<u>Start With The End In Mind</u>

By Ron Cohen, RHU, RR

Life insurance can be simple, complicated, demand planning, proper placement and usage, etc. Today, more and more buyers are realizing its value. Yet, many people still, purchase it solely based on death benefit and cost with little regard to future realities. Without direction, many wind up facing similar problems down the road.

Let's stay with one product for this article. Term insurance. As an example, term insurance can provide maximum death benefits with minimal outlay. Typically, the individual sees their need, i.e. $1,000,000 and then is given options. "The $1,000,000 will remain level for the period of your choice", says the agent. "Not only is the Death Benefit Level during this period, but the premiums as well, will remain the same", the agent continues.... Now the individual is shown the difference in comparisons between annual premiums for 10, 15, 20, 25 and 30 year Guaranteed Level Term Plans. The person already thinks they know what death benefit (also called face amount) they want is, then by seeing the periods of time and the cost differences, picks one. STOP!

Where will you be in your life at that point in time. If you chose the 30 year period, I can tell you right now, you probably won't be able to afford the policy in the 31st year. Will you still need the policy in year 31?

<u>The Problems People Come To Realize</u>

The hot product on the street right now (and it has been for a while), is the Return of Premium Term. Basically, if you add a Rider to the Term Policy (usually 15, 20, 30 year term plans) at an extra cost, you will receive 100% of all your premiums back at the *end of the period chosen*. STOP!

Again, if you chose the 30 Year Level Term, the same question comes up. Will you need the policy in the 31st year, as now, you might have to surrender the policy and take your refund.

Most people do not consider that at the end of these term periods, many changes will occur. First, the premiums will increase dramatically and in many cases result in your inability to maintain the coverage due to the increase in price.

Now, the points to consider would be: (Using even a 10 year Level Premium Term) You might have been 40 when you originally purchased the policy. Now, you are approaching 51 and if your thinking about replacing the original term policy by applying for a new one, you may be in for a surprise. The Second Change: Chances are your classification will no be the same as it was almost 11 years ago.

So here is what could and really does happen:

a) You must continue your current policy, even with the new rates that are much higher
b) You are now uninsurable
c) You find a new company whose rates are cheaper than those of your current carrier's 11 year rates & you change
d) You drop your coverage
e) Your current policy provides a "Conversion" to permanent insurance and you convert some or all of the death benefit to a permanent policy. This is more expensive but permanent coverage becomes an option many choose.

Conversion Privileges

Typically, insurance policies will provide the insureds with the right to convert their term policies over (all or some of the face amounts) to permanent policies. Some carriers offer the policyholders the right to convert their term policies over to ANY of THE PERMANENT PRODUCTS they offer. While some, on the other hand, limit this conversion privilege to one or two policy types.

Note as well within the carriers "Conversion Rights", the time that you are eligible to convert these policies will differ. Some may say Age 65, some Age 70 etc. While still others may not even allow for conversion and or limit this period to 5 or 10 years. Be aware of this when you BUY the policy. If you wait too long, you are left with 2 options. Pay the HIGHER premium for the Term Policy, which in most cases is unaffordable. Or, drop the insurance all together.

Ownership, Payor & Beneficiary

Who should own the policy, pay for the policy and be the beneficiary of the policy? Here is where the need for planning and advice come in. Generally, people give little thought to taxes, trusts, uses of the monies provided by these policies, who should own and pay for them as well. We are in an age of constant change and that is where preparation comes in.

More people should consider using qualified attorneys to advise them. Many insurance agents will suggest that you consult with an attorney and even recommend one to you. Even a simple term policy has a direction and carriers with it possible consequences. Coordinating the best route would suggest advice and knowledge:

<u>Consider the following</u>:
Do you have a will? Do I need to set up a trust? Will the insurance I have be taxed as it is set up now? What if I get a divorce? If I leave my beneficiaries the money in a lump some, is that wise? Who should own the policy? Who should pay for the policy? How should my beneficiaries receive the proceeds? Who should be the beneficiary? What is the purpose of the insurance?

<u>Conclusion</u>:
Life insurance can solve many financial problems down the road. It can also create many problems if you don't start with the end in mind.

What the future holds is unknown, but, as it says on my website: "One thing is certain.. change. It is the preparation that makes all the difference." **Ron Cohen, RHU**