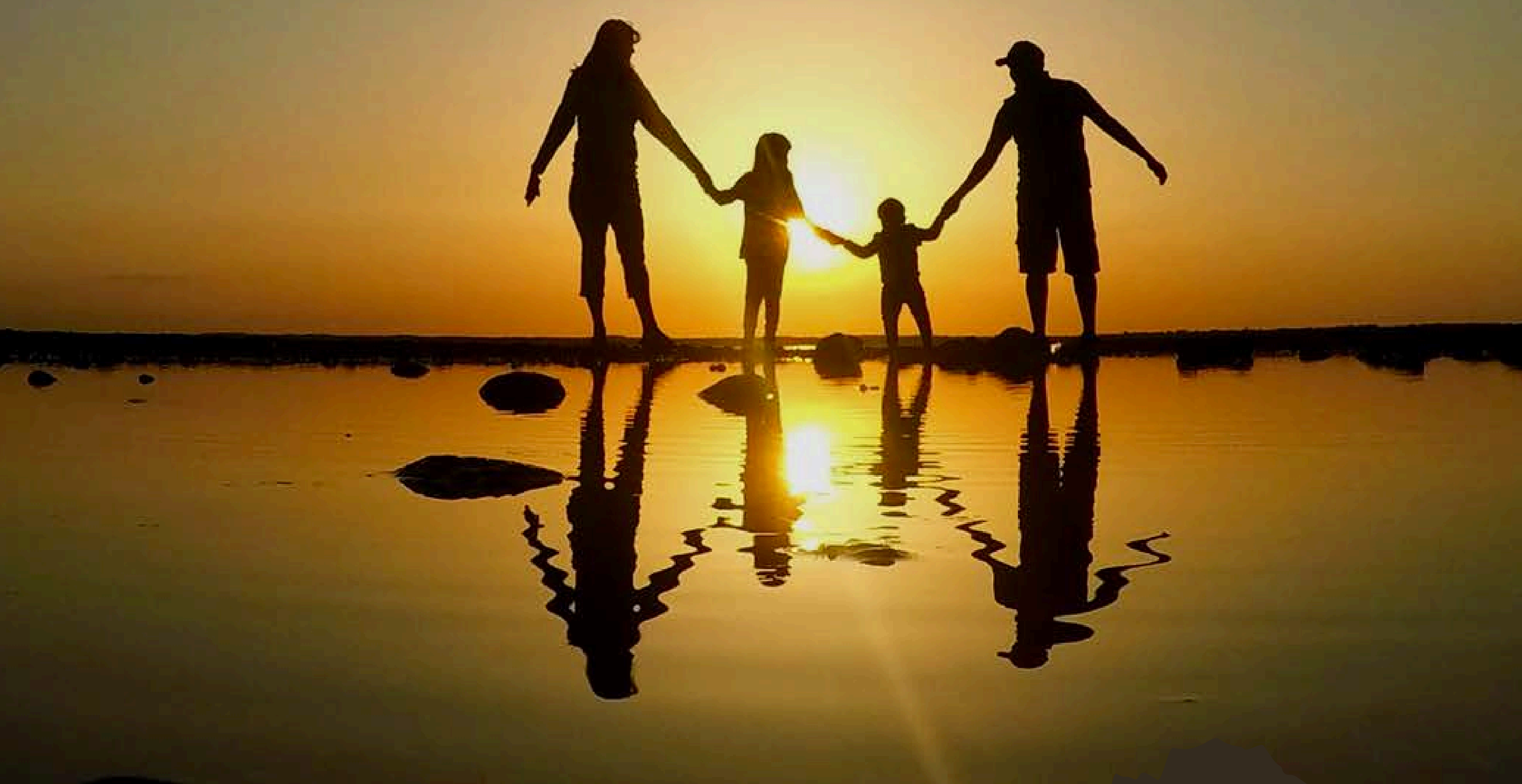
GET A LIFE!
(INSURANCE POLICY)

SHOULD YOU BUY LIFE INSURANCE?

HOW MUCH LIFE INSURANCE DO YOU NEED?

WHICH LIFE INSURANCE POLICY IS BEST FOR YOU?



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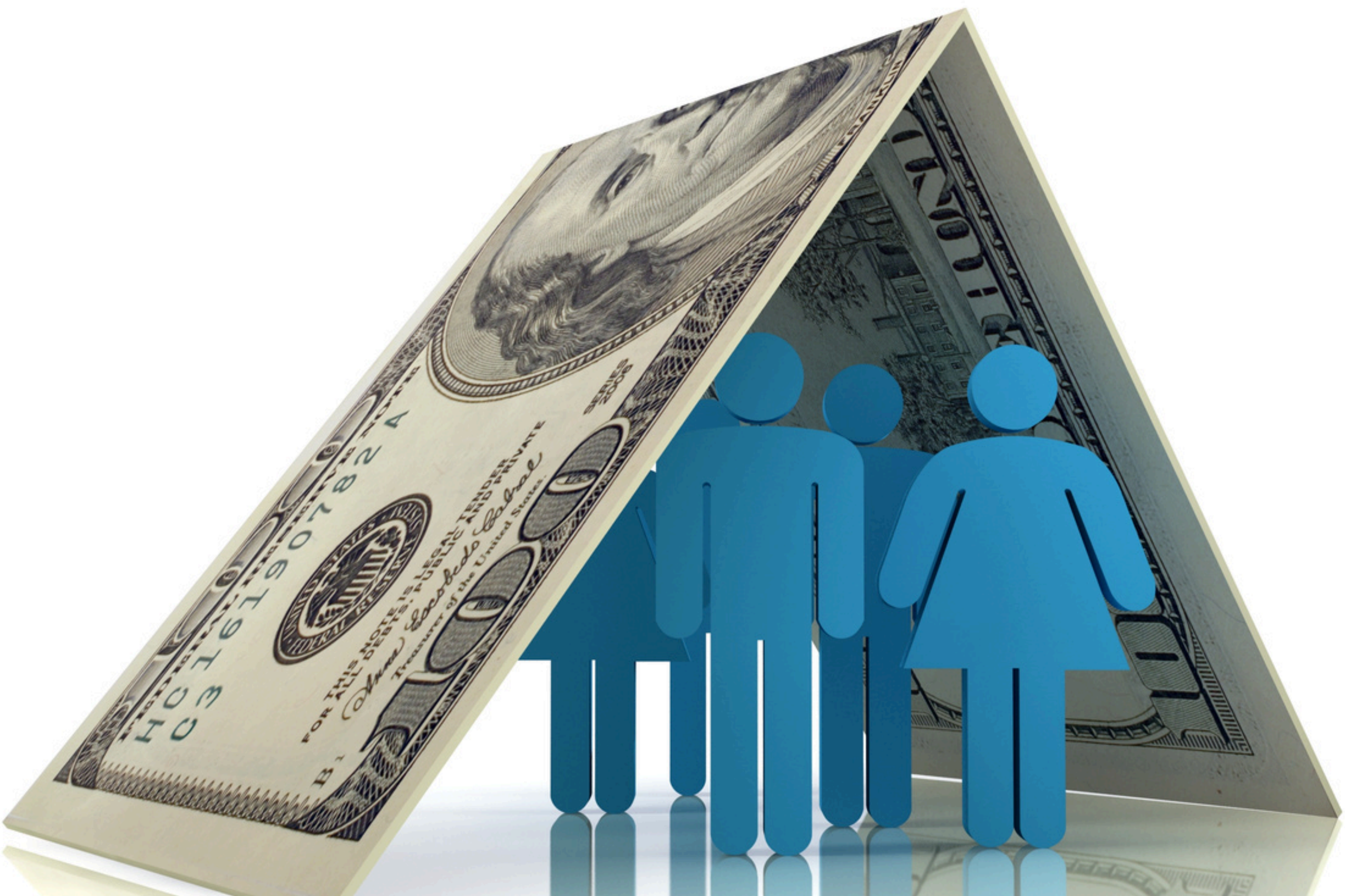


GET A LIFE! (INSURANCE POLICY)

SHOULD YOU BUY LIFE INSURANCE?

You should probably consider buying life insurance if any one of the following is true:

- You are married and your spouse depends on your income.
- You have children.
- You have an aging parent or disabled relative who depends on you for support.
- Your retirement savings and pension won't be enough for your spouse to live on.
- You have a large estate and expect to owe estate taxes.
- You own a business—and you have a partner.
- You have a substantial joint financial obligation, such as a personal loan for which another person would be legally responsible after your death.

In all of these cases, the proceeds from an insurance policy can help your loved ones continue to manage financially during the difficult weeks, months, and years after your death. The proceeds can also be used to meet funeral and other final expenses, which can run into thousands of dollars.

If you're still unsure about whether you should buy life insurance, a good question to ask yourself is, if I died today with no life insurance, would my family need to make substantial financial sacrifices and give up the lifestyle to which they've become accustomed in order to meet their financial obligations (e.g., car payments, mortgage, college tuition)?

If you need life insurance, don't delay

Once you decide you need life insurance, don't put off buying it. Although no one wants to think about and plan for his or her own death, you don't want to make the mistake of waiting until it's too late. Do some research to find out if you should buy term insurance or cash value insurance. Then go out and shop around.

Periodically review your coverage

Once you purchase a life insurance policy, periodically review your coverage—especially when you have a significant life event (e.g., birth of a child, death of a family member)—and be sure it adequately meets your insurance needs. The most common mistake that people make is to be underinsured. For example, if a portion of your life insurance proceeds are to be earmarked for your child's college education, the more children you have, the more life insurance you'll need. But it's also possible to be over-insured, and that's a mistake, too—the extra money you spend on premiums could be used for other things. If you need help reviewing your coverage, contact your insurance agent or financial professional.

HOW MUCH LIFE INSURANCE DO YOU NEED?

When determining how much life insurance you need, consider your current life stage and your circumstances. Your marital status, number of dependents, financial obligations, and intentions to pass on your property can impact your insurance needs.

There are several popular methods you can use to calculate the appropriate level of insurance for your situation. Some methods are simpler than others, but they all give you a general idea of your needs.

The first method, the income rule, multiplies your gross annual salary by a factor of five or ten. A factor of five assumes the beneficiary will draw both principal and interest from the insurance proceeds. A factor of ten may allow your beneficiaries to draw on interest only.

Gross Salary	x 5	x 10
$60,000	$300,000	$600,000
$100,000	$500,000	$1,000,000

A second method is to look at your income and expenses. In this case, your insurance requirement is based on five times your gross annual income plus the total of your expenses, including special funding needs, such as college education.

Expense/Cash Need	Amount
Mortgage	$200,000
Personal debt	$25,000
Estimated college expenses	$50,000
Estimated final expenses	$15,000
Total need to cover anticipated expenses	$290,000

Gross Salary	x 5	Expenses	Insurance Required
$50,000	$250,000	$290,000	$540,000
$80,000	$400,000	$290,000	$690,000
$130,000	$650,000	$290,000	$940,000

Another method relates your current income to an affordable life insurance premium. A rule of thumb is 6 percent of your salary plus an additional 1 percent of your salary for each dependent. For example, assume Mr. Doe has a nonworking spouse and two children (i.e., three dependents). The insurance premium allocations would be as follows:

Gross Salary	Basic Allocation (6% x Salary)	Dependent Allocation (3 x 1% x Salary)	Premium
$60,000	$3,600	$1,800	$5,400
$80,000	$4,800	$2,400	$7,200
$100,000	$6,000	$3,000	$9,000

The advantage of using these rules to determine your life insurance needs is the simplicity. They help you find a rough starting point. The drawback, however, is that these rules fail to consider the specific needs and circumstances of each individual. There is no consideration given for the ages of your dependents or whether your family has more than one income. They also don't address liquidity needs for estate planning or the existence of special needs children. Your financial professional can provide you with a more concrete projection of your life insurance needs with the use of financial planning software.

The worst mistake you can make with life insurance is failing to recognize the financial impact of your death. If you were to suddenly pass away, the last thing you would want to do is leave your family in a difficult financial situation. Unfortunately, most people are underinsured. And many who are insured fail to review their existing policies, which can result in insufficient levels of insurance. Take a look at your needs today.

THE LOWEST PREMIUM MAY NOT BE THE BEST LIFE INSURANCE POLICY

Most investors don't want to spend a fortune on insurance. But, as with many things, what you pay for is closely related to what you get. We will seek to provide you with competitive quotes, but you should be aware that there are a variety of reasons why the lowest premium may not be tied to the best policy.

LOWER DEATH BENEFITS ON LIFE INSURANCE POLICY.
If you pay less now, it may be because the insurance company will owe you less later on. When buying insurance, be sure that the death benefit matches your future financial goals and needs.

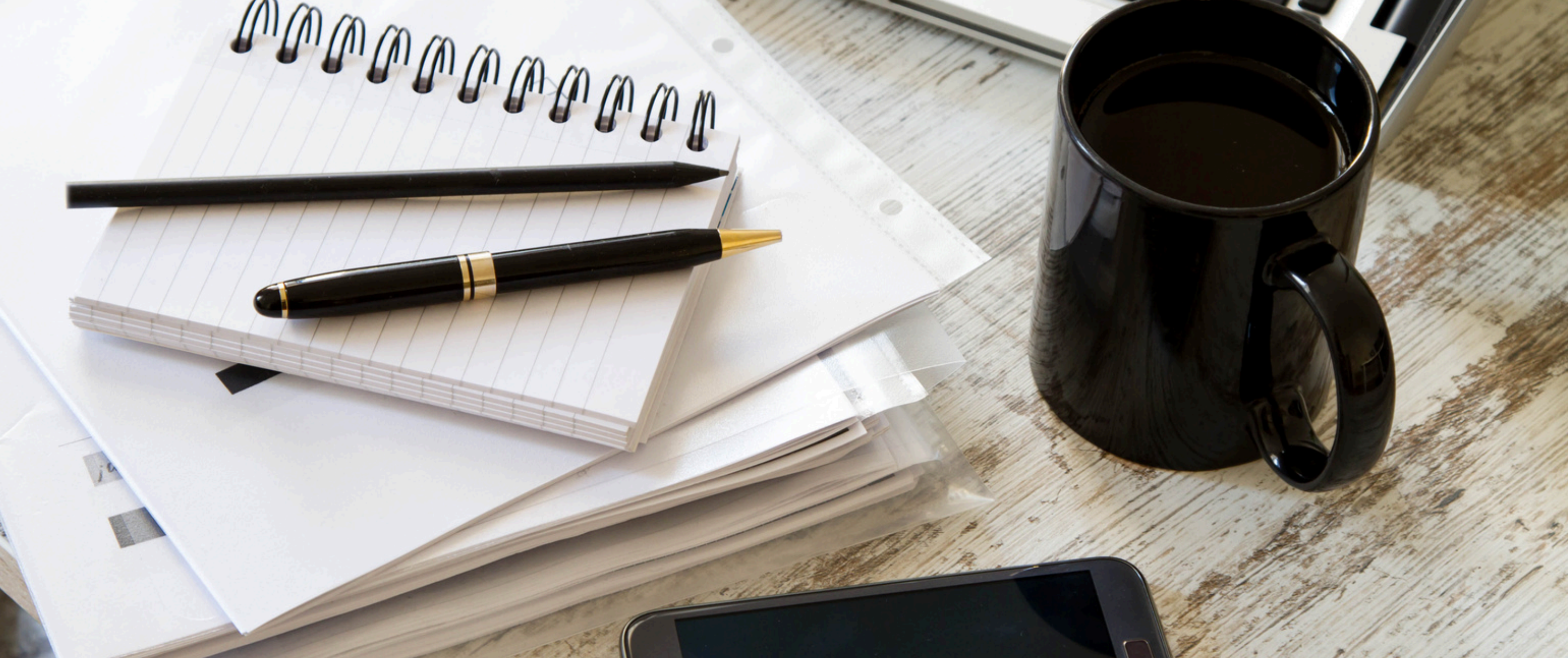
NO INFLATION-ADJUSTED BENEFITS ON LONG-TERM CARE INSURANCE.
You may buy long-term care insurance that will pay you a fixed dollar value per year toward covering nursing home costs. But 25 years down the road when you need the insurance, long-term care costs will have skyrocketed. If your benefits aren't linked to inflation—often available through a rider—you might have to dig deep into retirement savings to cover care costs that you thought insurance would fund.

LOWER-CREDITED INSURANCE PROVIDER.
Your premiums may be lower because the insurance provider is at least somewhat less likely to be able to pay you in the future. We make sure that your insurance company is highly rated and not likely to declare bankruptcy.

LESS THAN 100-PERCENT PROTECTION.
This applies primarily to disability insurance and liability protection. In the case of disability insurance, if the policy defines disabled as unable to perform any occupation, not just your own, and pays less than 100-percent protection, you may need to seek more insurance.

RIDER-LESS INSURANCE.
When it comes to riders, the more you pay, the more you get. Some popular riders that you might prefer to pay for include an accelerated death benefit rider, accidental death benefit rider, level term rider, waiver of premium rider, withdrawal benefit rider, and more.

The decision to invest in insurance must be made carefully, and the product must be selected precisely. As always, cost must be a consideration, but not top priority. There is nothing more important than policy suitability, and our goal is to find the most appropriate policy for you.



LIFE INSURANCE OBTAINED THROUGH WORK MAY NOT BE ADEQUATE

Many Americans go to work every day feeling confident that they are adequately insured. In many instances, that is not the case. It is not uncommon for employers to offer life and disability insurance as components of an employee benefit package, but the coverage may not be enough to meet your needs.

The life insurance offered by employers typically has three problems:

- It is not portable.
- It is term insurance.
- The death benefit is usually relatively small.

In other words, if you leave your job, you are uninsured. You may have the right to convert all or a part of your group term insurance to permanent cash value insurance at much higher premium rates. If you do not have conversion rights, getting insured again could be costly and would require medical underwriting, which is a lengthy and bothersome process.

Group insurance is term insurance and increases in cost as you age. Because you generally do not have to prove you are in good health to participate in your employer's group life insurance program, the rates are the same for the most and the least healthy employees. Thus, group insurance rates for older individuals may be more expensive than a policy purchased outside of work..

Moreover, insurance obtained through work typically offers a death benefit that represents one to three times your salary. As a rule of thumb, most employees in their working years need coverage of five to ten times their salary. (If you die during your working years and leave behind a young family, your death benefit replaces your income for more than two or three years)

As for disability insurance, your policy may only cover a fraction of your salary. Depending on your situation, it may be wise to purchase supplemental life and disability insurance.

Finally, just because your company offers life and disability insurance, it does not mean those are the only insurance products you need. Long-term care insurance is always an option that we consider as we develop a financial plan, and may be an investment that suits your needs. You may also want liability insurance, an umbrella policy, or some other sort of protection. Regardless, the message should be clear: insurance obtained through your employer does not leave you fully covered.

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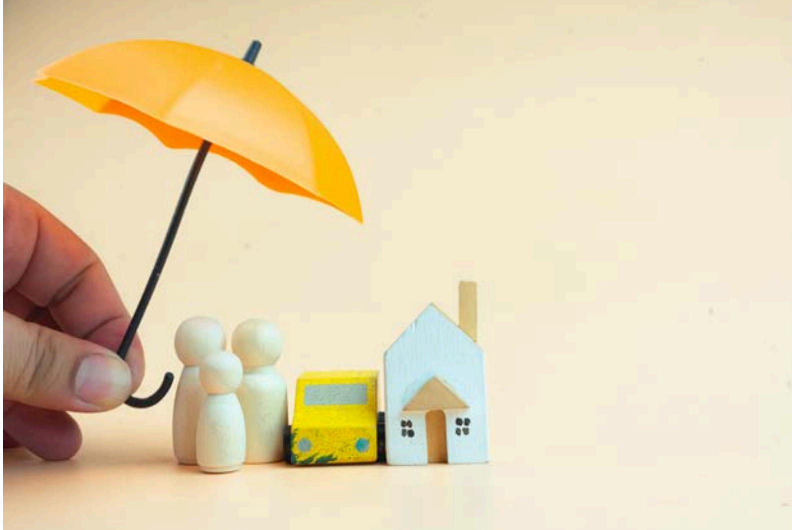
WHICH LIFE INSURANCE POLICY IS BEST FOR YOU?



People buy life insurance for different reasons, so it's no wonder that there are a variety of options from which to choose. But the differences among policies are not always clear. How do you decide between permanent and term life insurance? Which policies carry risk and which are guaranteed? And, when it's all said and done, which policy will cost most?

Fortunately, most life insurance policies have a few common features. For every policy, there is an owner who has all the rights associated with managing the policy. The owner decides who will be the insured (sometimes it is the owner) and who will be the beneficiary. The owner pays premiums to the insurance company. If the insured passes away while the policy is active, a sum of money called the death benefit is paid to the beneficiary.

Some policies have an accumulated value, which is everything you have paid in premiums after subtracting the cost of the insurance. The owner has access to this money. The accumulated value of the policy is sometimes called the surrender value because, if the owner decides to cancel (i.e., surrender) the policy, he or she gets back the current value of the account minus any applicable surrender charges.

Before you buy

Before you buy a policy, review a policy illustration. Illustrations show the structure of the policy and how it could change over time. They include in-depth charts that attempt to project, for each future year of the policy, the accumulated value, the premiums you will pay, and the death benefit you would receive. Illustrations are vital to deciding which policy to choose. But they're not the only piece of the puzzle to consider.

Permanent insurance and term insurance

The simplest classification of life insurance is whether it is permanent or term.

Permanent insurance has an accumulated value. Its goal is to protect against long-range or permanent needs. Many people use the policy's value to supplement retirement income or to transfer wealth at their death. Most permanent policies carry a surrender charge for a number of years, after which the owner can cancel the policy and reclaim its accumulated value. Provided that the premiums are paid, permanent insurance can offer a lifetime death benefit.

Term insurance can be described as a way to rent life insurance for an agreed-upon period. It is suited for short-term needs and can be used to provide coverage during the insured's working years, a child's early years, or for the duration of a loan or mortgage. Most insurance sold today is term life.

Term life insurance is very straightforward. There is no accumulated value and no interest, investing, or dividends. You simply pay the premiums for a certain length of time to be insured for a death benefit during that period. When the initial term expires, you can usually renew the policy annually by paying a premium that increases each year. You can also apply for a new policy, but your current health situation is a factor in the reapplication process.

Whole life insurance

Whole life is a permanent life insurance product. The insurance company guarantees a specific benefit upon death, no matter when it happens, as long as the required premiums are paid. Because whole life includes guaranteed accumulated values, the premiums are higher than for other insurance products. In addition, the premiums are mandatory; failure to pay a premium may result in a policy lapse and loss of the death benefit.

As premiums are paid, the accumulated value in the policy grows. With a whole life policy, you can also potentially receive dividends from the insurance company. Dividends depend upon the company's costs and investment performance that year.

Universal life insurance

Universal life is also a permanent life insurance product. The owner pays premiums that add to an accumulated value, and there is a death benefit if the insured dies. But, with universal life, premiums are flexible. The illustration indicates a suggested amount to pay in premiums, but the policy won't lapse if a payment is missed. Instead, the owner decides when and how much to pay in premiums.

When you look at a universal life policy illustration, you see projections of future accumulated values and death benefits for each year. Remember that the illustrated amounts are not guaranteed; projections are based upon current costs of insurance and current interest rates.

For this reason, one type of universal life is called current assumption universal life. You generally pay the suggested premium, with the goal of keeping the policy for life. Depending on interest rates, the accumulated value might grow more quickly or slowly than first projected.

Most universal life policies, however, offer a guaranteed death benefit. This is called guaranteed universal life, or no-lapse universal life. With these products, you must pay the premiums, as illustrated, to receive the death benefit.

Other types of life insurance

Indexed universal life policies guarantee a certain interest rate for the accumulated value of the policy. But they also provide the option to let the money in the policy accumulate based on the performance of a stock index. If the stock index goes down, the cash still grows at the guaranteed interest rate; if the index rises, the accumulated value grows at the index's rate of return (up to a certain limit).

So, which one do you need?

To find out which insurance product may work best for you, identify the reason that you want to buy life insurance. Most often, people buy life insurance to replace the income of the insured. Others purchase a policy to cover the many costs associated with death. Finally, besides being a way to replace income or pay off debts, life insurance can serve as a vehicle for saving and investment.

DIFFERENCES BETWEEN TERM & PERMANENT LIFE INSURANCE

Assuming that life insurance is a good option, what sort of policy should you buy? To help you answer that question, we'd like to explain the differences between term and permanent insurance policies.

Term Life

When you buy a term life insurance policy, you are essentially renting life insurance for an agreed upon time period. It is temporary insurance, and there is no savings element in the policy. The face amount of the policy is paid if you die during the term of the policy; if you outlive the term of the insurance coverage, nothing is paid. When the coverage period expires, you may be allowed to extend or renew your policy for a set period of time (from one year up), depending on the specific policy, as long as you remain insurable.

Term life insurance often makes sense for individuals with a high need for insurance but not much cash flow to pay for it. By definition, it is well suited to cover short-term needs, and might be used appropriately to provide coverage during your working years, child's early years, or for the duration of a loan or mortgage. Generally, a short-term need is considered to last 10 or fewer years, and it may include coverage for nonrecurring business-debt security, key person coverage in a start-up business, or the young family just starting out.

Term insurance is generally the most efficient way to achieve maximum life insurance protection for a minimum current cash outlay. But there are two caveats. First, term insurance starts out inexpensive, but the premiums increase exponentially after the end of the guarantee term. Second, you may survive the period covered by the group term insurance provided by your employer, but be uninsurable at the end of the period. And if you want insurance at that point, you'll be unable to find it at any price. Also, most policies terminate at a certain age.

Permanent Life

Unlike term life, permanent insurance offers protection for your lifetime, as long as your premiums are paid. The death benefit is a guaranteed amount, the premiums are levelized, and part of the premium payments accumulate in a cash value account.

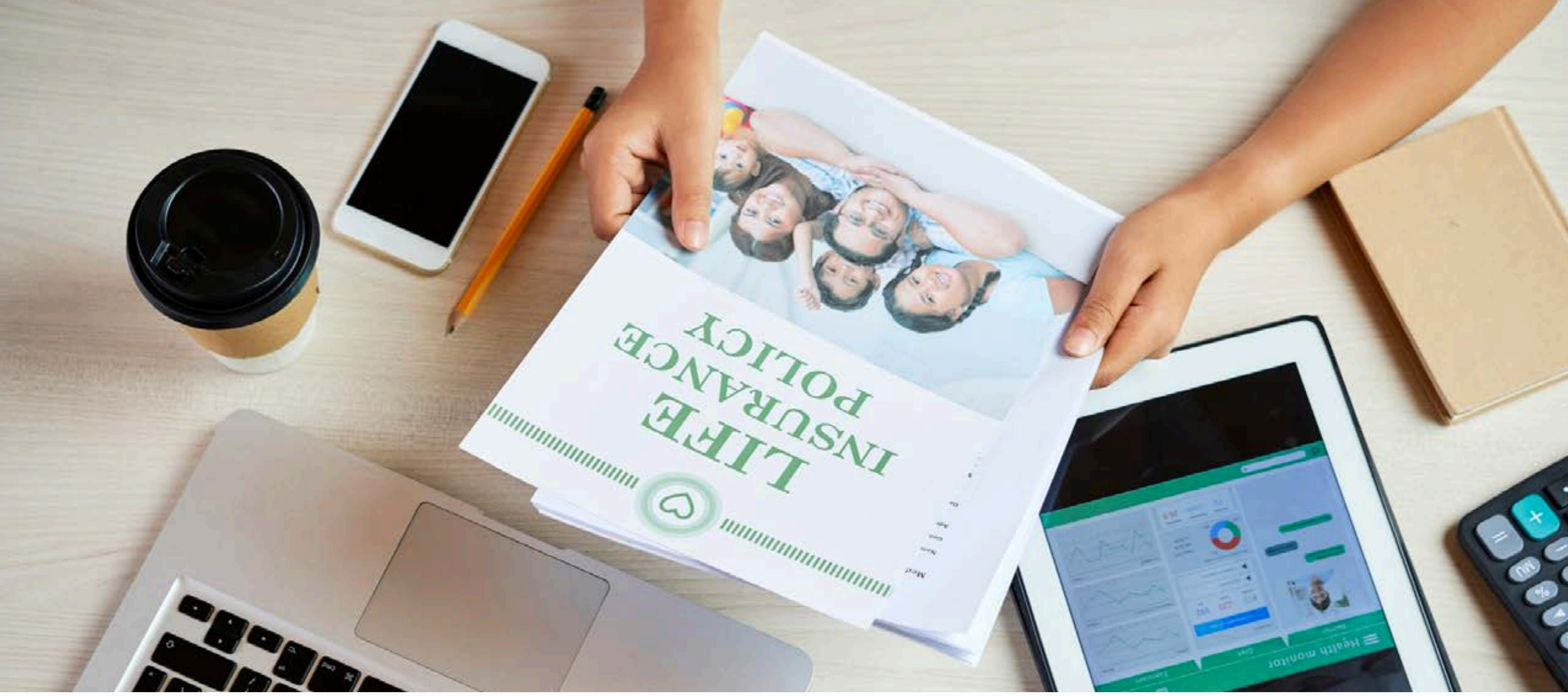
The purpose of permanent insurance is to protect against long-range or permanent needs. Some policies offer guaranteed premiums that cannot be increased; you won't have to worry about the rising cost of insurance as you get older or your health deteriorates.

There are many advantages to permanent insurance, some of which have underlying risks. First, the cash value grows tax-deferred and can be borrowed against. Unpaid policy loans and withdrawals will reduce the death benefit available to your survivors, however.

Second, permanent insurance provides a guaranteed minimum death benefit, and the policy cash value grows at a steady and guaranteed rate. Your cash value is held in the general account of the insurance company and managed by the insurer, which means that these funds could be subject to claims by creditors of the insurer. In addition, if you are seeking competitive investment returns, in addition to insurance protection, a permanent policy may not be your best option. If you want to be able to control your cash value investments, another type of life policy may be more appropriate.

Finally, premiums are a fixed amount that can be paid in two ways: you can opt to pay lower premiums over the course of your lifetime or choose to pay higher premiums for a limited term. If you expect your life insurance need to last your entire life, a whole life policy can be a cost-effective way to buy more insurance protection. To be sure, a term policy will cost you less, but in the long term, permanent life may be less expensive.

To summarize, if you are seeking risk protection for a few years, a term insurance policy might make the most sense. But if you want the lifelong security and cash value build-up that a permanent strategy provides, we can begin to explore which policy might suit your needs. Life insurance is not something that you buy for you; rather, it's an investment that can benefit your loved ones. If it is an investment that you wish to make, we'll spend some time reviewing the various options so that you're prepared for everything—because tomorrow, anything is possible.



FACTORS TO CONSIDER WHEN REVIEWING YOUR LIFE INSURANCE POLICY

Does your existing insurance portfolio meet your current needs?
If you are like most people, you check up on your health, your car, and even your investments, but you neglect one of your most important assets—your life insurance. If your family, business, or financial circumstances have changed since you purchased your insurance policy, you may be due for a life insurance review. Its principal purpose is to make you aware of any possible shortfall in your insurance coverage.

Death benefit
Since you purchased your insurance policy, have you experienced any of the following?

- Marriage/divorce/death of a spouse
- Start of a new business or sale of a business
- Purchase of a home or refinancing of a mortgage
- Birth of a child/grandchild or adoption
- Change in employment or significant change in salary
- Inheritance or significant loss of assets
- Increase or reduction of debt
- Creation of an estate plan

Annual premium
What do you want your life insurance to do for you and your family? Does your original reason for buying the policy meet your current needs? Ask yourself the following:

- Am I looking for an economical premium or an opportunity to accumulate cash value?
- Can I pay a lower premium without losing benefits?
- My goal is accumulation. Is my premium sufficient to meet my target?
- How long do I expect to pay my premium? Can the policy support a suspension of premiums without lapse?
- Has my health changed for the better? Will my carrier better my underwriting class?

Owner and beneficiary designation
If you personally own your life insurance policy, this asset will be included in your taxable estate. If you are a majority owner of a business, a policy on your life—owned by the business—may be included in your estate, too. You may want to consider ownership by a third party, such as a trust.

Your initial beneficiary designations may need updating. Since you purchased your policy, have you experienced any of the following?

- Creation of an estate plan
- Birth of child/grandchild or adoption
- Marriage/divorce/death of a spouse

Type of policy
Have you compared your existing policy with today's generation of insurance products? In the past decade, the life insurance industry has experienced many changes. Lower mortality costs and increased competition among carriers has resulted in new products that may provide you with a greater value.

Additional changes
When reviewing life policies, acknowledge that there have been many changes in the economy, the insurance industry, and in medical science. These are all important factors to consider when looking at and evaluating the performance of your policies.

- As medical advances have been made, life expectancies have changed. Insurance companies have implemented price improvements and underwriting standards to reflect this. And, with the development of new medications and significant improvements in treatment, some medical conditions that in the past were uninsurable or highly rated are now considered standard risks.
- Economic trends are important to consider. These trends have resulted in lower crediting rates on universal life policies, as these rates are directly related to the overall rate of return experienced by the insurance company's portfolio. For this reason, many policies issued prior to 2000 are not performing as intended and may be in danger of lapsing.
- There have been a number of changes in the industry as well. Mergers, acquisitions, and demutualizations have had positive or negative implications for policyholders, depending on which company holds your policy.

REPLACING A LIFE INSURANCE POLICY

There are many reasons why you might choose to replace or exchange your life insurance policy, among them:

- The policy's performance hasn't met your expectations, and the company has not applied mortality or expense improvements.
- Your insurance company's quality rating has declined. The instability of the market, financial profits or losses, or competition may affect the company's long-term survival.
- Your relationship with your insurance company has been poor.
- Your policy may not have guaranteed benefits or features that meet your current needs.
- Another insurance company is offering a better underwriting class due to special underwriting programs.

What affects policy performance?

Three factors affect the performance of a life insurance policy: rate of return, mortality costs, and expenses. The effect of the general interest rate environment—or, for variable policies, the effect of the investment marketplace on a particular insurance policy—is beyond the control of the insurance company. So, rather than judge a policy's performance in a vacuum, it is beneficial to compare it to the history of products sold by other carriers.

An insurance company's ability to predict and manage its operating expenses and mortality assumptions also affects policy performance. If the company built its product on low mortality assumptions—yet it pays out higher than expected death benefits—policy performance will be hindered.

A company's investment policy will also impact your policy. As a rule of thumb, the more effectively the company invests its assets, the higher the rate of return on your policy.

What about dividends and ratings?

If you own a participating life policy, it may pay dividends that you can receive in cash, use to offset premiums, or use to buy additional life insurance. While dividends are never guaranteed, if your insurance policy is not meeting the dividend projection, compare its track record with that of other companies.

Recently, much has been made of ratings. Though financial strength is important, it is not the sole determining factor in replacing a life insurance policy. There can be differences of opinion among rating agencies, and small differences in ratings generally are not significant. Furthermore, financial strength ratings are not necessarily indicative of policy performance or efficiency.

Today's insurance policies may have features not available when your policy was purchased. In particular, universal life policies commonly offer no-lapse guarantees that guard against the impact of reduced interest crediting or increased policy expenses.

What if your financial situation changes?

A change in your financial situation may call for replacing your life insurance policy. If your annual income has changed for the better or for the worse, you may need a more comprehensive policy or a less expensive one. If your need for insurance has increased, your premium dollar may stretch further in another policy design. Or, if your need for income replacement has diminished—but the need for estate liquidity has increased—a survivorship policy owned by a trust may be a better solution..

What if you have several policies?

If you have multiple small policies designed to match your life insurance needs, you may want to consider consolidating them. If a new life policy meets all your needs by itself, consolidation makes sense as a way of cutting administrative costs; it also eliminates the hassle of maintaining more than one policy. Before consolidating policies, weigh the applicable costs of consolidation against its perceived advantages.

Other factors to consider before replacing your policy

Replacing your existing life insurance policy may not be in your best interest. Your financial professional can provide you with reasons why you should not replace the current policy and/or help you determine how to modify the existing policy to pursue your goals.

Before deciding to replace your policy, obtain an in-force ledger and illustrations from your insurance company. But, remember, illustrations should not be the sole criteria for evaluating a replacement because future performance cannot be predicted based on illustrations. Different companies use different assumptions when preparing them, and some companies are more conservative in their projections than others. Your insurance company should be able to provide a history of crediting rates to in-force policies, as well as a history of changes in cost of insurance.

Replacing an existing policy generally results in the reduction of cash surrender value due to new acquisition costs. How many years will it take before the proposed policy's cash surrender values and death benefits exceed those benefits in your current policy? In addition, be aware that incontestability and suicide periods will start over again with the new policy, instead of picking up where the old policy left off.

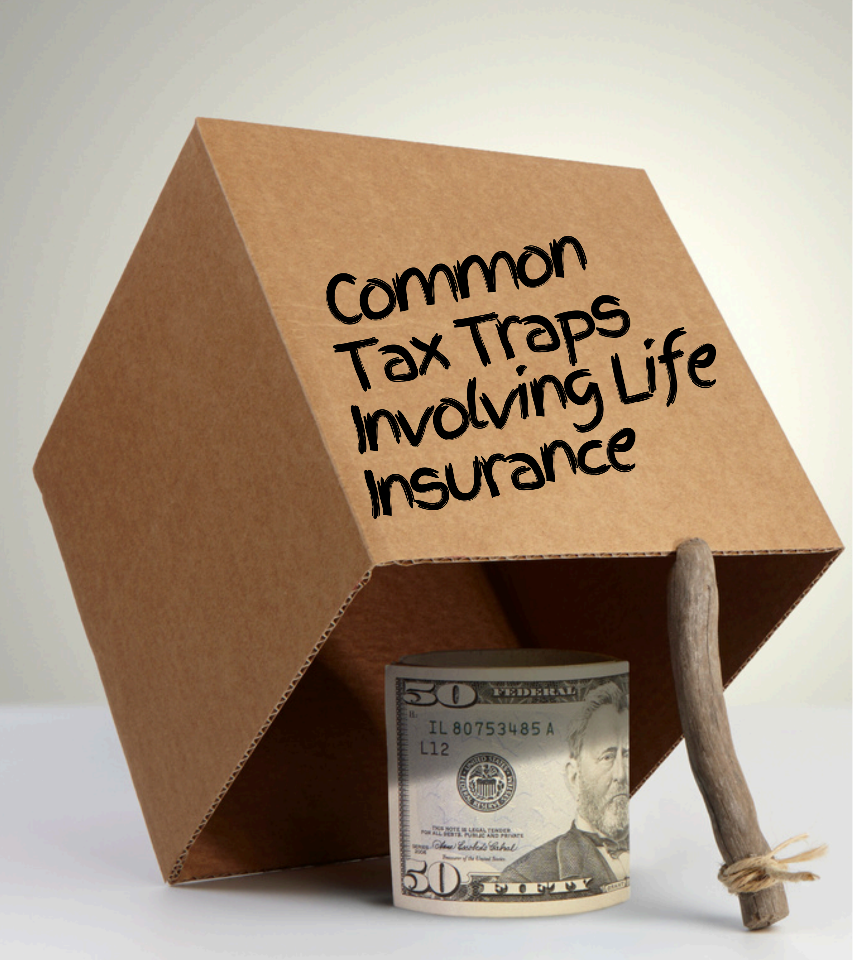
Replacements of existing policies with loans can cause unwanted tax consequences. Your policy was used as collateral for a loan received from the insurance company's assets. During the exchange to a new policy, money will be withdrawn from your cash value to repay the loan. If your policy has any deferred gain, the withdrawal will generate ordinary income taxes on some or all of the gain. To avoid taxation, look for an insurance company that will accept the loan in the exchange, or plan to pay off the loan out of pocket.

Another tax incentive for keeping your old policy is that many policies issued on or before June 21, 1988, benefit from grandfather protection governing the taxation of withdrawals and loans.

1035 exchanges

When you decide to replace an existing life insurance policy, the IRS will generally allow you to replace one policy with another without income tax consequences. The tax-free exchange is often referred to as a 1035 exchange, in which the policy or cash value is exchanged for another life insurance policy or annuity. In such cases, the gain or loss is not recognized when the policy is replaced. But a 1035 exchange will not avoid new state premium taxes applied against the cash values transferred. Premium taxes average about 2.5 percent.

When exchanging life policies, the policies must be on the life of the same insured, and the new policy must be issued to the same owner. The old policy need not have been issued by the same company issuing the new policy. In addition, some companies may accept an exchange of policies containing an outstanding loan.



Life insurance delivers cash to beneficiaries when it's needed most. Plus, if the policy is properly structured, the beneficiaries receive the death proceeds income tax-free. By understanding potential tax traps related to life insurance, you can avoid costly mistakes. A few of the most common pitfalls are outlined here;

Three people on a policy

If you gift property to another person, the transfer triggers gift taxes based on the taxable value of the gift. When you transfer ownership of an existing policy to someone other than your spouse, the gift is immediate and generally approximates the cash value. There is an important exception, however. When the owner, the insured, and the beneficiary are three different people, the gift occurs when the insured dies, and the death benefit is treated as a taxable gift from the policyowner to the beneficiary. Under what is known as the Goodman Rule, the gift is no longer based on the policy's cash value but on its death benefit.

The solution is to eliminate one party. To avoid potential gift taxes, the owner and the beneficiary should be one and the same, or the owner and the insured should be the same person. If the goal is to benefit a third party, an irrevocable life insurance trust should be the owner and beneficiary of the policy.

Three people on a policy in a business situation

This scenario is similar to the previous trap except, rather than triggering gift taxes, the death benefit is treated as taxable compensation of the employee (or as a dividend of a shareholder). For corporate-owned policies with personal beneficiaries, the business is deemed to have received the death proceeds and then paid them to the employee or shareholder's family. Thus, the beneficiary owes income taxes on the death benefit as a distribution from the business.

One possible solution is an endorsement split-dollar arrangement. With this kind of plan, the business owns the policy but allows the employee to name a personal beneficiary. While the employee is working, the employer is taxed on the policy's "economic benefit." If the policy is properly structured, the death proceeds should be income tax-free. Keep in mind that a notice and consent requirement must be met before an employer-owned life insurance contract is issued.

Alternatively, an executive bonus plan can eliminate the tax-on-death problem. The business pays the premiums for a life insurance policy personally owned by the employee. While the employee is working, the payments are treated as additional taxable compensation.

Exchange of a policy encumbered with a loan

Under Section 1035 of the Internal Revenue Code, you can exchange one life insurance contract for another without triggering income taxes. But when an existing loan is extinguished in the exchange, it may cause unwanted tax consequences. Generally, if the loan will be cancelled (discharged) in the course of the exchange, then the amount of the loan is treated as ordinary income up to the amount of the policy's gain. The first-in, first-out rule does not apply when a withdrawal is made from the cash value to pay off a loan during or shortly before a 1035 exchange transaction.

One solution is to arrange for the new life insurance policy to take over the existing loan. Because you're in the same economic position before and after the exchange, no gain should result. But keep in mind that the loan may affect the new policy's performance and possibly shorten or eliminate the guaranteed death benefit.

Or, you may wish to pay off the loan with out-of-pocket dollars before the exchange. One word of caution: a normally tax-free withdrawal of basis to pay off the loan shortly before an exchange is treated by the IRS as a step transaction and can trigger taxes.

Gift of a policy encumbered with a loan

Typically, the gift of life insurance creates no income tax recognition for either the donor or the recipient, although gift taxes may be involved. When a policy is subject to a loan, however, the transfer of the policy relieves the original policyowner of the debt. Because the donor is deemed to have received an economic benefit from transferring the loan obligation to the new policyowner, the transfer is treated as if the policy were sold. If the loan exceeds the policyowner's basis, the donor will recognize taxable income.

Lapsing a policy encumbered with a loan

One key benefit of permanent insurance is the right to take out a policy loan without having to qualify financially. An insurance company makes a policy loan from its general fund using the policy cash value as collateral. Repayment of the loan principal or the annual interest is optional, and unpaid interest is added to the loan principal. If the borrower fails to repay the loan before the death of the insured, the money is simply withdrawn from the insurance death benefit before it is distributed to the policy beneficiaries.

It's important to note that life insurance contracts may have an automatic premium loan provision that authorizes the insurance company to lend money to pay the premiums if the policyowner fails to do so. Left unmonitored, an automatic loan provision can result in a lapse of the policy and unexpected taxes.

Taking a withdrawal in the first 15 policy years

Normally, a withdrawal from a policy's cash value is treated as coming first from cost basis and subsequently from the contract's gain, resulting in a one-to-one reduction of the death benefit. There is an important exception, however. A withdrawal from a universal life or variable universal life policy within the first 15 policy years will be treated as coming from gain first, if there is any.

To deal with this risk, some insurance companies allow for up to a 10-percent withdrawal with no reduction in the death benefit. If you wish to take more than 10 percent of the policy's cash value, consider structuring the transaction as a loan. Be sure to weigh the long-term cost of the loan against the potential tax associated with a withdrawal.

Incorrectly structured cross-purchase policies

If it's not properly structured, life insurance purchased to fund buy-sell plans may have unwanted tax consequences. In a cross-purchase buy-sell arrangement, each business partner owns a policy on the other partners. At the death of a partner, the survivors use the insurance proceeds to buy out the estate of the deceased. Thus, each business partner is both the owner and beneficiary of the policy he or she has taken out on the other. Any other arrangement can fall into the transfer-for-value trap.

If a policy is transferred for money or something of value, the death benefit is no longer fully income tax-free. For example, the mutual obligation to purchase a co-owner's business interest at his death would be considered something of value. The transfer-for-value rule also applies when one partner buys a personal policy on their own life and makes their partner the policy beneficiary.

Exceptions to the rule include:

- A transfer of the policy to the insured
- A transfer of the policy to a partner of the insured or to a member of a limited liability company taxed as a partnership
- A transfer of the policy to a partnership in which the insured is a full partner
- A transfer of the policy to a corporation in which the insured is a stockholder, an officer, or both
- A bona fide gift, such as a transfer of the policy to a spouse or trust of the insured

The simplest solution is to purchase new policies to fund the buy-sell arrangement. If that's not possible, the business owners should try to qualify under one of the exceptions above. If the business owners are not already partners in some business entity, they may consider creating or investing in a partnership.

Using life insurance instead of a trust

To avoid the cost and complexity of a trust, some parents elect to have their adult children jointly own their life insurance policies. In such cases, the parent's payment of the premiums directly to the insurance company will not qualify for the annual gift tax exclusion. Although the parent is making an indirect gift to his or her children, the gift tax exclusion is only available if each policyowner has an unrestricted right to access the policy's cash value. With joint ownership with right of survivorship, neither child can access the cash value without consent of the sibling.

Sometimes, a parent may transfer his or her life insurance policy to one child and ask that all siblings remain as beneficiaries, a classic example of the Goodman Rule. At the parent's death, the child who owns the policy will be deemed to give the policy proceeds to his or her siblings, possibly incurring gift taxes.

If optimizing the annual gift tax exclusion is an important goal, consider a trust to hold the life insurance. Alternatively, you can explore ownership as joint tenants in common. With joint tenants in common registration, each owner has an undivided 50-percent interest in the policy's cash value. Not all insurance companies offer this kind of registration, however.

LIFE INSURANCE & CHARITABLE GIVING

There are several tax and philanthropic reasons to use life insurance for charitable giving. Giving life insurance to a charity may allow you to make a larger gift than you otherwise could afford. Further, the government encourages charitable giving by providing tax advantages for certain charitable donations. This means that both you and the charity could benefit from your donation.

Typically, a donor makes a charity the owner and beneficiary of some type of permanent life insurance policy. But there are many ways of structuring a charitable gift involving life insurance, and one alternative may better suit your needs—and those of the charity—than others.

There are three main ways you can give life insurance to charity:

Name the charity as the beneficiary of proceeds.
Designate the charity as the beneficiary of your existing policy or a new policy. You own the policy and pay the premiums. Upon your death, the charity receives some or all of the proceeds from the policy.

- ***Advantages and disadvantages*** - Designating a charity as beneficiary while retaining ownership of the policy allows you to retain control over (and rights to) the policy, including the ability to change the beneficiary or access the policy's cash value. The premium payments you make, however, are not tax-deductible for either income tax or gift tax purposes. At your death, the proceeds will be included in your gross estate, but there is an estate tax charitable deduction for the amount of proceeds that pass to the charity.

Name the charity as recipient of dividends.
Assign to the charity the policy dividends from cash values. You own the policy, and your heirs (the designated beneficiaries) receive the proceeds. Please note: Term life insurance cannot be used in this method of charitable giving.

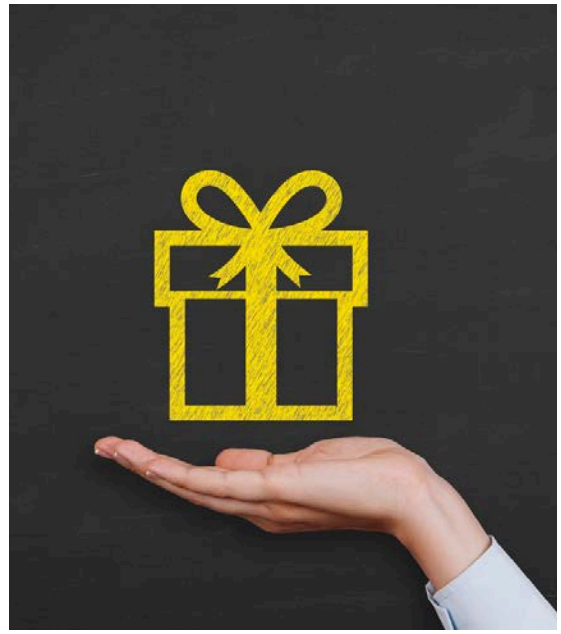
- ***Advantages and disadvantages*** - By assigning the policy dividends to charity, you can make a gift without diminishing the amount of your heirs' inheritance. You retain ownership of the policy, allowing you access to the policy's cash value. The dividends paid to the charity are deductible for both income tax and gift tax purposes. Because you retain ownership of the policy, the proceeds will be included in your gross estate at your death. In this case, however, your estate will not receive an offsetting estate tax charitable deduction because the proceeds will not go to charity.

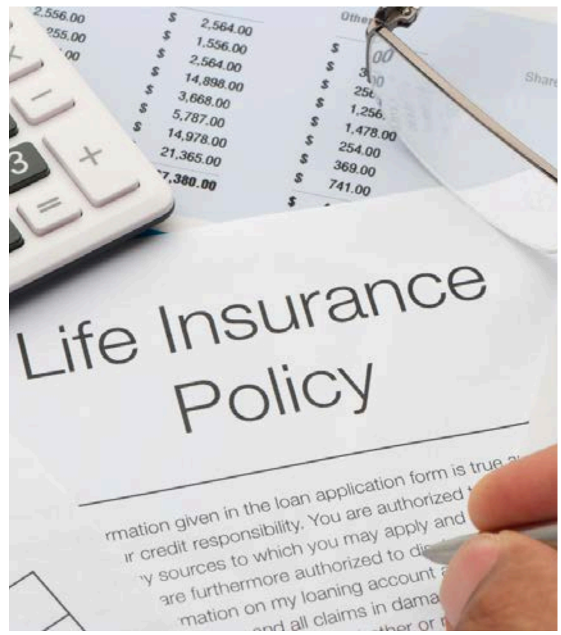
Donate an existing or new life insurance policy to charity.
Assign all rights in the policy to the charity, and deliver the policy itself to the charity. The charity becomes the owner of the policy, as well as the beneficiary, but you will continue to pay the premiums (unless the policy is paid up). If you choose to donate a new policy, you will purchase the new insurance policy in the charity's name. You will make any future premium payments (unless it is a single premium policy), but you will never own the policy.

Whether you donate a new or an existing policy, the charity is the owner and the beneficiary. As the owner, the charity will have access to any cash values during your lifetime.

- ***Advantages and disadvantages*** - The gift of the policy and of any future premium payments you make will be deductible for income tax and gift tax purposes. Further, because you give up ownership of the policy or you do not own the policy to begin with, the proceeds will not be included in your gross estate at your death (unless you die within three years of the transfer; then your estate will also receive an offsetting estate tax charitable deduction). By relinquishing ownership of the policy, you give up all control over and rights to the policy, including the ability to change the beneficiary and access the policy's cash value.

Life insurance may be a cost-effective way for you to donate a large monetary gift to a charity in which you strongly believe. As your financial professional, I can work with you to help determine if this is the best charitable giving method for you.





CHOOSING LIFE INSURANCE POLICY OWNERSHIP AND BENEFICIARIES

Without proper planning, your life insurance purchase may not provide the benefits you expected, so it is important to consider the effects of owning life insurance and of naming a beneficiary.

Ownership
Owning a policy on yourself is the most common ownership arrangement. Personally owned insurance will be included in your taxable estate. If your taxable estate exceeds $2 million in 2006 through 2008, you may want to consider an alternative.

With your permission, someone else can purchase a policy on your life—as long as he or she has an insurable interest in your life. A spouse, a parent, or a child is assumed to have an insurable interest in your life, as, in some cases, does your employer, business partner, or lender.

There was a time when naming your spouse as owner of your policy was a common estate planning technique. Nowadays, spouses rely on the unlimited marital deduction to prevent estate taxes at the first spouse's death.

If you reside in a community property state, you have additional considerations for policy ownership. If the premiums are paid with marital funds, the policy is considered owned by the marital unit—even though the title is in one spouse's name. This may cause unwanted gift taxes if someone other than a spouse is named beneficiary.

For example, Mary owns a policy on her life, and her child from a previous marriage is the sole beneficiary. Mary pays for the premiums out of a joint account with her current husband. In a community property state, her second husband, John, is deemed half owner of the policy—even though his name is not on the contract. At Mary's death, John is considered to have made a gift of his half of the death proceeds to Mary's child. But, a couple can agree in writing that community property laws will not apply to the policy.

Another ownership alternative is your adult child or children. Before choosing this option, consider the creditor risk, especially in the event of your child's divorce. Your child's share of the policy cash values and death benefit may be viewed as an asset available to his or her creditors.

For estate planning purposes, an irrevocable life insurance trust (ILIT) is often established to apply for and own a policy on your life. The trustee will manage and distribute the policy's death proceeds according to your trust agreement.

Beneficiary designations
A beneficiary is the person who will receive the death proceeds of the policy. The beneficiary has no right to the cash values during your life. It may be possible to name your business or a charity as beneficiary, if your state laws permit. Also, some states restrict the choice of beneficiaries to those who have an insurable interest or a financial interest in the continuation of your life.

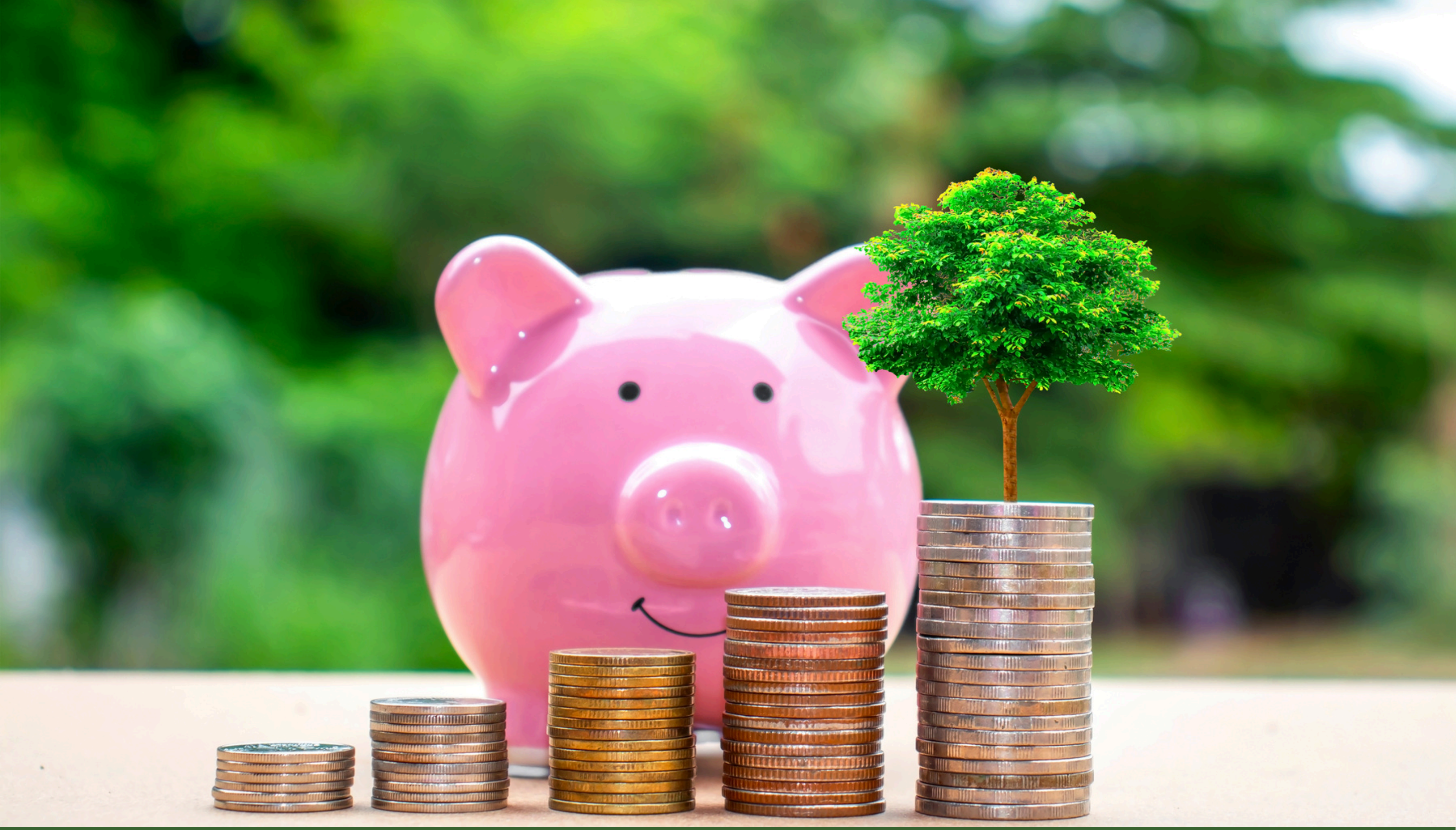
Naming your estate may expose the policy proceeds to creditors. Most states' asset protection laws exempt life insurance proceeds if the beneficiary is a named beneficiary and has no connection with your estate. If the beneficiary is your estate, payment of the death proceeds will be delayed during probate proceedings. There is no probate necessary if you have named a beneficiary other than your estate.

You can name as many beneficiaries as you wish—either as primary or contingent recipients—of the policy. Contingent beneficiaries receive the death proceeds if all primary beneficiaries are no longer alive. You can vary the portion of the death benefit that each beneficiary will receive and enunciate what will happen at the death of a primary beneficiary. For instance, if you want the beneficiary's heirs to receive his or her share, you would add the words per stirpes to the designation. If you want to reallocate the death benefit among the living beneficiaries, you would add the words *per capita*.

Naming a minor as primary beneficiary can cause unnecessary complications. The insurance company cannot pay the minor directly because the minor cannot give a binding release. If you have not named a guardian, the courts will name one for you. And he or she may not be the best person to manage your child's inheritance. Another alternative is to establish and name as beneficiary a trust for the benefit of your minor children.

You can name your trust as the beneficiary of your life insurance; however, if your trust is not the owner of the policy, the proceeds will remain in your taxable estate. If the trust is to be established in your will, name your executor as the contingent beneficiary—in the event the will is changed or invalid.

Your beneficiary designation can be changed at any time, and your choice should be reviewed frequently. If you become incompetent, your policy ownership and beneficiary designations cannot be changed without a power of attorney.



CASH VALUE LIFE INSURANCE

Who should consider cash value life insurance?

Cash value life insurance is well suited to cover long-term needs because coverage continues for the rest of your life. You won't need to renew your policy periodically, nor will you need to provide proof of insurability (e.g., a medical exam) once the policy is in place. Cash value insurance allows you to lock in a premium schedule, so you won't have to worry about rising premiums as you get older or your health deteriorates.

Advantages of cash value life insurance

As with any life insurance policy, the purpose of cash value insurance is to provide adequate financial resources for your surviving loved ones in the event of your premature death. Knowing that this protection is in place may allow you to sleep a little easier.

A cash value policy is similar to an annuity in this respect. All of the interest and earnings on the policy's investments are allowed to grow free from income taxes until you surrender the policy or begin to withdraw your funds. Depending on the amount credited to the cash value account, you can accumulate a substantial amount of equity in your cash value policy over a period of years. The cash value is paid free from income tax as part of a death benefit.

Generally, you'll have the guaranteed right to take a loan from the insurance company, secured by the cash value in your policy. A fixed or variable interest rate will be charged. Keep in mind, however, that if you take a loan against your cash value, the death benefit available to your survivors will be reduced by the amount of the loan.

With a universal life insurance policy, you can take withdrawals from your cash value account. Policy withdrawals may be tax-free up to your basis in the policy (the amount you've paid into the policy in premiums). As long as the policy fits the IRS definition of insurance, only the earnings will be taxed upon withdrawal. As with loans, the amount of the withdrawal from your cash value account will reduce the death benefit available to your survivors, in some cases by an amount greater than the withdrawal amount. A withdrawal will also reduce the death benefit available to your survivors, in some cases by an amount greater than the withdrawal amount. A withdrawal will also reduce the death benefit permanently, whereas a loan can be repaid and the death benefit restored.

Disadvantages of cash value life insurance

The premiums for cash value insurance usually cost more than for a comparable amount of term insurance in the early years of the policy. The reason is that with a cash value policy, you're initially paying more than is currently needed to pay for the insurance, so that you can build a fund (the cash value account) to help offset the higher insurance costs you'll need to pay when you're older.

If you buy a variable life insurance policy, the underlying investments in the cash value account expose you to the possibility of financial loss, as well as financial gain. It all depends on how those investments fare. Any losses will cut directly into your cash value account and may affect the amount of the death benefit, although a minimum death benefit is usually guaranteed.

Guarantees are based on the claims-paying ability of the issuer.

IRREVOCABLE LIFE INSURANCE TRUSTS

There are many reasons to own life insurance—as a means to pay off a mortgage, to provide for children's education, to replace income used to support loved ones, even to pay for one's own funeral expenses. But life insurance can also be a powerful estate planning tool, especially when owned by an irrevocable life insurance trust (ILIT).

What is an ILIT?
An ILIT is a type of trust specifically created to own and manage life insurance purchased to insure the creator of the trust (e.g., you or your spouse). As the creator of the trust, you make gifts to the trust on behalf of the ILIT's beneficiaries. The ILIT trustee uses those gifts to purchase a life insurance policy for which you are the insured, and the ILIT is the owner and beneficiary of the policy. Because the trust is irrevocable, policy proceeds that are payable upon your death are not included in your taxable estate. In addition, any gifts you make to the ILIT during your lifetime are removed from the list of taxable assets included in your estate.

How Do You Implement an ILIT?
An attorney must draft an irrevocable trust to own the insurance policy. You would not serve as a trustee of the ILIT, and typically your spouse and/or children are named beneficiaries within the ILIT document. Once the trust is established, the trustee applies for an insurance policy on your life and names the ILIT as the sole owner and beneficiary of the policy. Depending on the terms of the ILIT, each time you make a gift to the ILIT to facilitate a premium payment, the trustee may deliver a notice (known as a Crummey notice) to the ILIT's beneficiaries letting them know that a gift was made to the trust on their behalf. The notice gives beneficiaries a certain period (usually 30–60 days) to exercise their right to withdraw some or all of the gift. If they do not do so, the trustee applies the gift toward the payment of the life insurance premium. The Crummey notice provides a mechanism for the gift to qualify for the annual gift tax exclusion ($18,000 per person in 2024).

Any portion of a gift that does not qualify for the exclusion will result in the filing of a gift tax return, which may reduce your federal gift and estate tax exemption or (only if the previous exemption has been fully utilized) require out-of-pocket payment of gift tax.

At your death, the income and estate tax-free proceeds paid by the life insurance policy are collected by the trustee and held by the ILIT. Depending on the terms of the ILIT, the proceeds are then distributed or held in further trust for the ILIT's beneficiaries. The trustee of the ILIT may also purchase assets from or loan assets to your estate to provide necessary liquidity to pay taxes or other expenses.

ESTATE PLANNING BENEFITS

An ILIT can provide the following estate planning benefits:

- Gifts to the ILIT reduce the taxable estate.
- An income and estate tax-free death benefit maximizes the amount that beneficiaries receive.
- Beneficiaries can use ILIT funds to pay the costs associated with settling your estate.
- ILIT funds can meet liquidity needs associated with illiquid assets owned in the estate.
- Probate may be avoided.

Other considerations
Although an ILIT can be a significant enhancement to any estate plan, the strategy may not be appropriate for everyone. If you are uninsurable or if the cost of insurance is too high, an ILIT may be too expensive or impossible to implement. Before implementing an ILIT, consult with a qualified estate planning attorney to be sure that you have enacted an estate plan that takes advantage of the federal and state estate tax exemptions available to you.

BORROWING AGAINST LIFE INSURANCE POLICY CASH VALUES

One benefit of buying permanent life insurance is the ability to obtain a loan from the insurance company using the life insurance as collateral. The loan terms are favorable, the payment is issued promptly, and the interest can be deferred as long as the policy stays in force. Repayment of the principal can be delayed until the policyowner's death. The tradeoff is that, after the end of each policy year, unpaid interest is considered an additional loan and generates additional interest costs. Loans always reduce both the available cash value and the death benefit.

As a general rule, the interest charged for the loan is slightly greater than the interest earned on the cash value. Some policies offer "zero-spread loans," which credit a fixed interest rate equal to the loan rate charged. Each policy has different criteria for zero-spread loans, but, generally, such loans are available after the tenth policy anniversary.

If the policy is purchased to provide supplemental retirement income, the loan spread can have a significant impact on cash values and on future tax-free income. Even a spread as low as 1 percent can result in 9 percent less income over 30 years.

When planning for retirement, look at the terms behind partial withdrawals and loans to determine if a policy is suitable. In addition, look for management tools, including automatic income options, guaranteed minimum withdrawal options, and over-loan protections.

Please note: Loans from Modified Endowment Contracts are taxed as ordinary income in the year of the loan if there is gain in the policy. A 10-percent penalty may also be applicable if the loan is taken before you reach age 59½.

Guarantees are based on the claims-paying ability of the issuer.

LIFE INSURANCE POLICY OWNERSHIP

Although it is difficult, planning your estate requires you to consider what the financial situation of your family would be like if you were gone. It is during this kind of projection that most people realize the importance of owning life insurance.

Once you decide that you need to be insured, the next step is deciding who should insure you. You can own an insurance policy on yourself—but so can your spouse, business, or trust. We believe that understanding the rights of ownership—as well as the pros and cons of each type of ownership—can help clarify your ownership questions.

Ownership rights
A life insurance policyowner has the right to control the economic benefits of the policy. There are two categories of ownership: outright ownership and incidents of ownership. Outright ownership is afforded to the individual whose name is on the policy as the owner. Incidents of ownership refer to the specific rights of ownership; some of these include:

- The right to transfer ownership rights
- The right to change certain policy provisions
- The right to surrender or cancel the policy
- The right to pledge the policy for a loan or to borrow against its cash value
- The right to name and to change a beneficiary
- The right to determine how beneficiaries will receive the death proceeds

The outright owner can retain all incidents of ownership, or he or she can defer some incidents of ownership to other individuals.

Ownership options
There are several different ways that policies can be owned. Owning a policy on your life is the most common; however, any person or legal entity can own life insurance on another person—as long as the policyowner has an insurable interest in the insured. An insurable interest exists when one person has a financial interest in another person's life. Spouses are assumed to have an insurable interest in each other. The same holds true for parents and children. Certain business relationships may also create an insurable interest, such as when a business insures its key employees or when a bank guarantees repayment of a loan with a life insurance policy on the borrower.

When considering different ownership options, it is important to weigh the advantages and disadvantages of each before you decide who should own your life insurance policy.

You own your own policy.
With this type of ownership, you pay the premiums, you are named as the insured on the policy, and you control all of the ownership rights.

Advantages and disadvantages - Life insurance proceeds from a policy on your life can be included in your taxable estate if (1) you own the policy outright; (2) you have any incidents of ownership in the policy at the time of your death; or (3) you transfer ownership of the policy within three years of your death. Inclusion of life insurance proceeds in your taxable estate isn't a problem if your taxable estate (including any includable life insurance proceeds) is less than or equal to the applicable exclusion amount.

If your taxable estate (excluding any includable life insurance proceeds) exceeds the applicable exclusion amount, you should consider alternate ownership of policies on your life.

Your spouse as owner.
With this type of policy ownership, your spouse is responsible for the premiums and has control of the ownership rights, and you are named as the insured.

Advantages and disadvantages - In most states, if you name your spouse as the owner of your life insurance policy, the proceeds won't be included in your taxable estate. Generally, when your spouse is the beneficiary, the death proceeds escape estate taxation because of the unlimited marital deduction. But a problem arises when a policy is issued to one spouse and he or she names someone other than the other spouse as beneficiary. For example, if the beneficiary of a policy on the husband is someone other than his wife, a transfer subject to gift tax occurs when the husband dies and the proceeds are payable to the third person.

Another individual as owner.
For this type of ownership, the individual is responsible for the premiums and controls the ownership rights, and you are named as the insured on the policy.

Advantages and disadvantages - Sometimes, it may be advantageous to name another individual as the owner of your life insurance policy. Proceeds of such a policy will not be includable in your taxable estate. Keep in mind, however, that, if the policyowner dies before you, the cash value of the policy (not the face amount) is includable in that person's taxable estate.

An irrevocable life insurance trust (ILIT) as owner.
The trust owns the policy and is required to pay the premiums. The insured can either place payment in the trust or place income-producing assets in the trust to cover the cost of the policy. When the insured dies, the proceeds are distributed to the trust, and distribution to the beneficiaries of the trust is made according to the trust agreement.

Advantages and disadvantages - An ILIT may be used to keep life insurance proceeds out of your taxable estate. But it's important to note that an ILIT is a complex estate planning tool and must be properly created to be effective. Before taking advantage of such a device, seek the assistance of an estate planning professional.

Transferring policy ownership
If you own a policy on your life, you may want to transfer ownership to another individual (e.g., to the beneficiary) to avoid inclusion of the proceeds in your estate. Transferring ownership of a policy is easy: Simply complete a change-of-ownership form provided by your insurance company. Remember, though, that, even if you transfer ownership of an existing policy to another individual, it may be included in your estate if you die within three years of the transfer.

Summing it all up
Life insurance is an important part of your estate plan. There is no question that you should be insured, but choosing the insurer can be a complex and challenging decision. By reviewing your entire financial plan, we can help you determine which form of ownership will most benefit you and your loved ones.

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