Step 02 : LIFE Insurance – COMPLETE HANDOUT for Cram Course

by SAF LicenseCoach

➔ ___________________ is a KEY TERM (in *Life Insurance*)

In ___________ insurance, the ___________ at which a specific population ___________.

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➔ ___________________ is a KEY TERM (in *Health Insurance*)

In _______________ insurance, the rate at which ______________, ___________________ or ___________________ will occur.

What exactly is _____________ ___________________?

- Insurance that is designed to ______________ against the ___________ ______ ________________ ______________.

✓So the __________, that is at ___________, is your __________. That's what _____________ _________________ protect us against.

✓All of the ______________ and ______________ that would be lost if ________ were to die. We take out an _______________ ___________ so that we do not have to _____ that entire loss.

What does _______________ _______________ _______________?

A _______________ _______ _____ __________ upon the __________ of the _________________. *(There are exceptions to this of course, but that's the General Idea!!)*

_______________ _______________ *(Face Amount, Face Value)* refers to the amount paid to the _________________ under a ______________ ______________ upon the ______________ of the ______________.

The _______ basic approaches used to determine the ________ of ______________ an ______________ needs are:

_______________ __________ ____________ _______________

And

____________ _______________

******* *Which approach is the Most Used Today?*

____

It's <u>IMPORTANT</u> to Know How These <u>Two</u> <u>Approaches</u> Function

The ____________ ____________ ____________ _______________ takes into account the ____________ ______ ____________ or ____________ ____________ that a ______________ will ____________ in <u>One</u> <u>Year</u> and then _________________ this out over the course of ____________, which that person would be ______________.

- ✓ *EXAMPLE:* So if I make _______________ per year and I plan on _____________ for ________ more __________, then my total policy ___________ would be ___________________.

That's how we calculate using the…

__________ __________ ____________ ____________

For the ____________ ____________, the _________ ___________ ________ approach today, we simply take the ___________ ______ _____________ that would be needed over a period of __________ for the needs to be met.

- ✓ If they have _____________ we take that in account.
- ✓ If this person takes care of their _____________ and that would need to be ___________ for, then we also __________ ________ ________ _____________.

The ___________ _____________ meets the ___________ of each policy ___________.

- ✓ ***NEEDS APPROACH EXAMPLE:*** Janet and John are looking at their ________ _____________ options. In order to determine how much insurance they __________ _________, their ________ (aka ____________ aka _________ ___________) uses this "_________ ___________". *What will they consider?*

_____________, they will consider their ___________ __________, the number of years they have until they ____________, and the _____________ ____________ of current _______________.

REMEMBER: The _________ ____________ gives consideration to _______________ _____________ for the surviving ____________, the ________________ ________________, ______________ and _____________ _____________ (FE) and other continuing family income needs.

It is the ____________ ____________ ___________ ____________ that focuses on the potential _____________ of the ____________.

_____________ _____________ focuses on preserving the value of the ____________ of the insured.

How many things determine Insurable Interest? ____________

_______________ _______________ is an _____________'s valid concern for the ________________ of the ________ or well-being of the _____________ being insured.

Individuals who have an insurable interest in You are:

1. __________________________
2. __________________________
3. _____________ ____________
4. __________________________

__________ can take a policy out on You if You owe them ______.

When does _____________ _____________ have to ___________?

<u>Ans</u>: At policy _____________, at the ________ of _____________.

- If there is no _____________ _____________ at that time, the _____________ *cannot* be taken out.

In **_______________** Insurance we have some policies called…

__________ / __________ Plans

Features of ________/________Plans:

- ________-________ plans ___________ for a _____________ to "______-______" the interest of the deceased ___________. The _____________ owns the _____________ on the _______ of the _____________ and the _____________ is _______-_____________.

- ________ _____________ can also make it possible for an _____________ to buy their _____________. The _____________ owns the _____________ on the life of the _____________, but the _____________ are ________ tax-deductible.

What type of policy would an Employee buy to use the funds to purchase the business from the Owner? **_______ _____________**

Another type of _____________ Insurance:

__________________ ____________ ___________ – here partners purchase ____________ on ___________ ___________ individually; the partnership (or company itself) is _____ ________________.

NOTE: *Each Partner pays ____________, so they are _____ Tax-_____________.*

- How many policies would be required for 3 partners? _______ __________ (They each buy __ policy on the other partners.)

What is _______________ _________________ insurance?

(Aka… ________-____________ _______________)

The _______________ is the __________. It is a __________ asset. The _____________ pays the _____________ and the ___________ are _____-_____________.

Used on a Key ________________, or a ________, ________ that is _____________ to the company's success.

Name & Describe ________ Basic Kinds of ________ ____________

- _________________ _________ – Temporary (________) and Permanent (___________ _____ WL, _______________ _____ UL, _____________ _____________ ________ VUL, etc.)
- ____________________ ________ – Debit, _______ __________
- _____________ _________ – _____________ / _____________

(The <u>TYPES of Policies</u> are <u>Very IMPORTANT</u> on Your State Exam!)

MAKE SURE YOU KNOW THE DIFFERENT TYPES PRESENTED.

ORDINARY LIFE INSURANCE

____________ _______________ which is: ________________

- It provides insurance for:
  - A _____________ ________ and ________ only if the _____________ ___________ during that ____________.

___________ is generally more affordable because the __________ is much lower to the ______________ ___________.

_____________ __________: Premiums stay ___________, and the Face Amount systematically _____________ to ___________ by the end of the term.

Example: Jeff purchased a ________ policy with a ___________ _____________ of $200,000. He died 10 years later and policy paid a ___________ ___________ of $100,000.

Answer: Jeff had a '**_______________**' term policy

Remember: a __________ _________ __________ has a _________ ________ __________. This amount remains the _________ for the __________ _________ of the _________. His ___________ was a _____-year _______________ ________ policy. Because the amount of ___________ _________ was half of the original ________ value after 10 years – we can see that it decreased 50% over 10 years.

Many _________ policies have an ___________ _____ ___________

→ allows an ___________ to _____________ a _________ policy to ___________ life ________________ proof of _______________.

Which policy has _________ payments the first years (usually ___ years) then ___________ ________ _____________ thereafter?

→ _______________ _____________ _________

Comprised of ___________ ________ & ___________ ___________. These products invest premium dollars in _____________, which carry more risk due to price fluctuations. A ___________________ ___________ is ___________ to sell these products.

→ _______________ __________________

_____________ Products

- ______ investments in a ___________ _____________ must be kept in a _____________ account and not co-mingled with other ___________.

REMEMBER: That the ________________ in a ___________ product are referred to a _____________ account.

_____________ _____________ _________ policies are most suitable for _____________ who have limited funds at the ____________ of ___________ but who still want _______ ___________ __________.

A ___________ ________ policy that starts out with a ___________ that is lower than usual and ______________ every year – for a specified number of ___________.

***__REMEMBER__*:* **One of the _______ _______________ ___________ of a ______________ is to ______________ the __________ and ______________, financial and other of the ___________, and ______________ a ________ that fits __________ ___________.**

What is the difference between a _________ ________ __________ and a ___________ & ___________ _____________ ___________?

- **____________ _________** covers ______ ___________, pays death benefit when the ___________ one dies.

- **____________ & ____________ _________________** covers ______ ___________, pays a death benefit only when _______ ___________ dies. (AKA ___________ to Die policy)

  → *In other words… ________ of the covered parties must die before the ___________ _______.*

______________ have ______________ _____________ and can take out a policy on ___________.

What ______________ ____________ against the risk that person in ____________ cannot repay the debt to the ____________ because of ______________, ______________, ____________ or ____________?

Ans = ______________ __________ _________________

What is ____________ _________ ______________ used for?

- Covers the ________ of the ____________ for the amount of the ____________. AKA _________________ ____________ *(mortgage ______________ or ____________ life)*

- *Since the debtor will be paying off their debt over _________ the ____________ ______________ on the policy will systematically ______________ to _________.*

What is another name for ______________ ____________ insurance?

_________________ and ______________ ___________ Insurance

(To be completely clear, we are talking about the same thing. These are just two alternate ways of saying the same thing.)

______________ ______________ insurance ____________ at Age _____ If the __________________ is alive, the check is ____________ to them for the ____________ ____________ ______________.

_____________ __________ is _____________.

_____________ __________ is defined as _________ insurance with a __________ __________ _________.

- Basically You get some of ________ in a ________________ _________ policy.

In a _______________ _________ __________ your premiums are used for ___________ things primarily…

___________ + _____________ + ___________ ___________

- *What that means is… You (insured) will _______ for your policy's ____________ element, the ____________ or _________ ____________.*

- *It will also ____________ ___________ to __________ the _________ _________ _______, the __________ element.*

- *And then there are ____________ ____________, or ____________ like _______, ____________, etc.*

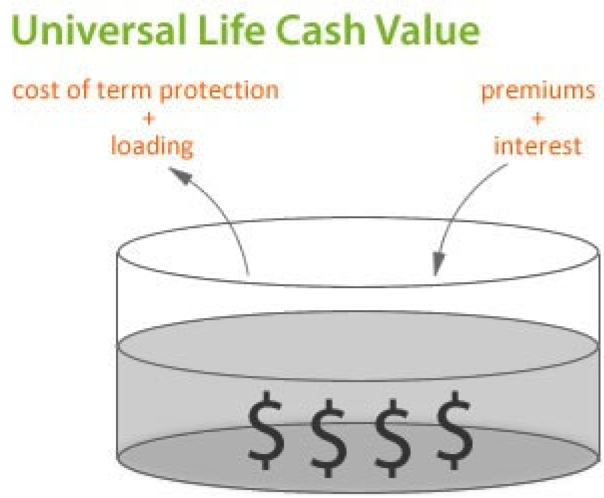
SUMMARIZED:

Universal Life → __________ – Premiums will be used for:

M --- **_________________** (_______________) element

I --- **_________________** (_______________) element

X --- **_______________** (___________ ________) element



So you have the ____________ and _____________ going ______ your __________, and _____________ _____________ and ______ ______ ________________ leaving.

#1 KEY thing to **Remember** about ________________ _________ policies is that they are ___________________________________.

What ____ things can be _____________ on a UL (_____________ ___________) policy <u>without</u> needing a new policy?

- _______________ Amount
- _______________ Amount
- _______________ of _____________

IMPORTANT THING TO REMEMBER:

Key work for UL: __________________________________

_______________ _______________ : _____________ interest rate than whole life, cost is also _____________ than whole life.

**Basically ____________ ___________________ _________ Insurance with a ____________ ____________ account.*

_____________ ___________: If the Cash values account is not large enough to support _____________ _________________ the policy _____________.

_______________ ____________ __________ : Features include…

Permanent _______________ ___________________

_______________ ________________

until ___________ or Age _______

________________ __________ ________________ : These policies earn a _______________ _________ ______ ____________ and ______ _________ _______________ a certain ________ _________. They have a ___________ ___________ _____________ and a _____________ minimum ___________ _____________.

___________________ is when policy owner _______________ one or all of their rights of ________________ of their policy. *(*Does an _______________ _______________ have to exist to assign a policy? ______, the policy owner can give it to anyone.)*

______________ _________________ is when the assignee receives ________ ___________ **of the policy.**

Remember: The _____________ _____________ must be notified when a policy is assigned… ________**,** but <u>no</u> <u>approval</u> is needed.

______________ **or** ______________ _________________ is when the policy ____________ are **assigned to a ___________.** *(<u>Remember</u>… That once the ___________ is ___________ all of the policy benefits are _____________ to the policy _____________.)* ______**,** once you repay the debt, you then regain those benefits.

With ___________ _______ Insurance:

- You can't forfeit you**r** ________ ___________,
- _________ ___________ chooses how to ____________ them.

There are ______ Non-forfeiture ___________:

- **R – ______________, ________ - ______**
- **E – ______________ ________**
- **C – ____________**

What is an ______________ ________ used for? *(It's a small ________ _________ in comparison to the whole policy.)*
Pays for _______________, ____________, ____________ _______, ______ of _______, etc.

It's IMPORTANT to note that ________ ______________ companies doing business on a ________ ________ means that…

→ The company offers both type of insurance policies…

________________ (________________ – more expensive $$)

and

______ - ______________ (_____ dividends)

Dividends are ____________ **of** ______________**.**

_____________ has ____ Options to Receive their _____________**.**

C – _________ ___________

R – ____________ ______________

A – __________________ **w/** ____________ (this is taxable)

P – ____________ ______ ______________

O – ______ ______ _________ *(aka 5^{th} Dividend Option)*

Do note… The _______________ *themselves* are **<u>NOT</u> <u>Taxable</u>**, but the *interest* that they grow *is* taxable.

What does the **"**_________ _________**"** provision provide?

- A ___________ for the ___________ to reject the policy without forfeiting their money.

Although different Minimums by State, Most States give ______ _________ to review the policy.

➔ *(Found in Your __________________ __________________)*

The ____________ ____________ for Ordinary Life = ______ **days**

(Generally Yes, but You'll look at the ___________ of ___________ ___________ in order to see how long the _________ ________ is.)

***

Another _____________ Life Insurance Policy Provision is the…

____________ ___________ _______________

- ➢ Stating No ___________ ___________ may be taken *prior* to ______ days after ___________ proof of loss is ____________ to the _____________.

***

_____________ policies… _________________ _________________

What _____ things may have to be done before a lapsed policy will be _____________? ***(****Here's a hint…* **______ *x* ____*,*** *plus* ***PROOF)***

________ **---** ________ ALL __________________ DUE

________ **---** ________ BACK ___________________ LOANS

________ **---** ________ ALL __________________ DUE

____________ **---** _________ OF _______________________

What does the (______) _____________ ____________ ________ provision provide?

- ➢ ____________ **(**____________**)** can ______ ___________**'s** ____________ from ____________ ____________.

Now let's consider the following situation… You're employed with a large company, and have Group Insurance through that company's ___________ __________. Then you decide to leave that company but want to keep your ___________.

**** In order to* **__________** ***that*** **___________** ***policy*** *to an ____________, there are* **____** *Requirements You* **______** *To Meet.*

What are the rules for an employee to ___________ their Group Insurance to an Individual Policy after leaving a company?

1. It must be done within **_________ days**
2. You Do **______** have to prove *(No)* **_______________** again
3. It must be a **_________ _________ _________ _________**

What is the difference between a **Provision** and a **Rider**?

→ A **______________** is a **______ __ _____ _________ ___________**

→ Whereas a **___________** is an **______________** to the policy and frequently there is an **______________ ___________**.

**** Think of an insurance policy as a horse. A provision is a hoof. And a Rider is well, a Rider. What is part of the horse, the hoof of course. That's the Provision. The part of the horse. And a Rider, is just a Rider. It's an extra piece that isn't part of the horse itself. The policy***.**

The __________ ____ ____________ rider prevents a ___________ from lapsing by ___________ ____ ____________ when the _____________ becomes _____________.

→ How long is the ___________ __________ before this rider becomes effective?

______ months — ______ months

(______ — _____ days)

→ How long will the company _________ /______ the premiums?

Ans: Until disabled owner _____________; If disabled ___________ Age _______ and not recovered… ______ ________.

____________ _______________, which is ONLY found in _______________ ___________________

Waives the _____________'s _____________ when the ___________ dies, until that child reaches Age ______.

What is the __________ that can have more than one __________ member insured?

___________ ___________, __________ or __________ __________

(This Rider allows more than one family member to be insured.)

_______________ _______________ :

A _____________ _____________ in a ________ insurance policy which stipulates the ___________ of the ________________.

_____________ ________________ _______________ is found at the ______________ of the ____________.

What does the **____________ ____________ ________________** mean?

- **_____________ ____________________**
- **________________ ____________**
- **____________________**

(________ Must be Attached to the Policy)

How does the **_____________ ____________ _____________** protect the ______________?

________________ (Insurance Company) _____ _____ _____ _____ _____________ any part o the policy after the delivery.

<u>INCONTESTABLE CLAUSE</u> = <u>TWO (2) YEARS</u>

How long can an insurance company ______________ the validity of statements *(representations)* made on a ______________?

______ _________ AKA ____________________ _____________

What are the **_____** situations to which the *<u>incontestable time</u>* ________ ______ ____________? *(If <u>ANY Apply</u> they can <u>Challenge</u>.)*

- **I — _________________________**
- **I — ______ ________________ ________________**
- **I — ________________ to ________________**

If a policy owner _____________ their ________, will the company be able to do anything about it after the contestable period expires? ________

What can the insurers do? ____________ ______ ___________ to reflect correct _____ **—** Increase or decrease the face amount

Where is the ____________ ___________ found in a policy?

On the ___________ of the ____________ itself!!

(It's IMPORTANT to remember that the Front and the Cover are Different!!)

You'll need to know the difference between the _______________ ____________ and the ___________ __________ _______________, where they are ___________ and _________ ________ __________.

➔ The ____________ ____________ promises to pay the _____________ ___ _________ or __________ at Age _____.

Common Policy __________________ Insurer will not pay:

- **C —** _______________ of a ____________

  (if you die while robbing a bank, well, sorry.)
- **A —** _______________ *(Private or Skydiving)*
- **W —** _______________ *(Generally NOT Covered)*
- **S —** _______________

Suicide Clause: May Only Pay ___________ ____________ _______

The ________________ ____________ is a provision/rider that ___________ for an ___________ _____________ of a portion of the ___________ ___________ to be ________ to an ____________ that is ______________/______________ ______.

______________ __________________ ______________ are companies which _____________ ________ _____________ policies from the terminally ill.

Questions? → **What kind of assignment** is it when a viatical company pays the original owner money & the owner _________ their policy to the viatical company?

Ans: ______________ ______________

Are ________________ __________ ____________ taxable? _____

Does a terminally ill person who sells their policy to a viatical company have to pay taxes on the money they received? _____

ANNUITIES

______________ → A contract with protects against the risk of _____________ _____________ than expected. They provide ______________ _________ ____________ to protect against the risk of depleting __________________ ___________.

______ Factors to Determine Annuity Premiums

- ✓ The annuitant's ________
- ✓ The annuitant's ________
- ✓ The assumed ______________ ________
- ✓ The periodic ____________ ____________ and ______________ __________________
- ✓ The company's ______________ or _____________

Example:

- Sally want to receive $_____/__________ for life beginning at Age 65 and Kim wants to receive $_____/__________ beginning at Age 60. → If all other things are equal, who will be charged the ___________ ___________?
- The _____________ will charge Kim a higher premium than Sally, because they will be ____________ for a ____________ period of ___________.
- REMEMBER: The ________ Factors used to determine Annuity premiums are → ________ and ________, the assumed ________________ ________, the periodic ___________ ___________ and ____________ _______________, and also, ___________'s _____________ (or _________).

** (The AGE is ____________ for the insurer to ____________ how _______ it will be _____________ to make ____________ to the ________________.)*

If the Annutant selects an _______________ ______________

- Immediate annuities are purchased with a _____________ _____________
- They _____________ a ___________ _____________ for the ________ of the annuitant.
- The ___________ can be either single premium ___________, or single premium _________________.
- If the _____________ chooses the _____________ option, the ___________ ____________ begin within _______ months of purchase.
- If they select the single premium _____________ — it is _____________ with a ___________ ____________, but the benefits are _____________ to a later time.

403b (aka ______-_______________ ___________ or _________)

These are specifically for employees of ___________ organizations and ___________ schools.

Federal ___________ ____________ (___________ __________) program that provides _____________, ____________ and _____________ ___________ is called **____ ____ ____ ____ ____**

O — _____________

A — _____________

S — _____________

D — _____________

I — _____________

Remember… Basis for determining ___________ ____________ insured ___________. A maximum of _____ quarters can be earned in _____ year. Synonymous with quarters of credit.

___________ of ______________

_____ Quarters *(10 years)* ➔ = _________ __________

Social Security is an ______________ ______________, it is not a welfare program. **(_____ Quarters = Fully Insured)** Because You have paid into this program & therefore You are entitled to it.

What type of plan is ____________ from current income taxation?

A ______________ ________ *(they Qualify to be Tax-Free)*

****** _____-____________ Plans are subject to taxes.***

Need to Remember → Employees pay No ___________ on money that they ______________ to a ______________ **Plan** at work.

(Pre-tax earnings)

______________ **Plans** are Not Taxable since the Employee is paying in with **Pre-tax earnings**, the funds are not taxed at all.

What does **E R I S A** mean?

- **E — ____________ee**
- **R — ______________**
- **I — ______________**
- **S — ______________**
- **A — ______________**

The ____________ of **<u>E</u>RISA** is to ___________ the _________ of **______________.**

INDIVIDUAL RETIREMENT ACCOUNT

Individual retirement accounts provide a place for individuals to keep assets and achieve major tax advantages.

ONLY **______** person can own an **______** account, and that's why it's called an **"______________" ______________ ____________.**

Tax Treatment of Premium Proceeds and Dividends

Always Remember → When _______________ a policy for its __________ __________, any amount that was in **____________** of premiums paid is **______________** as ordinary income.

Meaning if the insured pays in <u>$10,000 in Premiums</u> and the <u>Cash Value is $12,000</u>, then if the surrender the policy, they will have a <u>$ _________ Tax Liability</u> because that is money made over the $10,000 paid into or invested into the policy premiums.

Tax Examples.

* Occasionally **Reimbursed Medical Expenses** *could potentially* require and Amended Tax Return. *(One instance where Health Benefits could be taxable.)*

In order to best maintain control of one's retirement account, they should have their funds _____________ __________ to the _______ ____________ **without** taking possession of the funds.

***** Anything other than ____________ ___________ to the _______ ____________ they could have _____________ tax consequences.

➔ ***(IF NOT THEN)*** The ____________ Trustee is required to withhold ______**%** of the funds and send them to the IRS even if you re-invest the money within 60 days. If they don't send the 20% it will become an early distribution and be subject to ____________ and ______________.

A ____________ becomes due and payable at ________________.

* ***IF it is not paid****, then it will also constitute an early withdraw and create a* ***Tax Liability****.*

Leaving funds with a previous employer can be ______________

- Could have dormant account fees assessed
- If the company decides to change providers, they may not have the same options going forward, and there will be a FREEZE PERIOD that will prevent them from making any transactions for _______ days.

<u>NOTE</u> → A ____________ ______________ ____________ **is usually the ____________ __________.**

Taxation on ________________ : What is used to calculate taxes?

Taxes are _______________ using the _______________ _________

When a person _____________ an NON-Qualified _____________, part of the money returned is considered _____________ and part is considered _____________.

The _______________ _________ is used to determine which part of the payment will be excluded from _________ tax ___________. Once that number is _____________ it remains _____________.

Tax implications involved when an insurance policy is surrendered

- ➔ Upon policy _____________ cash _________ ___________ than the amount of _____________ ___________ is subject to ________.

Taxation of Life Insurance _______________

- ➔ Beneficiaries pay ___________ Taxes on Death Benefits when they are received in a ________ ________.
- ➔ ___________ ___________ is part of the Death Benefit and therefore it is ________ taxable.
- ➔ If proceeds are received in _____________ a portion of the proceeds will contain _____________, which is ___________.
- ➔ Proceeds of Life Insurance that result in a _____________ of __________ or were _______ to another party, may be taxed.

The ____________ **of ____________ Rule does not apply** when a Life Insurance policy is _____________ as _____________ on your ___________.

Tax Implications for Group Insurance Policies:

For Group policies premiums paid by the _____________ are _____ Tax-deductible, but the ________________ can _______________ _____________ it pays as a _____________ _____________.

Proceeds from a ___________ Life Policy are Tax-**_______** if taken in a **________ ________**.

A DISTINCTION TO MASTER: → *The Difference Between*

_______________ and **______-_______________** Plans

_______________ Plans are… _____________ _____________ employer retirement accounts that provide ________ __________ for account _____________ and ____________.

➔ Qualified Plan _____________ contributions are ________ _____________ as a business _____________ and employer contributions are ________ __________ until _____________.

➔ Any interest earned on contributions is also ________ _____________ until _____________ upon retirement.