets its illustrations every year. When you surrender this policy 35 years from now, Rock Solid sends you a check for \$373,191—or maybe more.

Now let's suppose that you bought an identical policy from Fly by Nite Mutual instead. The policy is exactly the same in every way, and it has the same illustrations and guarantees. However, Fly by Nite is a poorly managed company, and over the years it has taken large losses from its heavy investment in junk bonds and real estate. Fly by Nite manages only to meet its guarantees each year. When you surrender this policy after 35 years, you receive a check for only \$55,500—less than 20 percent of what Rock Solid would have paid you. *These two scenarios are for identical policies with identical illustrations.*

One of the problems facing the life insurance industry today is that some insurance agents are selling illustrations instead of service. But selling policies based on illustrations can often amount to selling empty promises. Any insurance company, no matter how financially shaky, can come up with a list of good-looking numbers if it is not legally bound by those numbers. The worst-managed, tenth-rate insurance company on the planet may well provide you with the best-looking illustrations.

As a consumer or business owner, you don't want empty promises. Nor do you want to settle for a policy that only lives up to its guarantees. Instead, you want a life insurance policy that will meet, come close to or do better than its illustrations year after year. This means, above all, that you *must* buy your life insurance from a strong, well-managed, trustworthy company.

Fact #7 boils down to this: Illustrations are nowhere near as important as the strength and reliability of the company that offers them.

● FACT #8 ●

Reevaluate Your Life Insurance Once a Year or Whenever Your Needs, Goals, Plans or Finances Change Significantly

Most people think that once you buy life insurance, it never needs to be changed or reexamined. Many of these folks, however, are spending more on their life insurance than they have to. Some own coverage they don't really need at all.

Your life insurance needs will probably change several times throughout your life. When you get older, change jobs or careers, get married, have children, get divorced, become wealthier or poorer, become sicker or healthier or watch your children grow

up and leave home, your insurance needs change. They may also change as your vision of the future for yourself and your family changes.

For instance, suppose you change jobs and your new employer provides far less life insurance coverage as a perk than your previous employer did. To continue the level of coverage on your family that you're used to, you will have to go shopping for a supplemental policy.

Here's another possibility: Suppose you decide that you want to retire at age 60 instead of at 65. Suddenly you are going to need more money for your retirement, and you are going to need it sooner. In this case you may want to substantially increase the cash value of your whole life policy, which means increasing the size of your premiums.

Every time your life, finances, goals or plans change significantly, you may need to reconsider your insurance needs. Because such changes occur fairly frequently in life and because some of them can sneak up on you a little bit at a time, I recommend reevaluating your life insurance once each year, with your agent's help. This reevaluation could save you money, improve your family's (or business's) future financial picture, or both. If your life or business is undergoing big changes, you may need to reevaluate your coverage more often—every six months, perhaps.

Part of your life insurance agent's job is to help you reevaluate your life insurance—and your needs, goals and resources as well—at no charge, on your request. If it turns out that you can benefit by a change in your coverage, then it is also your agent's job to either alter the terms of your existing life insurance policy or find you additional or more appropriate coverage.

You have two other good reasons to reevaluate your life insurance once a year:

1. If you have enjoyed reasonably good health for the past three years and own term insurance, you may be able to reduce your premiums *on the coverage you already have*, either by changing policies or by reentering your existing policy at a lower cost. (I'll explain reentry in detail on page 92.)
2. If your policy is not performing as expected—that is, if your premiums are running considerably higher than illustrated or if the actual cash value of your policy is significantly lower than the illustrated surrender value—then it may be time to seriously consider switching to a policy from another, more reliable life insurance company.

In each of these cases, your insurance agent can and should be your advocate—helping you make your decision, suggesting changes and options, walking you through the process of making any changes and, of course, showing you how to save money.

● **FACT #9** ●

Life Insurance Is the Best Alternative to Paying Estate Taxes

Life insurance has several excellent purposes. It can support your family for years after your death. It can pay the expenses of your funeral. It can provide cash for your retirement. It can pay for your children's college education. And it can function as a source of readily available funds for borrowing. But there's another very important purpose to life insurance that too many people overlook: It can take care of all or part of the taxes on your estate after your death.

Most people don't realize just how large a bite estate taxes can take out of their assets after they pass away. Estate tax rates vary according to the size of the estate, but (after the first \$600,000 in assets, which are normally not taxed) they *start* at 37 percent and can go as high as 60 percent. Paying this tax isn't much of a problem if enough of the inherited assets are in cash or can easily be converted into cash. (On the other hand, even if it's not a problem, who wants to give up such a huge chunk to Uncle Sam?) But what if it's *not* easy to convert the appropriate portion of the assets to cash?

Imagine that when you die, you own, among other assets, a house worth \$400,000. If you will this house to your daughter, the estate taxes on the house alone could come to more than \$150,000. If your daughter

doesn't have \$150,000, she'll have to sell the house in order to pay the taxes on it, and the house will end up in someone else's hands. The solution to this dilemma is to plan in advance to use life insurance to pay off your estate taxes. *Life insurance can be the cornerstone of intelligent estate planning.* Here's how it works:

Let's say that you know that when you die, your estate taxes will come to about \$220,000, including the \$150,000 on your house. You decide to leave your entire estate, including the house, to your daughter. If you were to arrange for additional life insurance with a death benefit of \$220,000, make your daughter the beneficiary and set up an appropriate estate plan, then when you die, she will receive that extra \$220,000, *free of both income tax and estate tax.* She can then use that \$220,000 to pay off all the taxes on your estate. The result: Your daughter gets to keep every penny of your estate *and* the family home.

Life insurance can thus be an ingenious and very inexpensive way to pay off your estate taxes. For complete details on this subject, see chapter 12, "Using Life Insurance for State-of-the-Art Estate Planning."

At this point, you have a good overall grasp of what life insurance can do for you and how you can make the most of it. Now it's time for us to get down to brass tacks and talk about exactly what you should do to get the very best and most appropriate life insurance for your money. We'll begin with finding a good agent.