

## Life insurance basics

*By Nicholas Schidowka , President  
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Many people buy life insurance to make sure loved ones remain financially secure in case of death. Life insurance can also be a tool in estate planning, cash accumulation, wealth transfer and estate tax liquidity as well.

There are many choices when it comes to life insurance. Policies are now available from more than 2,000 life insurance companies in the United States , as well as from banks and other financial institutions.

### Assessing your life insurance needs

There are some basic things to consider, when you are buying life insurance:

- Before purchasing a life insurance policy, you should consider your financial situation and the standard of living you want to maintain for your dependents or survivors. For example, who will be responsible for your funeral costs and final medical bills? Would your family have to relocate? Will there be adequate funds for future or ongoing expenses such as daycare, mortgage payments, or college?
- You should reevaluate your life insurance policies annually or whenever you experience a major life event such as marriage, divorce, the birth or adoption of a child, or purchase of a major item such as a house or business.

Attorney Michael Dobronos believes that,

“The basic question that you honestly need to ask yourself: In the event that you predecease your family, how will they survive financially? 1. Who will pay the funeral bills, which now average over \$100,000? 2. An untimely death usually means very large medical bills that health insurance may or may not fully cover. Do you want your wife and children to maintain the same standard of living that they are currently accustomed to? 3. Will your failure to plan ahead, after predeceasing your family, cause them a hardship for a generation? Such poor planning could affect multiple generations, prevent your children from attending college, searching for the ever scarce and financially unrewarding blue collar job. Will your immediate family have to sell the family home to make ends meet and live on rent?

Two key factors in purchasing life insurance include the number of your dependents and the standard of living you want to provide them. I believe most people want their immediate family needs that they may not survive them. Life insurance is the best financial substitute for the primary breadwinner in the family.

Equally, when a non-working spouse predeceases her immediate family, the cost to replace the services rendered by that spouse at home is astronomical. Usually the non-working spouse is a chauffeur, organizer, purchasing agent, bill payer, cook, chef, laundry person, housekeeper, butler, and most important a day care provider. The widowed spouse with young children will most likely require the most life insurance you can afford in order not to compromise their standard of living.

Also, some life insurances require detailed medical histories and in some cases examinations.

To get the biggest bang for your buck, quit smoking. Quitting smoking will buy you more insurance at a cheaper price.”

The reasons someone might buy life insurance will vary, depending on age, financial situation and other factors. Listed below are some examples:

- Single person with no dependents: Funeral expenses; medical bills; debts, such as credit cards or student loans; elderly parents who may be dependent for support. Note: Buying life insurance at a young age is cheaper. As a person ages or incurs a serious health condition, it will be more expensive or difficult to buy a policy.
- Single person with dependents: Funeral expenses; medical bills; outstanding debts; caretaker expenses for surviving dependents; education costs for surviving children.
- Couple with no children: Funeral expenses; medical bills; outstanding debts, especially mortgage or car payments.
- Couple with children: Funeral expenses; medical bills; outstanding debts, especially mortgage payments; child-rearing expenses; education costs. Note: Even if one partner does not work outside the home, a policy holder may want to consider life insurance to help pay for childcare or other services performed by that partner.
- Older couple: Funeral expenses; medical bills; impact on spendable income; outstanding debts, such as a new home, second vacation home, or recreational vehicle; impact on assets that may be left for children or grandchildren.

When purchasing life insurance, it is beneficial to know the language of the industry, Know the difference between term, permanent, universal, convertible term, whole life, and ordinary life. Understand also whether the company has offered a teaser rate which are increased on a yearly basis, or if it fixed for a term such as ten years, etc.

What are the options?

The two main forms of life insurance available are “term” and “permanent.”

Simply put, term life insurance provides death benefit protection for a specified period of time (for instance, a 10-year term policy). Generally speaking, if a customer is looking for coverage for a short period of time, term life makes sense.

If the customer is interested in using the policy as a form of savings, a permanent life insurance policy should be considered. Regardless what type of life insurance is bought, most policies require certain medical criteria to be met.

### Term life insurance

#### Non-Guaranteed Term Life

Non-guaranteed term life provides coverage only for a short time (usually a year) and is pure death benefit protection. The risk with term life is that a person's health might deteriorate and they could be unable to get another policy once the term is up. Premiums can also increase dramatically as you age. Term life insurance is a good choice for young people who can't afford the higher costs of permanent insurance, or for people with financial obligations that will disappear in time, such as a car loan or a mortgage.

#### Annual Renewable and Convertible Term

Annual renewable term insurance policies are for multiple years, usually 10, 20 or 30 years. By buying a longer term policy, costs can be stretched out to avoid the annual increases found in non-guaranteed term life.

Convertible term is similar to annual renewable term, but it offers the opportunity to convert the coverage to a permanent policy in the future — when regular term premiums might become cost-prohibitive because of age or health. This is a good choice for young people, who are unable to afford the higher cost of permanent insurance right now.

### Permanent life insurance

#### Whole Life or Ordinary Life

Similar to annual renewable term and convertible term, whole life policies stretch out the cost of insurance over a longer period of time. With whole life policies; however, the costs are spread out over an entire life. Once premiums are paid up, the excess dollars are invested by the company. In essence the insurance company is managing the investment of excess premiums, and that's why the choice in company is so important.

With this type of policy; however, the inflexibility of premium payments could become a burden if expenses increase or in case of job loss.

#### Universal Life

This option offers greater flexibility than whole or term life. After the initial payment, the policy holder has the option of reducing or increasing the amount of death benefit. If the policyholder chooses to increase the amount of benefit, they may have to provide medical proof that their health has not deteriorated. Also, after the initial payment, a policyholder can pay premiums any time and in any amount, as long as they don't miss a payment. In some cases, there are limits to how much extra can be paid in advance premiums.

Since the insurance company can increase charges, it would be wise to manage these policies closely to maintain sufficient funding.

## Variable Life

As the name suggests, Variable Life policies offer fluctuating benefits. That's because the insurance company invests a policyholder's premiums. The insurance company offers a choice of funds, in which monies will be invested. The amount of money the beneficiaries will receive and the cash value of the policy depend on how well the insurance company invests the policyholder's money.

There are both Universal and Whole Life versions of Variable Life.

In most variable and some universal life insurance policies, if investments perform well, the policy will have a higher cash value and death benefit (some universal and variable universal policies also allow the policyholder to add cash value into death benefit). If the investments lose money, the policyholder will have a lower cash value and death benefit. Some policies will guarantee a minimum death benefit.

A customer can also take loans against the cash value of a policy, but if it isn't paid back with interest, beneficiaries will receive a reduced death benefit. Policyholders can also surrender a policy for cash or convert it into an annuity, but keep in mind that cashing in a permanent policy after only a couple of years is an expensive way to get insurance protection for a short time.

Look closely at the investment options insurance companies offer for Variable Life policies. Make sure they are well-balanced, and give you an opportunity to invest at your own risk tolerance.

### **Additional Resources**

In the U.S. : National Insurance Consumer Helpline (NICH)  
(800) 942-4242

In Canada : [Canadian Life and Health Insurance Association \(CHLIA\)](#)  
(800) 268-8099 (English)  
(800) 361-8070 (French)

How do I know if a life insurance policy is right for me?

After reviewing the various life insurance policies available, a potential customer might still be unsure about which best meet their needs. "A conservative, but reliable, method of choosing life insurance includes locking in a long term guaranteed rate of the policy regardless of your health" says Dobronos "To help you, I often recommend to my clients that they seek a trusted insurance agent to guide them through the multiple different insurance options. Often an insurance agent can provide you examples of how your policy will work. Carefully evaluate your agent's recommendations. Make sure you get a detailed explanation for all of his recommendations. Also, once you have finalized your insurance options, call your family lawyer for an objective opinion as to the insurance you are about to commit to." An agent can recommend policies that he or she thinks will meet your needs. Look at the recommended policy with care to be sure it fits your personal goals, often, an agent will provide a 'policy illustration' that shows how the policy will work."

Carefully study an agent's recommendations and ask for a point-by-point explanation. Make sure the agent explains items you don't understand. Your policy is a legal document and it is important that you know what it provides.

Use the following recommendations, when deciding which type of life insurance to purchase:

**If your agent recommends a term policy, ask:**

- How long can I keep this policy? If I want the option to renew the policy for a specific number of years or until a certain age, what are the terms of renewal?
- When will my premiums increase? Annually? Or after a longer period of time, such as five or 10 years? Can I convert to a permanent policy? Will I need a medical exam when I convert?

**If your agent recommends a permanent policy, ask:**

- Are the premiums within my budget?
- Can I commit to these premiums over the long term?
- How much will I receive if I surrender the policy?

Permanent insurance provides protection for your entire life. If you don't plan to keep the policy for many years, consider another type. Cashing in a permanent policy after only a few years can be a costly way to get short-term insurance protection.

Other tools to help you choose the right insurance policy

For more information about life insurance, consider the following services:

- The National Insurance Consumer Helpline (NICH) at 1-800-942-4242. NICH is a consumer information service sponsored by insurance trade associations.
- Visit your local library, where you can find magazines or books on insurance or personal finance.
- Contact the consumer affairs division of your state insurance department.

The above article is meant to give a general overview of insurance policies; exact coverage and terminology could vary by insurance company. **Please refer to your policy for exact coverage details and terminology.**

### **About the Author**

Nicholas Schidowka began his work in the insurance and financial services industry in 1997. In 2001 he obtained Ohio licenses in Property and Casualty insurance and Life and Health insurance. Since then, he has worked hard to provide various insurance services to his customers including auto, business, health, home, and life. His professional and courteous approach to the insurance field has cultivated a diverse and loyal clientele in the Cleveland (Parma), Ohio area.

In 2007, Insurance Cleveland Agency LLC was formed. As an independent agency, Insurance Cleveland Agency has access to several different insurance carriers including Aetna, Encompass (owned by Allstate), Golden Rule, The Hartford, Medical Mutual, Ohio Casualty, Progressive Drive, Safeco, The Providence Association, Travelers, Victoria (owned by Nationwide), Dairyland/Viking etc.

Insurance Cleveland Agency is pleased to announce the addition of Ivan Voytovych, Evelina Iablonskaya and Yosyf Ciszkewycz to their team! Mr. Voytovych is a highly qualified and

valuable addition to the ICA team and helps the agency cater to the company's English, Ukrainian and Russian speaking customers. Ms. Iablonskaya speaks English, Polish and Ukrainian while Mr. Ciszewycz speaks English and Ukrainian.

Insurance Cleveland Agency is conveniently located off of Pearl Road and Highway 71 in the Islander Office complex. Office hours are Monday – Friday 9:00 am to 12:30 pm and 1:30 pm to 5:00 pm. Please call ahead for an appointment. We look forward to hearing from you in the near future!

Please give us a call at 440.866.0155 or visit us on the web at [insurancecleveland.com](http://insurancecleveland.com), your free quote is waiting for you without any obligations. Many insurance policies are needlessly expensive and often out of date. We will work hard to give you the best service and there is a very good chance you can save money and improve your insurance at the same time.