

Understanding Life Insurance: A Lesson in Life Insurance

If something happens to you, how will your family replace your earning power?



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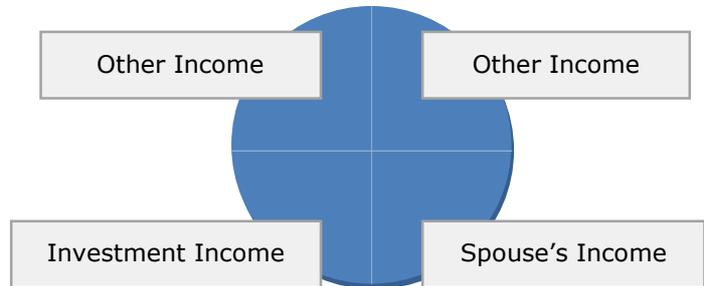
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Your Earning Power

Your earning power – your ability to earn an income – is your most valuable asset.

Earning Power:



Few people realize that a 30-year-old couple will earn 3.5 million dollars by age 65 if their total family income averages \$100,000 for their entire careers, without any raises.

How Much Will You Earn in a Lifetime?

Years to Age 65	Your Future Earning Power If Your Family Income Averages:			
	\$50,000	\$100,000	\$250,000	\$500,000
40	\$2,000,000	\$4,000,000	\$10,000,000	\$20,000,000
35	1,750,000	3,500,000	8,750,000	17,500,000
30	1,500,000	3,000,000	7,500,000	15,000,000
25	1,250,000	2,500,000	6,250,000	12,500,000
20	1,000,000	2,000,000	5,000,000	10,000,000
15	750,000	1,500,000	3,750,000	7,500,000
10	500,000	1,000,000	2,500,000	5,000,000
5	250,000	500,000	1,250,000	2,500,000

If something happens to you, how will your family replace your earning power? Only life insurance can guarantee to provide the funds required to replace your earning power exactly when needed at your death.

Life Insurance Questions

In purchasing life insurance, people generally ask:

How Much Life Insurance Do I Need?

How much life insurance you need depends on your individual needs and your financial objectives for your family. This question is best answered through an analysis of your family and financial situation, as well as your financial goals and objectives.

While life insurance cannot replace you, it can provide the funds to:

- pay final expenses
- replace all or a portion of your income
- keep your family in their home
- establish a college education fund
- cover financial emergencies
- provide a child and/or home care fund

What Type of Life Insurance Should I Buy?

All life insurance falls into one of two categories of coverage. Each category has certain characteristics that make it more suitable for certain needs:

1. Term Life Insurance

- Provides temporary protection for the term of the policy.
- If the insured dies within the term period, the insurance company pays the death benefit.
- If the insured survives the term period, the coverage terminates.

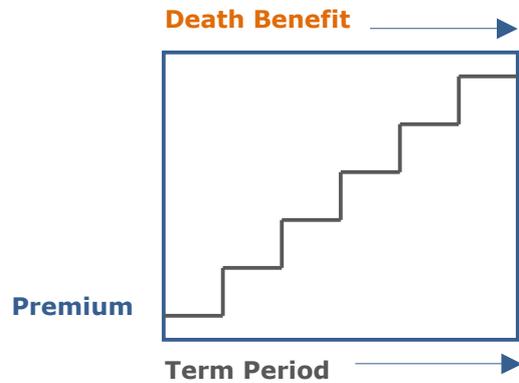
2. Cash Value Life Insurance

- Provides lifetime protection, so long as the policy is kept in force.
- The insurance company pays the death benefit regardless of when death occurs, so long as the policy is kept in force.
- The policy accumulates cash values that can be used during the insured's lifetime (withdrawals and loans will reduce the policy's death benefit and cash value available for use).

Types of Term Insurance

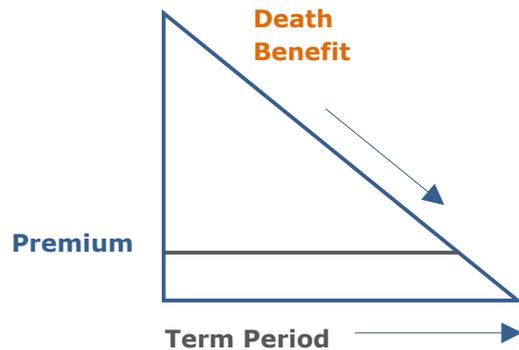
Renewable Term Insurance Features

- level death benefit
- increasing premiums, if renewed
- no cash values
- may have policy dividends
- renewable, may be subject to medical qualifications
- best suited for level temporary needs



Decreasing Term Insurance Features

- decreasing death benefit
- level premium
- no cash values
- may have policy dividends
- best suited for decreasing needs that ultimately disappear



Term Insurance Advantages	Term Insurance Disadvantages
<ul style="list-style-type: none"> ■ Low initial premium. ■ Well suited to shorter-term, temporary needs. ■ Most plans can be renewed, if you are medically qualified. 	<ul style="list-style-type: none"> ■ Premiums in future years may become prohibitively expensive. ■ Insurance protection may cease before death. ■ Does not build any cash values.

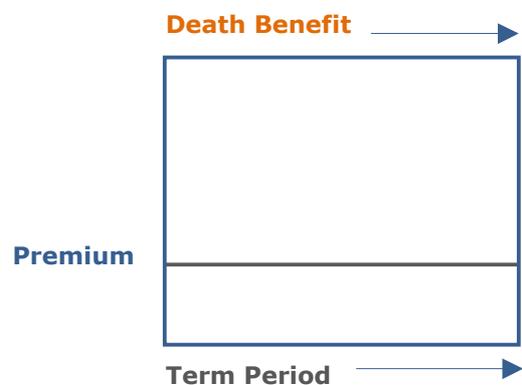
Term Insurance Variations

Level Term Insurance

A level term insurance policy provides an alternative to renewable term insurance, which features a level death benefit and annual premiums that increase each year.

While a level term insurance policy also provides a level death benefit, premiums are also guaranteed to remain level for the term period selected, such as 10, 20 or 30 years. If the insurance protection is still needed at the end of the selected level term period, these policies generally provide that the coverage can be renewed without evidence of insurability, with premiums then increasing each year thereafter.

- level death benefit
- level premiums for the duration of the selected term period (e.g., 10, 20 or 30 years)
- increasing premiums, if renewed after the selected term period
- no cash values
- may have policy dividends
- best suited for level needs of a somewhat known duration



Return of Premium Feature

When you purchase a level term insurance policy, your family receives the death benefit if you die during the term period. Chances are, however, that you'll outlive the term period. If your term insurance policy includes a return of premium feature and you outlive the term period, the insurance company will then return to you all of the premiums you've paid for the term insurance protection.

- Return of premium term insurance enables you to "hedge your bets"...if something does happen to you, you've provided for your loved ones. If you outlive the policy, the premiums you've paid will be returned to you.
- A return of premium term insurance policy costs more than a traditional level term insurance policy, so it's important that you understand the conditions under which premiums will be returned to you.
- All return of premium term insurance policies return 100% of the premiums you've paid at the end of the term period, assuming the policy is in-force and no death benefit has been paid. If, however, you cancel the policy prior to the end of the term period, you may receive back none or only a percentage of the premiums you've paid...check the return of premium conditions before you purchase a return of premium term insurance policy.

Types of Cash Value Life Insurance

There are three types of cash value life insurance from which you can select a policy that best satisfies your needs and objectives. The primary differences in the types of cash value life insurance fall into three categories:

- fixed or flexible premiums;
- responsibility for investment decisions; and
- benefit guarantees or benefits based on actual investment returns.

Whole Life Insurance

The policyowner pays a fixed, level premium and cash values accumulate at a guaranteed* rate of return. The insurance company promises to pay a guaranteed* death benefit.

Universal Life Insurance

The policyowner can increase or decrease premium payments and select from a level or increasing death benefit. Cash value accumulations reflect a stated fixed interest rate, which may vary over time, but which will never be less than a guaranteed* minimum interest rate.

Indexed Universal Life Insurance

The policyowner can increase or decrease premium payments and select from a level or increasing death benefit. Cash value accumulations reflect the performance of a stock market index, such as the S&P 500 Index.

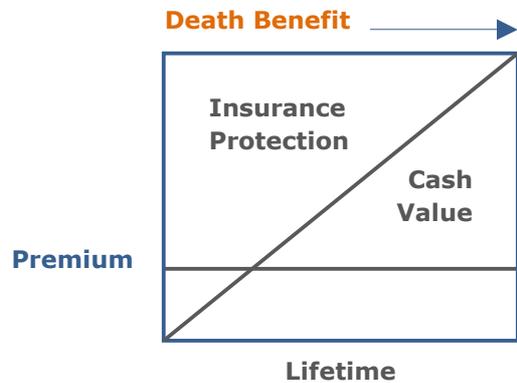
* Guarantees are subject to the claims-paying ability of the issuing insurance company.

NOTE: Your licensed financial adviser will discuss with you how specific cash value life insurance products may work for you in your particular situation, including the product's features, benefits, risks, charges and expenses.

Whole Life Insurance

Features

- guaranteed* level death benefit, so long as premiums are paid
- fixed, level premiums
- guaranteed* cash values
- may have policy dividends
- best suited to satisfy the longer-term needs of policyowners who desire guarantees*



Whole Life Insurance Advantages	Whole Life Insurance Disadvantages
<ul style="list-style-type: none"> ■ Guaranteed* lifetime insurance protection, so long as the policy is kept in force. ■ Fixed premiums can help create the "savings habit." ■ Cash values are guaranteed*, so long as the policy is kept in force. ■ May have policy dividends that can be used to reduce premiums or increase cash values and death benefits. 	<ul style="list-style-type: none"> ■ No premium flexibility. ■ Guaranteed* cash value growth may be less than could be achieved through one of the other types of cash value life insurance. ■ Death benefit may not keep pace with inflation.

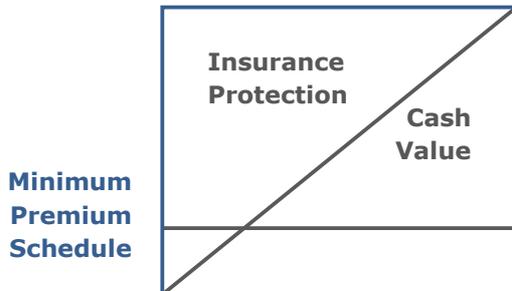
* Guarantees are subject to the claims-paying ability of the issuing insurance company.

Universal Life Insurance

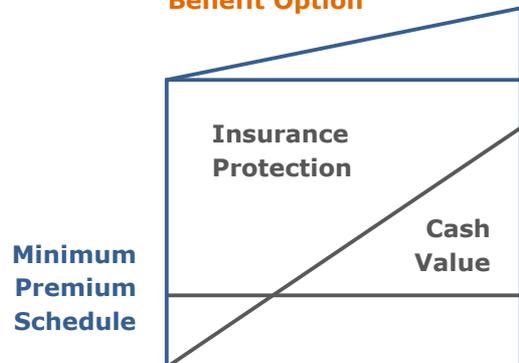
Features

- premiums can be adjusted upward or downward
- choice of level or increasing death benefit
- cash value growth based on a stated fixed interest rate, which may vary over time, but which will never be less than a guaranteed* minimum interest rate
- best suited to satisfy the longer-term needs of policyowners who want premium flexibility and cash value accumulations that reflect current fixed interest rate returns, with a guaranteed* minimum interest rate

Level Death Benefit Option



Increasing Death Benefit Option



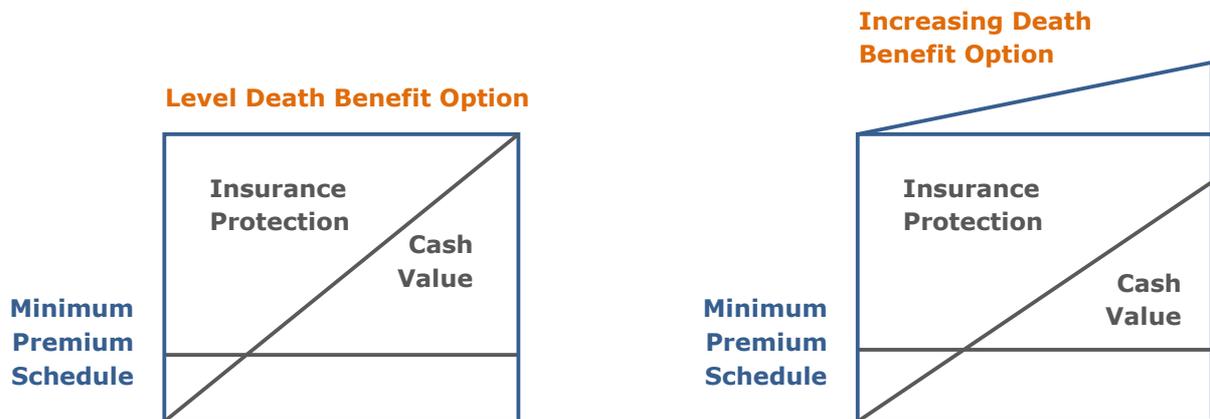
Universal Life Insurance Advantages	Universal Life Insurance Disadvantages
<ul style="list-style-type: none"> ■ Lifetime insurance protection. ■ Premium and death benefit flexibility. ■ Cash value growth reflects current interest rates, with a minimum guarantee*. 	<ul style="list-style-type: none"> ■ Required premiums may increase as the insured gets older in order to maintain needed insurance protection. ■ If current interest rates are low, cash value growth may be disappointing.

* Guarantees are subject to the claims-paying ability of the issuing insurance company.

Indexed Universal Life Insurance

Features

- premiums can be adjusted upward or downward
- choice of level or increasing death benefit
- cash value is credited with interest based on the performance of a stock market index, most frequently the Standard and Poor's 500 Composite Stock Index (S&P 500 Index)
- best suited to satisfy the longer-term needs of policyowners who want the opportunity to earn higher interest rates based on equity market performance, while retaining the other advantages of universal life insurance, including a guaranteed* minimum interest rate



Indexed Universal Life Insurance Advantages	Indexed Universal Life Insurance Disadvantages
<ul style="list-style-type: none"> ■ Lifetime insurance protection. ■ Premium and death benefit flexibility. ■ Cash value growth has the potential to earn higher interest rates when the equity markets are strong, while still earning a guaranteed* minimum interest rate during downturns in the equity markets. 	<ul style="list-style-type: none"> ■ Required premiums may increase as the insured gets older in order to maintain needed insurance protection. ■ Cash value growth may be disappointing during a downturn in the equity markets.

* Guarantees are subject to the claims-paying ability of the issuing insurance company.

Survivorship Life Insurance

There are estate planning situations where a sum of money is needed at the death of the second spouse to die. For example:

- **Federal Estate Tax:** Through the use of the unlimited marital deduction, a married couple can generally arrange their estate in such a way that no federal estate tax is payable at the first spouse's death. This does not mean, however, that the federal estate tax is eliminated. Instead, potential federal estate tax liability is postponed until the second spouse's death, at which time the heirs may be hit with a federal estate tax bill.
- **Special Needs Planning:** In the case of a child with special needs, it may be desirable to provide funds for that child's care and financial security after the death of the second parent.
- **Charitable Giving:** A couple may want to provide a substantial charitable gift after the second spouse's death, without depleting the estate they leave to their heirs.

In situations like these, not knowing which one will die first, a husband and wife could each purchase a separate life insurance policy. A better solution, however, might be a survivorship life insurance policy. Also known as second-to-die or survivor insurance, survivorship life insurance is one policy that insures the lives of two people, usually a husband and wife. No death benefit is paid when the first insured dies. Instead, the policy remains in effect and premiums continue to be paid. At the death of the second insured, the death benefit is paid to the beneficiary.

Features

- Several different types of cash value life insurance are available as survivorship life insurance. Make sure you understand the features, benefits and costs of the type of life insurance contract under consideration before you purchase survivorship life insurance policy.
- Since two lives are covered under one insurance policy, the premiums for a survivorship life insurance policy are usually less than the combined premiums for two single-life policies.
- Since two lives are insured, the underwriting requirements for survivorship life insurance may be more liberal. One spouse who was denied coverage under a single-life policy may be approved for coverage under a survivorship life policy.
- Since survivorship life insurance is frequently purchased for estate planning reasons, it may be desirable to have the policy purchased by an irrevocable life insurance trust. When structured properly, an insurance death benefit paid to an irrevocable life insurance trust is not included in your estate for federal estate tax purposes. Your legal and/or tax advisor can assist you in evaluating and establishing an irrevocable life insurance trust.

How Is Life Insurance Taxed?

Because of the unique role life insurance plays in protecting people against the risk of economic loss, the federal government has extended favorable tax treatment to life insurance.

Premiums:

Generally, premiums paid for life insurance, whether paid by an individual or a corporation, are not tax deductible.

In the case of return of premium term insurance, any premiums returned by the insurance company to the policyholder are received tax-free by the policyholder.

Living Benefits:

NOTE: The following discussion assumes that the life insurance contract meets the "seven-pay test" and is not classified as a modified endowment contract (see below for information on modified endowment contracts).

Cash Value: The cash value accumulations in cash value life insurance grow on a tax-free basis until the policy is surrendered. If the policy is surrendered and the proceeds exceed the total premiums paid, the difference is taxable in the year received.

Policy Dividends: If a policy pays dividends, the dividends are considered a return of premium and are not taxable until total dividends plus all other amounts that have been received tax-free under the policy exceed an amount equal to the policyholder's basis in the contract, at which time excess dividends are taxable income. Any interest on accumulated dividends, however, is taxable in the year credited.

Policy Loans/Withdrawals: A policy loan is not considered a distribution and, as a result, is not taxable. If, however, there is an outstanding loan when the policy lapses or is cash surrendered, the amount of the outstanding loan is taxable to the extent that the policy's cash value exceeds the policyowner's investment in the contract. Cash withdrawals are tax free until the policyowner has recovered his/her investment in the contract, after which excess withdrawals are taxable income. Loans and withdrawals will reduce the policy's death benefit and cash value available for use.

Modified Endowment Contracts: A policy fails to meet the seven-pay test required by the Internal Revenue Code [IRC Sec. 7702A(a)(1)] and is classified as a modified endowment contract (MEC) if the accumulated amount paid under the contract at any time during the first seven contract years exceeds the sum of the net level premiums which would have been paid on or before such time if the contract provided for paid-up future benefits after the payment of seven level annual premiums. If the death benefit of a policy is reduced within the seven-pay testing period, there is a "look-back" provision that requires the seven-pay test to be reapplied as if the policy had originally been issued for the reduced death benefit amount. Finally, if there is a material change in a policy that originally passed the seven-pay test, the changed policy is subject to the seven-pay test and classified as a MEC if it fails that test.

If a policy fails the seven-pay test and is classified as a modified endowment contract, distributions from the policy are taxable as income in the year received to the extent that the policy's cash value before the distribution exceeds the policyowner's investment in the contract (i.e., to the extent there is gain in the policy, such gain is taxed first). Only after an amount equal to such gain is distributed can the policyowner receive his/her investment in the contract on a tax-free basis.

Death Benefits:

Income Taxes – Personally-Owned Life Insurance: Life insurance death benefits paid in a lump sum are received income tax free -- a unique and important benefit. If the death benefit is taken as income under a settlement option, there is an interest element in each payment received. The portion of each payment representing principal (the death benefit) is received income tax free and the portion representing interest is taxable.

Income Taxes – Employer-Owned Life Insurance: In the case of employer-owned life insurance, proceeds received by a business at the death of a key employee generally are not subject to the regular corporate federal income tax, assuming the following requirements are met for contracts entered into after August 17, 2006:

- Before the employer-owned life insurance contract is issued, the employee who is to be insured must be notified in writing that the employer intends to insure the employee's life. The notice must include the maximum face amount for which the employee's life could be insured, as well as state that the policyowner (the employer) will be the beneficiary of the policy's death proceeds. In addition, the employee who is to be insured must give his/her written consent to be insured by the contract and to the insurance coverage continuing after the insured employee terminates employment; **and**
- The insured must have been an employee of the employer at any time during the 12-month period prior to the date of death or have been a director or highly-compensated employee at the time the contract was issued.

Estate Taxes: If the insured held any incidents of ownership in the policy, the death benefit is included in the insured's estate for federal estate tax purposes.

What Additional Life Insurance Benefits Are Available?

The value and flexibility of life insurance frequently can be enhanced by the addition of other benefits, such as:

Waiver of Premium Benefit

Often referred to as a "self-completing" feature, the waiver of premium benefit allows premiums on a life insurance policy to be waived if the insured becomes disabled, as defined in the policy. The waiver of premium benefit generally is available for a small extra premium.

Accelerated Death Benefits

Many life insurance companies make it possible for policyholders to collect all or a portion of a policy's death benefits early, if the policyholder is terminally ill, stricken with a specified catastrophic illness or requires long-term care.

Accidental Death Benefit

For a small additional premium, the insurance company will pay an additional death benefit in the event of the insured's accidental death.

Option to Purchase Additional Insurance

In return for a small extra premium, the option to purchase additional insurance guarantees* the right to purchase additional insurance on the insured's life at specified future dates, regardless of the insured's health or occupation at that time.

* Guarantee is based on the continued claims-paying ability of the insurer.

Life Insurance/LTC Hybrid Plan

A life insurance/long-term care "hybrid" plan combines the benefits of a life insurance policy with the availability of long-term care benefits should you need them in the future.

Important Information

The information, general principles and conclusions presented in this report are subject to local, state and federal laws and regulations, court cases and any revisions of same. While every care has been taken in the preparation of this report, neither VSA, L.P. nor The National Underwriter Company is engaged in providing legal, accounting, financial or other professional services. This report should not be used as a substitute for the professional advice of an attorney, accountant, or other qualified professional.

Life insurance contracts contain exclusions, limitations, reductions of benefits and terms for keeping them in force. All contract guarantees are based on the claims-paying ability of the issuing insurance company. Consult with your licensed financial representative on how specific life insurance contracts may work for you in your particular situation. Your licensed financial representative will also provide you with costs and complete details about specific life insurance contracts recommended to meet your specific needs and financial objectives.

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