

What Are the Basic Types of Life Insurance?

Seventy-five percent of U.S. households agree that life insurance is the best way to protect against the financial consequences of a primary wage earner's premature death. However, choosing from the many types of life insurance policies that are available can be a difficult process. A few main categories are described below to help you search for a life insurance policy that could be appropriate for you.

Term Life Insurance

Term life insurance is the most basic and usually the most affordable. Policies can be purchased for a specified period of time (i.e. 30yr term policy.) If you die within the time period defined in your policy, the insurance company will pay your beneficiaries the face value of your policy.

Policies can usually be bought for one- to 30-year time spans. Annual renewable term insurance usually can be renewed every year without proof of insurability, but the premium may increase with each renewal. Term insurance is useful if you can afford only a low-cost option or you need life insurance only for a certain amount of time (such as until your children graduate from college or until your mortgage is paid off.)

Permanent Life Insurance

The other major category is permanent life insurance. You pay a premium for as long as you live, and a death benefit will be paid to your beneficiaries upon your death. Permanent life insurance typically comes with a "cash value" savings element. There are three main types of permanent life insurance: whole, universal, and variable.

Whole Life Insurance - This type of permanent life insurance has a premium that stays the same throughout the life of the policy. Although the premiums may seem higher than the risk of death in the early years, these "overpayments" can accumulate cash value and are invested in the

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company's general investment portfolio. You may be able to borrow funds from the cash value or surrender your policy for its face value if necessary. Of course, loans and withdrawals will reduce the policy's death benefit.

Universal Life Insurance - Universal life coverage goes one step further. You have the same type of coverage and cash value as you would with whole life, but with greater flexibility. Once money has accumulated in your cash-value account, you may be able to vary the frequency, as well as the amount, of your premiums. In fact, it may be possible to structure the policy so that the invested cash value eventually covers your premium costs completely. Of course, it's important to remember that altering your premiums may decrease the value of the death benefit.

Variable Life Insurance - With variable life insurance, you receive the same death protection as with other types of permanent life insurance, but you are given control over how your cash value is invested. You have the option of investing your cash value in stocks, bonds, or money market funds. The value of your policy has the potential to grow more quickly, but there is also more risk. If your investments do not perform well, your cash value and the death benefit may decrease. However, some policies provide a guarantee that your death benefit will not fall below a certain level. The premiums for this type of insurance are fixed and you cannot change them in relation to the size of your cash-value account. Any guarantees are contingent on the claims-paying ability of the issuing company.

Variable Universal Life - *Variable Universal Life* is another type of variable life insurance. It combines the features of variable and universal life insurance, giving you the investment options as well as the ability to adjust your premiums and death benefit.

As with most financial decisions, there are expenses associated with life insurance. Policies commonly have mortality and expense charges. In addition, if a policy is surrendered prematurely, there may be surrender charges and income tax implications. The cost and availability of life insurance depend on factors such as age, health, and the type and amount of insurance purchased.

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How Much Insurance Do You Need?

There are different factors to consider when determining the proper amount of life insurance for you. As mentioned in the March 2007 newsletter (Are You Worth a Million Dollars?), there are a few rules of thumb to help you make this important decision.

- 1. If you own a home:** You should have Life Insurance to cover your mortgage.
- 2. If you are married:** You should have enough insurance to ensure your spouse can continue living comfortably.
- 3. If you have kids:** You should be sure your insurance can cover the cost of college as well as any other benefits you would like to bestow upon them.
- 4. If you are retired:** you should be sure your insurance will allow your spouse to receive a steady flow of income should your pension and social security cease.
- 5. If you have received an inheritance or have a significant estate:** you should be sure your life insurance benefit will cover all income taxes resulting in the transfer of your estate. You may also be able to cover any or all of your estate taxes.

While these "Rules of Thumb" will help you evaluate your Life Insurance needs, we always recommend you speak with a Financial Professional to assist you in determining your complete coverage needs. For more information please contact your WorkInvest professional at (800)423-4891.

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