



Life Insurance



Facilitator's Guide

Life Insurance

Overview:

If you ask people to name their most valuable asset, most will tell you something like their house or car. But what most of us forget is that our life qualifies as our greatest asset. Most of us would prefer not to think about what will happen when we die and we hope that the day is a long way off. But life insurance does not benefit the person who dies. Instead, it offers protection for the people left behind: the beneficiaries. Life insurance can keep your family members and dependents from losing the earnings you would have provided them. Because life insurance passes through your estate, your beneficiaries will not be taxed on the money coming to them. Just by multiplying your annual income by the number of years you expect to work, you will see the great value you provide to the people who depend on you. Even if you are single have no dependents (and 40% of the US population falls in this category), you should consider whatever debts you might have — such as student loans, credit card debt, a mortgage, medical bills, etc. Adding in the cost of your funeral, which could run several thousand dollars, and you can see the potential burden that could fall on your loved ones. A life insurance policy is vital to anyone living and working on his or her own. The following course will teach you more about your options and get you started on the path to protecting your life: your most valuable asset.

Overall Goal:

To understand what life insurance covers and why it is necessary for people at any stage in life to maintain an adequate policy. To explain how life insurance can function as a long-term benefit, not only protecting assets but also providing for educational and retirement needs.

The information contained in this curriculum is provided exclusively for instructional purposes. Insurance coverages, terms, and definitions are intended for informational purposes only and may vary in their applicability by state. The information provided by Nationwide Mutual Insurance Company does not in any way replace or otherwise alter the definitions and information contained in individual insurance policies. For information about actual Nationwide Insurance contract coverages, contact a licensed Nationwide Insurance representative.

Section activities at a glance:

Activities	Time	Objective
1: Why Do I Need Life Insurance?	15 minutes	<ul style="list-style-type: none"> Provides an introduction to what life insurance covers and why everyone needs it. Reviews vocabulary related to life insurance.
2: Life Insurance Options	20 minutes	<ul style="list-style-type: none"> Discusses the differences between term and permanent life insurance premium options, including whole life (fixed) and universal life premium. Provides guidance to help participants decide what type of policy best meets their needs.
3: Other Life Insurance Products	10 minutes	<ul style="list-style-type: none"> Summarizes some optional policy enhancements and riders.
4. Closing	10 minutes	<ul style="list-style-type: none"> Allow participants an opportunity to ask any remaining questions. This is a good opportunity to invite an insurance professional to the classroom to discuss specific insurance issues and needs with the participants.

Activity 1: Why Do I Need Life Insurance?

Time: 15 minutes

Purpose:

Understand why someone would choose to purchase life insurance.

Materials Needed:

Transparencies, overhead projector, copies of handouts, pens, calculators.

Introduction:

Everyone needs life insurance, no matter how much you earn, what you own or whether you have a family. Many single young people, especially those with no kids, think they have no need for life insurance since they would be leaving no one behind. There are two reasons why this is a dangerous perception: First, you may have debts that could be a burden to your surviving relatives; and second, by not buying a policy when you are young and healthy, you may miss out on the opportunity to get an affordable plan that will last throughout your lifetime. Think about it: with careful planning, you could be paying the same premium at 70 that you started paying at 25.

Instructor's Notes:

As an icebreaker, consider asking the participants to share their ideas and opinions about life insurance. When should an individual buy a policy? What types of people need life insurance and what types do not? Do they know what life insurance covers? Consider recording their responses as anecdotal support to the impact assessment.

Display Slides 1–6: *Review of Risk and Risk Factors from Introduction to Insurance.*

When you reach *Slide 3*, ask participants how likely it is that they could avoid the risk of death or save enough money to protect their families from losing their income.

Display Slide 7: *What Does Life Insurance Cover?*

Ask participants if there is anything here that they are learning for the first time.

Let's take a brief look at how much you are worth to your loved ones. Once you have completed Handout 1, you should have an idea of how much life insurance you will need.

Instructor's Notes:

Distribute Handout 1: *Your Net Worth to Your Survivors Calculation Sheet* (an electronic Excel Spreadsheet provided on the accompanying cd rom can also be used if you are working in a computer lab). After working through the calculation sheet, you may wish to facilitate a brief class discussion on what the participants learned from the exercise.

Sample questions:

1. What might happen to your financial obligations in the event of your death? Do you know what financial obligations would be passed on to a loved on? (*Answer: only those with a co-signer, joint applicant or guarantor*)
2. Do you believe that a significant burden might fall upon your family?
3. When calculating the sheet, did you consider what your income provides to dependents? Why or why not?
4. Is anyone "worth" more than he or she thought?
5. Is anyone rethinking his or her need for life insurance?
6. If you already have life insurance (through an employer or through an individual or family plan), do you think you have enough to meet your needs?

Distribute Handout 2: *Life Insurance Vocabulary*. Ask the participants if they understand all of the terms. Ask them to keep the handout in mind as the class continues to discuss life insurance options.

Activity 2: Understanding Your Life Insurance Options

Time: 20 minutes

Purpose:

Compare term insurance with the two permanent insurance options: whole life and universal life.

Materials Needed:

Transparencies, overhead projector, handouts, pens.

Introduction:

Now that you understand more about what life insurance covers and how it could benefit you personally, it's time to consider your options. There are two basic types of life insurance: Term and Permanent.

Instructor's Notes:

Distribute Handout 3: *Comparing Your Life Insurance Options.*

Display Slides 8-13: *Choosing the Best Life Insurance for You: Your Options.*

Read the following section aloud as the participants follow on the handout and slides.

Term insurance is generally the least expensive and least complicated type of life insurance. It provides insurance protection at a low cost for a specified period of time, such as 1, 10 or 20 years. If you die within the term period, a death benefit is paid to your beneficiary. If you are still living at the end of the term, your coverage will end unless the policy is renewed or converted into a permanent life insurance contract. Some insurance companies automatically renew your term insurance as long as you are willing to keep paying your premium, which might increase. Term insurance usually becomes more expensive with each renewal as the insured becomes older. There is no "accumulation" of cash value. If your policy expires and you do not renew it, you lose your coverage.

Permanent life insurance is distinguished from term insurance in several ways. While term insurance provides protection only for a specific period of time, permanent insurance can provide protection for your entire lifetime. In addition, permanent life insurance policies can build cash value — money that you can borrow against and, in some instances, withdraw to help meet future goals, such as paying for a child's college education. Note: You will usually have to wait a period of time after the purchase of your policy for sufficient cash value to accumulate for you to borrow against it.

Permanent life insurance policies enjoy favorable tax treatment. Cash value growth is generally on a tax-deferred basis, meaning that you pay no taxes on any earnings in the policy so long as the policy remains in force and any policy gains remain in the policy.

When you think about the difference between term and permanent insurance, think about the difference between renting and buying a house. Like term insurance, renting may meet your needs temporarily, and may seem like a good option when you are on a budget or need a simple, quick solution to where to live. However, over time, both term insurance and renting can keep costing more money and, at the end of the experience, you will have spent your money and will have nothing to show for it. However, permanent insurance is like buying a home. It is a permanent investment that will build value over the years. Like taking out a permanent policy, buying a home can seem like an expensive, complicated process. However, if you are serious about building a solid future, it's the right path to take.

There are two basic types of permanent insurance: Whole Life and Universal Life. If you review your vocabulary sheet, you will see a short definition of each of these types of permanent life insurance.

- **Whole life insurance** is the most basic form of permanent life insurance. A Whole Life policy remains stable from the moment you take out the policy. Depending on your age and health, your premium will purchase a specific death benefit and produce a specific cash value, which are guaranteed for the life of the policy as long as your premiums are paid. The premiums, though, tend to be higher than the premiums associated with term policies. Part of the premium pays for the death benefit coverage, commissions and fees. The rest is comprised of the cash value supported by the insurance company's general account investment portfolio. People choose whole life when they know they have a lifetime need for insurance and prefer stability in their premium payments and benefits.
- **Universal life insurance** — Unlike whole life, universal life insurance offers a flexible premium. How much and how often you pay depends on the policy's cash value and the size of the death benefit you choose. You can choose to use the cash value to reduce a portion of your out-of-pocket premium payments. A smaller death benefit also would reduce the premium payments. Universal life insurance policies build cash value with a **guaranteed minimum return**.

Instructor's Notes:**Display Slide 14: *Your Life Insurance Options.***

Facilitate a brief class discussion to reinforce the information.
Sample questions include:

1. What are the fundamental differences between term and permanent insurance?
2. At this point, which option is the most appealing to each participant? Why?
3. What type of insurance would they realistically consider buying now? Why?
4. Would the participants consider different options later in life? If yes, under what circumstances?

Display Slide 15: *Life Event Challenges.*

Ask participants to discuss which events might cause them to take out a life insurance policy or make a change to the one they have now.

Distribute Handout 4: *Quiz — What Type of Life Insurance is Best for Me?* and allow participants time to complete it. Review the answers in class and ask if anyone had problems with particular questions.

1. Term life for a large amount would cover a parent's accidental death while the children are dependent.
2. Whole life or universal life
3. Term
4. Now is a good time to buy any type of policy
5. Either type of permanent life: whole or universal
6. Any type of permanent life insurance: whole or universal
7. Term
8. Any type of permanent life insurance: whole, universal
9. Whole or universal
10. Term

Activity 3: Other Life Insurance Products

Time: 10 minutes

Purpose:

To learn about some optional policy upgrades, called *riders*.

Materials Needed:

Transparencies, overhead projector, copies of handouts, pens

Introduction:

Now that the class has covered the basic types of policies, it's time to look at the other ways that insurance providers tailor policies to meet individual needs. Often, a policyholder can decide to add on additional coverage called a rider that enhances the basic coverage. Generally, each rider carries an additional cost and increases the policy premium. However, based on your family's needs, you may decide that this extra coverage is well worth the cost. This activity helps explain some of the basic types of riders so that you are able to decide whether to consider them when taking out your policy. Please keep in mind that insurance providers may use different terms to describe the riders, while some may offer unique riders to only their policyholders. Our objective is for you to understand the concept and know your options, rather than memorize the terms. When you decide to purchase a policy, an insurance agent will work closely with you to evaluate your needs and concerns. Afterwards, the agent will make a recommendation of what insurance option and what riders are the best fits for you. However, it will be up to you to choose your plan based on your comfort level and budget.

Instructor's Notes:

Distribute and display **Handout 5: *Some Common Life Insurance Riders***. Review each term with the class. You may wish to facilitate a class discussion by asking participants to describe the circumstances when a person would select each particular rider. Some examples would be:

1. If you do not have children yet, but plan on having them = Children's Insurance
2. You would like your spouse to inherit your policy = Insurance Exchange
3. If you work in a field where accidents are common = Disability Waiver of Premium
4. You are concerned that you or your spouse could become terminally ill and need access to your life insurance benefits to pay bills. (Living Benefits Rider)

Follow up by asking the participants to share if any of the riders appeal to them.

Closing:

Conclude by asking if there are additional questions. If you cannot answer the questions, you can offer to ask an insurance professional and contact the participants via email or give the answers in an upcoming session. Thank the participants for their time and congratulate them for taking an important step toward a secure financial future.



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Participant Handouts

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Handout 1

Your Net Worth to Your Survivors Calculation Sheet

Use this worksheet to calculate your current financial obligations as a basis for your life insurance needs

Item	Amount Owed	Item	Amount Owed
Housing		Other Expenses	
1st Mortgage		Business Loans	
2nd Mortgage		<i>Subtract Sale Value*</i>	
Home Equity Loan		Total Debt	
Subtotal Housing		Total Student Loans – Self	
<i>Subtract Home Equity*</i>		Total Student Loans – Others	
Total Housing Debt		Total Commitments as Cosigner	
Auto		Total Credit Card Debt	
1st Car Loan		Total Unpaid Medical Bills	
2nd Car Loan		Final Expenses – includes final medical costs, funeral costs, attorney fees, taxes (estimate 30-50% of annual income)	
Subtotal Auto		Total Column 2	
<i>Subtract Sale Value*</i>			
Total Auto Debt			
Other Property (boats, land, etc.)			
Property Loans			
Subtract Sale Value*			
Total Property Debt			
Total Column 1			

**if not leaving to estate*

**if not leaving to estate*

Complete this section only if you have dependents:

Item	Amount	Years	Total
Annual contribution to household expenses			
Annual Educational Costs – for minors			
Annual Educational Costs – college			
Annual Long-Term Care Costs (for disabled children or seniors)			
Other Emergency Expenses (home & autrepair, medical bills)			
Total Dependents' Needs			

Totals	
Total Column 1	
Total Column 2	
Total Dependents' Needs (from worksheet above)	
Miscellaneous Expenses	
Subtotal – Obligations	
<i>Subtract Savings, Investments & Liquid Assets</i>	
Total Life Insurance Needs	

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Handout 2

Life Insurance Vocabulary

Beneficiary	The person you name when taking out your life insurance policy who will receive the life insurance proceeds upon your death. This typically includes your spouse/partner, parent, child or sibling.
Cash Value	The policy value that is available in cash for loans and may be available for withdrawals. Accessing your Cash Value may reduce the death benefit and may increase the risk of lapse. Cash value is an option only with permanent life insurance.
Convertible Term Insurance	Term insurance that can be exchanged for a permanent insurance policy.
Death Benefit	The aspects of the policy that will only take effect in the event of the policyholder's death.
Face Amount (same as Death Benefit)	The amount stated on the face of the policy that will be paid in case of death. It does not include additional amounts payable under accidental death or other special provisions, or acquired through the application of policy dividends.
Insurability	Describes how likely you are to be accepted for an insurance policy.
Insured or Insured Life	The person on whose life the policy is issued.
Lapse	A break in your insurance coverage caused by you not meeting the required payments or other conditions. If a death occurs during this time, the company would not provide the policy benefits.
Level Premium (Life Insurance)	Life insurance for which the premium remains the same from year to year.

Loan (Policy Loan)	A loan made by a life insurance company from its general funds to a policyholder on the security of the cash value of a policy. Generally, loans may reduce the policy's death benefit and cash value.
Paid-up Insurance	Insurance that will remain in force with no need to pay additional premiums.
Permanent (Life Insurance)	Any form of life insurance except term; generally insurance that builds up a cash value, such as whole life.
Policy	A legal contract that sets forth the rights and obligations of both the policyholder and the insurance company.
Policyholder	The person who owns a life insurance policy. This is usually the insured person, but it may also be a relative of the insured, a partnership or a corporation.
Premiums	The monthly or annual cost of insurance.
Renewable Term Insurance	Term insurance that can be renewed at the end of the term. The rates generally increase at each renewal as the age of the insured increases.
Term Insurance	Life insurance that does not build up cash value and where the premium normally increases as the insured gets older.
Universal Life Insurance	A flexible premium life insurance policy under which the policyholder may change the death benefit from time to time (with satisfactory evidence of insurability for increases) and vary the amount or timing of premium payments.
Whole Life Insurance	A basic type of permanent life insurance that can provide lifetime protection at a level premium. Premiums must generally be paid for as long as the policy is in force.

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Handout 3

Comparison Chart — Your Life Insurance Options

Term Insurance	Permanent Life Insurance	
Best for temporary need	Best for long-term need	
<p>Pros:</p> <ul style="list-style-type: none"> ✓ Provides insurance benefits at a low cost ✓ Simple and easy to understand ✓ May be converted to permanent life insurance ✓ Smaller amounts of coverage may not require a medical exam <p>Cons:</p> <ul style="list-style-type: none"> ✓ No cash value ✓ When term expires, policy loses all value and coverage ceases ✓ Has to be renewed to continue coverage (some policies automatically renew) ✓ Premiums increase with each renewal, so it becomes less affordable later in life 	<p>Pros:</p> <ul style="list-style-type: none"> ✓ Accumulates a cash value that can be borrowed against for education, retirement, major purchases, etc. ✓ Premiums can be level or adjustable ✓ Tax-favored investment ✓ Does not have to be continuously renewed ✓ If you choose to cancel the plan, the cash value is returned to you <p>Cons:</p> <ul style="list-style-type: none"> ✓ More expensive premium ✓ May be more complicated and more difficult to understand ✓ Cannot be converted to term insurance ✓ Medical exam is usually required 	<p>Universal Life</p> <p>Pros:</p> <ul style="list-style-type: none"> ✓ Flexible — premiums and coverage can be adjusted to fit your needs as your lifestyle changes <p>Cons:</p> <ul style="list-style-type: none"> ✓ Requires closer monitoring from policyholder to determine when premium payments or benefits should be adjusted
	<p>Whole Life</p> <p>Pros:</p> <ul style="list-style-type: none"> ✓ Premium amounts never change ✓ Coverage never changes (providing premiums are paid) <p>Cons:</p> <ul style="list-style-type: none"> ✓ Not flexible — you cannot change the premium amount or death benefit 	

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Handout 4

Quiz — What's the Best Options for Me?

Pretend you are an insurance agent. Each of the quotes below came from a client who is interested in buying a policy from you. Your company offers term life insurance and permanent life insurance, with the options of either whole life or universal life. If you had to recommend one of your company's insurance products to them, what would you choose? Write your recommendation next to each statement below:

1. "I have two young children who will depend on me for at least fifteen more years."

2. "My family situation is unlikely to change in the upcoming years."

3. "I need life insurance now but I'm on a tight budget."

4. "I am young and enjoy good health."

5. "I would like to be able to borrow against my policy for future needs."

6. "I don't want to worry about renewing my policy."

7. "I would rather pay a low premium now and convert my policy to something better later."

8. "I need life insurance for the long-term."

9. "I prefer to have a guarantee that my benefits will never decrease."

10. "I am an employer and I want to provide basic life insurance to my staff."

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Handout 5

Some Common Insurance Riders

Accidental Death Benefit (ADB)

Provides additional death benefit if the insured dies as a result of an accident.

Children's Insurance (CI)

Provides level term insurance on the children of the insured.

Disability Waiver of Premium (WP)

Premiums are waived if the insured becomes permanently disabled for six months or longer. This type of rider varies by insurance provider.

Insurance Exchange (IE)

Provides for the transfer of the policy to a named beneficiary, providing that the person is in good health at the time of the original insured person's death.

Living Benefits Rider (LBR) — Sometimes called "Accelerated Death Benefit"

Gives policyholder access to a portion of the policy's eligible death benefit should the insured be diagnosed with a terminal illness with a life expectancy of 12 months or less.

Option to Purchase Paid-Up Additions (OPP)

The right to purchase additional paid-up life insurance that has cash value and loan value and is eligible for dividends.

Policy Purchase Option (PPO)

Guarantees the right to purchase additional insurance at crucial junctures in life.

Spouse and Children's Insurance (SCI)

Allows insured to purchase level term insurance for spouse and children.

Spouse's Paid-up Insurance Purchase Option (SPPO)

Gives spouse/beneficiary the right to purchase a new paid-up whole life policy on his/her life without evidence of insurability.

Survivor's Purchase Option (SPO)

Allows beneficiary to purchase a new life insurance policy on a designated insured without providing evidence of insurability.