

LIFE INSURANCE 101



Because You're Different



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WHY LIFE INSURANCE?

People generally don't like to talk about things they don't fully understand. Life insurance, with its own vocabulary and actuarially derived values, might fit into that category. And yet this product can be vitally important to a family's financial well being.

This brochure provides a brief introduction to life insurance and hopefully answers some questions that may be on your mind about this valuable financial tool. The focus will be on:

- What is life insurance?
- Who needs it?
- Which type is best?
- How much is enough?

LIFE INSURANCE - WHAT IS IT?

Life insurance is a financial contract, usually between an insurance company and an individual. In exchange for premium payments, the company promises to pay life insurance proceeds (i.e., the death benefit) at the death of the insured to a designated beneficiary.

Life insurance proceeds can provide an income stream to survivors and help them maintain a certain standard of living. Proceeds can also be used for funeral expenses and college tuition.

There are two basic types of life insurance:

- Permanent (or cash value)
- Term

Permanent insurance (e.g., whole life) provides lifetime death benefit protection at a guaranteed level premium. Since cash value may be non-existent or build slowly in the early years, this type of policy should only be purchased if it is intended to be kept for an extended period of time. As cash values accumulate, they can be borrowed against for a variety of needs*.

Term insurance also provides death benefit protection. Although premiums may be lower than premiums for permanent insurance in the early years, they are generally greater in the later years of the policy and may become unaffordable. Over time, portions of term insurance can be converted** to permanent insurance.

You can also purchase a combination of permanent and term insurance.

*Loans against your policy accrue interest and decrease the death benefit and cash value by the amount of the outstanding loan and interest.

**Certain restrictions may apply.

WHO NEEDS LIFE INSURANCE?

Perhaps the best way to answer the question is to look at some traditional needs for life insurance. Generally speaking, if your death will cause a financial hardship to someone else, there's a need for life insurance. It can also be used in situations where the need is not quite as obvious, such as solving estate tax problems or making a gift to a favorite charity.

The categories listed below generally illustrate how the need for life insurance varies throughout one's lifetime.

Children: Children have a minimal need for life insurance. Parents may want to apply their life insurance premium dollars to purchase more coverage on their own lives. Grandparents, however, may be interested in providing a gift of permanent insurance to a grandchild. This will "lock in" a relatively low premium rate and protect the child's future insurability. Loans against your policy accrue interest and decrease the death benefit and cash value by the amount of the outstanding loan and interest. Certain restrictions may apply.

Single Adults: Usually need life insurance to cover final expenses and outstanding loans. A more pressing concern, however, may be for disability income insurance to protect financial independence and lifestyle in the event of disability.

Married Couple With No Children: Even if both spouses work and have amassed significant assets, life insurance proceeds can still help pay final medical bills, funeral expenses, a mortgage and provide a source of funds to supplement the survivor's income.

Married Couple With Children: Statistics show that the birth of a child signals an immediate need for life insurance on the parents. The parent/child relationship, of course, is one of dependency and often lasts 20 to 25 years until a child has completed college. Parents will want to be sure that they have adequate life insurance on their lives during this period.

Retired Couple: With successful careers behind them, children grown up and the mortgage paid off, retirees should be financially well off. Their situation may trigger financial concerns of a different nature, such as estate tax problems. Or, they may finally want to get around to doing something for a favorite charity. Life insurance could be the product of choice in either situation.

WHAT TYPE OF LIFE INSURANCE IS BEST AND HOW MUCH IS ENOUGH?

Since everyone's needs and goals are unique, a specific discussion about the amount and type of life insurance to purchase is best left to an individual review and analysis of each person's financial and personal situation with your Heffernan advisor.