# LIFE INSURANCE AUDIO PODCAST
# "10 Minutes with Tate"



## CHRISTIAN: INTRODUCTION

**CHRISTIAN:** What kinds of life insurance are generally available to the consumer today?

**TATE:**
While there are many decisions you will have to make when assessing your life insurance needs, one of the most basic is whether you need permanent life insurance or term life insurance. A simple way to understand the differences between these two types of life insurance is by comparing them to something familiar to all of us---finding a place to live. Tailoring life insurance to fit your needs is like finding a place to live. Once you find the right home, you need to choose how to pay for it. Buying permanent life insurance is like owning a home, while buying term life insurance is like renting one.

**CHRISTIAN :** Ok, that seems fairly straightforward. What is term life insurance?

**TATE:**
Term life insurance is "pure" insurance. It offers protection only for a specific period of time. If you die within the time period defined in the policy, the insurance company will pay your beneficiaries the face value of your policy.
Term insurance differs from the permanent forms of life insurance, such as whole life and universal life which generally offer lifetime protection as long as premiums are kept current. Also, unlike other types of life insurance, term insurance does not accumulate cash value. All the premiums paid are used to cover the cost of insurance protection, and you don't receive a refund at the end of the policy period. The policy simply expires.

**CHRISTIAN:** What would you say are the advantages and disadvantages of Term Life Insurance?

**TATE:**
Term life insurance is often less expensive than permanent insurance, especially when you are younger. It may be appropriate if you want insurance only for a certain length of time, such as until your youngest child finishes college or you are able to afford a more permanent type of life insurance.

The main drawback associated with all types of term insurance is that premiums increase every time coverage is renewed. The reason is simple: As you grow older, your chances of dying increase. And as the likelihood of your death increases, the risk that the insurance company will have to pay a death benefit goes up. Unfortunately, term insurance can become too expensive right when you need it most ¾ in your later years.

**CHRISTIAN:** And the other main type of life insurance is permanent, What is permanent life insurance?

**TATE:**

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, or in certain instances, up to a specific age.

In addition, permanent life insurance policies can build a 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 for a period of time after the purchase of your policy for sufficient cash value to accumulate for you to borrow against. If the unpaid interest on your loan plus your outstanding loan balance exceeds the amount of your policy's cash value, your policy and all coverage will terminate.

Permanent life insurance policies enjoy favorable tax treatment under current rules. 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. Provided you adhere to certain premium limits (so that your policy is not classified as a Modified Endowment Contract), money can be taken out of the policy without having to pay taxes, since policy loans generally are not considered taxable income, and withdrawals generally can be taken up to the amount of premiums paid without being taxed. However, when taking loans or withdrawals from the cash value, you reduce the cash value and death benefit amount by the amount taken plus any loan interest that is charged.

There are several different types of life insurance policies available.

**CHRISTIAN:** Who would typically purchase a permanent life insurance policy?

**TATE:**
People who...

- Know their need for life insurance is long term.
- Want to accumulate a cash value to provide funds for education, retirement or other future goals.
- Want to take advantage of the tax-favored treatment of cash value life insurance policies

**CHRISTIAN: BODY TEXT**

**CHRISTIAN:** what type of policy does a young married physician who may still be in medical residency training with limited income start with?

**TATE:** For many physicians, the first step is typically purchasing a low cost term life insurance policy with guaranteed level premiums for 20 or 30 years. As your income and net worth rises, the purchase of a permanent life insurance for estate planning purposes is more likely.

**CHRISTIAN:**
***Is there a difference in cost between the guaranteed level premiums for 10, 20 and 30 year term life insurance policy?***

**TATE:**

Yes, the longer period of time your premiums are guaranteed to be level , the more expensive the policy is. In this case, a 10 year term would be the least expensive and 30 year term the most expensive.

**CHRISTIAN :**

***What does renewable mean?***

**TATE**:

Renewable term life insurance means that the policy can be renewed at the end of the term(*i.e. 20 years)* at the option of the policyowner and without evidence of insurability, for a limited number of successive terms (*usually to age 95*). The rates generally increase at each renewal*(year)* as the age of the insured increases. ***Caution:*** *Please make sure your policy has the renewable option that does not require evidence of insurability in order to keep your life insurance coverage. Some insurance companies' term policies offer a renewable option, but require evidence of insurability to maintain existing coverage(re-entry) after the initial guaranteed term period ends.*

**CHRISTIAN :** ***Why is it important to have a renewable policy?***

**TATE:**

You want to make sure at the end of your term (*i.e. 20 years*) that you still have option to continue your life insurance policy. Yes, the premiums will go up, however even if your health has deteriorated/changed, you have the ability to keep your current policy or possibly convert it to a permanent life insurance policy.
If you do not have this renewable benefit, you have to apply for a new life insurance policy which will require you to go through medical underwriting again with no guarantee of being approved new coverage.

**CHRISTIAN :** ***What does convertible mean?***

**TATE:**
By having the convertible benefit in your term life insurance policy means that the policyowner *(i.e. you)* has the option to exchange *(convert)* an existing term life insurance policy for a permanent life insurance policy **without evidence of insurability**. Life insurance companies usually limit the age *(typically between age 40 and 60)* at which you can convert your existing term policy to a permanent one.

**CHRISTIAN :** ***Why is it important to have a convertible policy?***

**TATE:** You may desire to have a permanent life insurance policy in the future, but cannot afford one now. You are also concerned that your health may change as you get older and you do not want to have to worry about being denied life insurance coverage because of deteriorating health. With the convertible benefit of a term life insurance policy, you have the option to convert to a permanent life insurance policy without any evidence of insurability.

**CHRISTIAN :** ***Who is the policyowner?***

**TATE:**

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, a trust or a corporation.

**CHRISTIAN:** **Ok, getting back to term life insurance , lets go over some basics.**

**TATE:** sounds great, lets focus on 6 main components with term life insurance:
1. Does not accumulate cash value.
2. Is generally less expensive than permanent life insurance.
3. Offers a guaranteed level premium for a specified number of years.
4. Death benefits are generally tax free to the beneficiary(ies).
5. Offers renewable and convertible benefit options.
6. Does not offer a refund of your premium at the end of the policy period, unless you purchase a more expensive return of premium option.

**CHRISTIAN:** Can you give us an example or real life scenario that has taken place in your business that encompasses our discussion today.

**TATE:** In 1998 after one of my seminars, I met an 53 year old internist who was interested in obtaining term life insurance coverage to protect his family in the event of his death. He and his wife had recently had a child and he had began taking high blood pressure medication to control his hypertension. After reviewing his medical history, income, mortgage, and overall budget, we determined that a **renewable and convertible term life insurance policy with a guaranteed level premium for 10 years would best meet his needs.** Eventually, he was approved as a standard non smoker.

We reviewed his life insurance needs on a few occasions over the years, however, no changes were made until last year. His guaranteed level premium on his 10 year term life insurance policy was about to end and so adjustments were necessary. ***There was one problem.***

A couple years ago, he had open heart surgery and therefore would not qualify for a new life insurance policy now. He was quite distraught, since he still had a big mortgage, wife that did not work and child that was in junior high school. Fortunately, I had advised him years ago to obtain the term life insurance policy which was both renewable and convertible. He was relieved.

We ended up converting his term life insurance policy to a universal life insurance policy with a slightly reduced death benefit, that ended up guaranteeing his premiums to be level for a longer period of time and for less premium than a comparative 10 and 20 year term life insurance policy. No medical evaluation was required.

This is a real life example of how important it is to have a term life insurance policy which is both renewable and convertible.

## CHRISTIAN: CONCLUSION