A Guide to Buying Insurance

What You Should Know Before You Buy

Is Life Insurance Right for You?

Life insurance policies are designed for people who:

- Want to replace income that is lost due to death
- Seek liquidity to cover expenses, debts and taxes at death
- Want assets to fund retirement, education and other family goals in the case of a premature death
- Value tax-efficient income to supplement retirement, education, convalescent care or other financial needs

When you consider buying any insurance product, it is important that you examine the need for which you are seeking the insurance and make sure that the product you are considering will meet that need. It is also important to examine your overall financial position, investment objectives, risk tolerance, time horizon, diversification needs and need for liquidity. Our firm wants to make sure that if you buy an insurance product, you choose the type of product that most closely meets your needs. As always, if you have any questions about your insurance needs or related matters, please contact your financial professional or insurance specialist.

The right life insurance strategy can play a key role in helping you achieve your financial goals. In addition to helping replace lost income or secure your estate and legacy, life insurance can also be useful in providing education funding for future generations. And, when it comes to retirement, individuals who have maximized their contributions to qualified plans and individual retirement accounts (IRAs) may benefit from the tax-advantaged* supplemental income that cash value life insurance can offer.

This guide is intended to give you a general understanding of life insurance and the benefits and costs of various types of policies; it also contains information about disability income and long-term care insurance. In addition, this guide will help you understand how our firm and your financial professional or insurance specialist are compensated regarding insurance sales. However, this guide is not intended to replace any other documents, such as prospectuses, illustrations and product guides, that may be provided by the various insurance companies whose products are offered by our firm.

You should not buy insurance until you have a good understanding of the product you are considering. Reading this guide is one step you can take toward a better understanding of the various types of insurance policies available, as well as their features, characteristics and other information to help you make a decision. You should also read the other documents that you may be provided, such as a prospectus or product guide. Illustrations, which are discussed later in this guide, are also available for some products. In addition to reading this guide and any other materials provided by our firm or the insurance companies, discuss their contents with your financial professional or insurance specialist, who will be available to answer any questions you might have.

**Tax advantages can assume that the policy is not or does not become a modified endowment contract.*

Protecting Your Privacy

We do everything we can to make sure that the personal information you provide remains confidential. In addition, all the insurance companies we do business with also have privacy policies in place to protect personal information about their policy owners, insured individuals and beneficiaries. If you have any questions about your privacy rights, feel free to ask your financial professional or insurance specialist.

Because of the tax implications of the purchase of certain types of insurance, you should consider consulting your tax advisor both before and after buying insurance. Changing an existing insurance policy or liquidating current assets to purchase an insurance policy may result in tax consequences, early withdrawal penalties or other costs or penalties. You may wish to consult your tax advisor or lawyer before taking such action.

What is Life Insurance?

A life insurance policy is a contract between the owner of the policy and a life insurance company. When you buy a life insurance policy, you name the person to be insured (who may be you or someone else) and you select the amount of insurance you desire. You also name a beneficiary. When the person who is insured dies—if your policy is in effect—the life insurance company will pay the in force amount of insurance (less any outstanding loans) to the person or persons you named as the beneficiaries. This amount is called the "death benefit."

The following list includes some of the important terms, accompanied by their definitions, used to discuss life insurance.

Premiums – Premiums (typically called "premium payments" or "purchase payments") are your payments to the insurance company for the policy. You can make regular premium payments, or you can make a single payment. The frequency of premium payments often depends on the type of life insurance policy you buy. We will discuss this further as we describe the different types of life insurance policies.

- The amount of premium you pay depends on a number of factors:
- The amount of insurance you want to purchase
- The age, gender and health of the individual to be insured
- The type of insurance policy
- The decisions you make after buying the policy, such as whether to voluntarily increase the amount of premium to take advantage of certain tax features

Underwriting – Before an insurance company will issue a life insurance policy, it will consider the gender, age, health and certain other information about the individual to be insured before deciding whether it will issue a policy on that person's life. This process of examining information about a proposed insured person is called "underwriting." The extent of the underwriting process often depends on how much insurance is applied for. When we talk about costs and expenses below, we will discuss how the results of an insurance company's underwriting process will affect the costs and expenses of certain types of policies.

Policy owner – Most often, you, as the buyer of the life insurance, will be the policy owner. However, you may wish to have a trust, your spouse, your business partner or even your company be the owner. Your financial professional or insurance specialist can help you with this decision. You may also want to consult your tax or legal advisor.

Insured – The insured is the person whose life is insured. When this person dies, the death benefit of the policy is paid to the beneficiaries. You can be the insured, but you can also buy insurance on your spouse, parents, children, grandchildren, business partners and certain other persons. An insurance company may limit whom you can name as an insured. Your financial professional or insurance specialist can give you more information on naming insureds. Some insurance policies provide for two or more named insureds. See the discussion below about "second-to-die" life insurance policies.

Beneficiary – The beneficiary is the person who will receive the death benefit payment when the insured dies. The beneficiary can be a person, such as your spouse, your children, your grandchildren, or your business partner. The beneficiary can also be a non-person, such as a trust, a charitable organization or your company. You should consult your tax or legal advisor if you want to name someone other than a family member as the beneficiary. It is also possible to name more than one beneficiary and to designate how much of the death benefit each beneficiary is to receive. It is important for you to carefully designate beneficiaries so that the death benefits will be paid to the persons you want. Likewise, changes in circumstances, such as deaths of family members and divorce, may require you to change beneficiary designations. Your financial professional or insurance specialist can guide you in designating beneficiaries.

Types of Life Insurance Policies

Generally, life insurance is offered in two different forms: "term insurance" and "permanent insurance" that may generate what is commonly known as "cash value" (and so is called "cash value insurance"). Although both types of insurance provide a death benefit upon the death of the insured, each type is used to meet different insurance and financial needs. Your financial professional or insurance specialist can help you decide which policy fits your needs best.

Term Insurance

As the word suggests, term insurance provides a death benefit for a specified number of years. When you first apply for term insurance, the insurance company will go through its underwriting process to determine whether the insured is an acceptable risk. Some term insurance policies allow you to automatically renew your policy at the end of the term by paying a new, typically higher, assessed premium, without any underwriting. This type of term insurance is referred to as "renewable." If the policy is not renewable, then the insurance company will determine whether the insured is still an acceptable risk by requiring the insured to provide information about his or her current health and other information.

Generally, people who are younger and believed to be in good health have a lower death rate than persons who are older and in good health, and so younger people pay less for term insurance than older people. Therefore, each time a renewable term policy is renewed, the premium may increase.

As noted above, you can buy term insurance for periods longer than one year. With what is called "level term insurance," premiums generally remain level, meaning they do not increase from year to year for the policy, but may increase upon renewal.

Some renewable term policies have a feature known as a "conversion provision." This provision allows the policy owner to trade—without any underwriting—the term policy for a policy that provides permanent coverage (provided premiums are paid as scheduled) and may generate cash value. Such provisions may specify that the conversion can only be done during a certain time period. This type of policy is typically called a "convertible term policy." The conversion feature may be reflected in the price of the term policy. When you are considering whether term insurance is right for you, you should consider the following factors and discuss them with your financial professional or insurance specialist:

- The length of time you need life insurance protection
- The cost of the premiums when you get older
- Any concerns you may have about your future health

Cash Value Insurance

Life insurance policies that generate cash value can be further divided into five categories: (1) whole life, (2) variable life, (3) fixed universal life, (4) index universal life, and (5) variable universal life. These types of policies are intended to provide insurance coverage for the entire life of the insured.

Under these types of policies, the insurance company charges a higher premium than for a term policy for the same amount of insurance. The extra amount of premium is held for the owner as the available policy cash value. Generally, the premiums for this type of policy remain the same for the life of the policy. In most cases, this means you will pay more in the early years than you would for the same amount of term insurance, but you pay less in the later years.

This type of insurance offers the additional benefit of allowing the policy owner to withdraw or borrow against the cash value of the policy. The cash value may let you keep some or all of your insurance in place for some time, even if you do not make your premium payment. The cash value is invested by the insurance company. How this money is invested depends on whether the policy is considered "variable" or not, which is explained in the section on "variable life insurance" below.

The Five Types of Cash Value Insurance

Whole life insurance – A whole life (WL) policy offers a guaranteed death benefit and a guaranteed cash value. It remains in effect for the life of the insured if the required premiums are paid. Premium payments are usually required for the life of the insured and must be paid on a regular schedule. However, some whole life policies let you pay premiums for a shorter period of time, such as 20 years or until the insured reaches age 65 or some other specified age. When you buy a whole life policy with payments for a shorter period, the premiums are higher to compensate for the shorter period of time.

If you do not make your scheduled premium payment, the cash value in your policy may be used to keep your policy in effect for a limited time or to provide a reduced amount of death benefit without paying additional premiums. If your insurance or financial needs change, you should consult your financial professional or insurance specialist, and your tax advisor about whether stopping premium payments is the best way to achieve your financial goals.

The cash value of a whole life insurance policy is held by the insurance company with its other general assets and invested by the insurance company. Under certain circumstances, you can borrow from the policy by taking out a loan from the insurance company. Loans from your policy reduce the cash value and the death benefit by the amount of the outstanding loan, plus interest.

Variable life insurance – A variable life insurance (VLI) policy is similar to the whole life insurance policy described above. Premium payments are level for the premium payment period. The insurance company usually guarantees that, upon the death of the insured, there will be at least a minimum guaranteed death benefit, assuming the premiums have been paid.

However, unlike the whole life policy described above, the insurance company does not guarantee the cash value amount, and the cash value is not held with the general assets of the insurance company. Instead, the insurance company sets up a separate account in which the cash value is held. The separate account is segregated from the general assets of the insurance company and is not subject to the claims of the company's general creditors. The separate account is most often divided into subaccounts. Each sub-account offers a different investment option. Policy owners select the subaccounts in which they want their cash value invested. Some insurance companies that offer variable life insurance policies also allow policy owners to select the company's general account as an investment option.

The variable subaccounts in any variable life policy may contain different investments than similarly named mutual funds offered by the investment managers. Investment results may be higher or lower. There can be no assurance that the stated objectives and policies of any of the variable sub-accounts will be achieved. An investment in any of the variable sub-accounts is subject to market risk and loss of principal. The investment return and principal value of an investment in any of the variable subaccounts will fluctuate, so that an investor's units, when redeemed, may be worth more or less than their original cost.

The cash value, and sometimes the death benefit, will increase and decrease with the investment performance of the subaccounts selected. However, if the premiums have been paid, the death benefit will not go below the initial guaranteed amount. Failing to make the premium payment, or borrowing from a variable life insurance policy, will have an effect similar to that of the whole life policy described above. Also, borrowed funds will not participate in subaccount performance. Like with a whole life policy, a policy owner can make a withdrawal of cash value from the policy that will affect the death benefit and the cash value.

Variable life insurance is sold by a prospectus, which is prepared by the insurance company. You should carefully consider the investment objectives, risks, charges and expenses before purchasing a policy. The prospectus discusses these factors and other information in greater detail. Your financial professional or insurance specialist will provide you with a prospectus for any variable life insurance contract that you are considering. Please read it carefully before buying a variable life insurance policy.

Fixed universal life – In issuing a whole life insurance policy, the insurance company considers a number of variables before determining the scheduled premiums to be paid for the policy. These variables include, among other factors, the amount of insurance applied for, the risks associated with insuring the life of the insured, the premium payment period selected and the cash value expected over the premium payment period.

A universal life (UL) insurance policy differs from the whole life insurance design by separating the death benefit from the insurance company's expenses and costs and the policy's cash value. Dividing the policy into separate components allows the policy owner flexibility to change the amount of insurance, change the amount and timing of premium payments, and make other changes to meet varying circumstances.

When the insurance company receives a premium payment, a portion is deducted for the cost of the insurance based on the life expectancy of the insured and the balance is deemed cash and is credited to your policy value. Each month, the insurance company makes a deduction from the cash value of the policy to cover certain costs and expenses within the policy and any remaining will grow based on the current crediting rate. Unlike the whole life policy, which requires the payment of premiums on a set schedule, a universal life policy allows changes to the amount and timing of premium payments.

As long as there is enough "cash surrender value" (the amount available in cash if the policy were cancelled before it becomes payable) in the policy to allow the insurance company to deduct the monthly cost of insurance and any other monthly costs or expenses, a universal life policy will remain in effect with no reduction of the death benefit. If the cash-surrender value is not enough to cover the monthly deduction, the insurance company will notify the policy holder that they have a specific period of time in which to make a premium payment. Some universal life policies offer secondary guarantees, in which as long as a specified premium is paid the death benefit will remain in force even if there is no cash surrender value in the contract.

It is important to note that the planned premium illustrated for a universal life insurance policy may not be enough to keep the policy in force beyond any guaranteed period.

In some circumstances, it is permitted to pay more than the illustrated planned payments. Any such excess amounts will be held as part of the cash-surrender value and may result in a higher death benefit.

Fixed universal life – Index universal life (IUL) allows the policy owner to allocate cash value amounts to either a fixed account or an equity index account. Policies offer a variety of well-known indexes such as the S&P 500 or the Nasdaq 100. Index universal life policies are more volatile than fixed universal life policies, but generally considered less risky than variable universal life policies because no money is actually invested in equity positions.

When a premium is paid, a portion is deducted for the cost of insurance based on the life expectancy of the insured and for any other costs or expenses and the balance is added to the cash value. The total amount of cash value is credited with interest based on increases in an equity index (but it is NOT directly invested in the stock market). Some policies allow the policyholder to select multiple indexes. Index universal life policies usually offer a guaranteed minimum fixed interest rate and a choice of indexes. Policyholders can decide the percentage allocated to the fixed and index accounts.

The value of the selected index is recorded at the beginning of the selected period and compared to the value at the end of the selected period. If the index increases during the selected period, the applicable index gains are credited to the policy based on policy provisions.

Variable universal life – A variable universal life (VUL) policy combines the investment features of a variable life policy with the separation of components found in a universal life policy. As with the universal life policy described above, as the policy owner may, under some circumstances, modify the death benefit amount, choose different death benefit options and change the amount and timing of premium payments to meet their needs.

The cash value, and sometimes the death benefit, will vary with the investment performance of the subaccounts you have selected. If the subaccounts have good performance, the cash value, and sometimes the death benefit, will be higher than anticipated, whereas poor performance will result in amounts that are lower than expected. You should note that poor performance of the underlying subaccounts may necessitate the payment of additional premiums. Failure to make these additional premium payments could cause the policy to lapse, and there may be tax consequences.

Some insurance companies offer an optional "guaranteed minimum death benefit." If this guarantee is chosen, its cost is deducted from the cash value each month along with the other costs and expenses.

Variable universal life insurance is sold by a prospectus, which is prepared by the insurance company. You should carefully consider the investment objectives, risks, charges and expenses before buying such a policy. The prospectus discusses this and other information in greater detail. Your financial professional or insurance specialist will provide you with a prospectus for any variable universal life insurance contract that you are considering. Please read it carefully before buying variable universal life insurance.

You should ask your financial professional or insurance specialist for assistance in understanding the various aspects of a cash value life insurance policy. In some circumstances, your financial professional or insurance specialist may be able to provide you with one or more illustrations of policy values, which may help you better understand how the policy works and your various options. (For more information on illustrations, see below.)

Other Types of Life Insurance Policies

Limited Payment Life Policy

With limited payment policies, premiums are only required for a specified period of years, such as 10, 20 or 30 years, or until the insured reaches a specified age, such as 65, beyond which premiums will not be required. These policies usually have a guaranteed death benefit.

One of the more common forms of a limited payment life policy is the single-premium policy. It is offered both as a "fixed" policy (that is, the cash value is held in the general account of the insurance company) and as a "variable" insurance policy (that is, the cash value is held in a separate account that is segregated from the general assets of the insurance company).

Second-to-die Policies

One type of insurance policy covers the lives of two individuals and is called a "second-to-die" or "survivorship" policy. All of the types of policies discussed above can be purchased as a form of a second-to-die policy. Note that the death benefit amount is paid only after the death of the second individual (that is, the individual who is the second to die) as designated by the policy and premiums may be required after the first insured's death.

For example, Mary and John, who are husband and wife, buy life insurance and choose a second-to-die policy. John dies. Neither Mary nor the named beneficiary will get any death benefit payment after John's death. Only after Mary's death will the death benefit be paid out. Although premiums are lower with this kind of policy, you should make sure that it meets your insurance needs as well as the needs of your surviving beneficiaries.

Features and Characteristics

Riders and endorsements – Sometimes the insurance company offers one or more additional benefits to be included with the life insurance policy. Such benefits are often added to the policy through a rider or an endorsement to the policy. Riders and endorsements become part of your contract of insurance. If you are issued a rider or endorsement, you should keep the document, along with your insurance contract, in a safe place with your other valuable documents. In some cases a rider or endorsement serves to restrict or modify your options or rights, or to limit the obligations of the insurance company. If you have any questions, please contact your financial professional or insurance specialist.

No-lapse guarantee – Some insurance companies that offer universal life, index universal life and variable universal life insurance offer a no-lapse guarantee that ensures the death benefit will not lapse, even though the values within the policy may be insufficient. Most of these companies add this feature by means of a rider available for an additional cost. The rider sets out specific conditions that the policy holder must comply with in order to maintain the benefit.

Free-look provisions – You have the right to cancel your life insurance policy within the free-look provision period (usually 10 days following delivery of your life insurance policy or whatever period is required by your state). If you exercise this provision, you will receive a refund in accordance with the terms of the policy and your state's regulations. In some instances, if the market value of a variable insurance policy has declined during the free-look period, your refund may be less than your entire initial premium payment.

Contestability periods – Life insurance contracts are required to have an incontestable clause, which states that the insurer cannot declare the policy invalid after the contract has been in force for a specified period of time (generally two years), which is known as the "contestability period." Once the contestability period has passed, the insurance company cannot revoke the coverage, even if it finds that misstatement or concealment of material fact occurred during the application process. There are, however, three generally recognized exceptions to this rule that have been upheld by the courts: (1) no insurable interest existed when the policy was bought, (2) the policy was bought with the intention of murdering the insured, or (3) there was fraudulent impersonation of the insured by another person (such as might occur during a medical exam).

Surrenders – Fixed universal life, index universal life, variable life and variable universal life insurance policies allow you to surrender (that is, terminate) all or a portion of the policy coverage. When you make a total surrender of the policy, you are terminating all insurance under the policy, and you receive the cash surrender value of your policy. When you make a partial surrender, you receive some of your cash value, and the amount of the death benefit may be reduced. Surrender charges for partial surrenders may be assessed as they would with a total surrender. A surrender may also result in a tax obligation, so you should consult your tax advisor before you decide to do this.

Tax Considerations

Life insurance offers potential tax benefits:

- Generally income-tax free death benefit
- Potential growth in the policy's cash value on a tax-deferred basis
- Tax-advantaged access to account value through policy loans and withdrawals
- Tax-free transfer of assets among investment options
- Inheritance and estate taxes may apply

Borrowing from your policy – If you buy a policy that has a cash accumulation feature, the policy generally can borrow against a certain percentage of the cash value. To get a policy loan, the policy owner would need to request the loan from the insurance company. The loan will accrue interest; unless the interest is paid each year, it will be added to the outstanding loan balance. After the death of the insured, the loan and any accrued interest will be deducted from any death benefit due the beneficiary. A loan can be paid back at any time.

Special issues should be considered when taking out a loan from a variable life or variable universal life policy. A policy loan will result in cash value being transferred from the investment options in the separate account to a special loan account in the insurance company's general account. A policy loan, whether or not it is repaid, will have a permanent effect on the death benefit and cash value of the policy. This is because the amount of the policy loan transferred to the general account will not share in the investment results of the underlying investment options while the loan is outstanding.

If the policy owner takes out a loan, the policy should be carefully monitored to make sure it does not lapse as a result. Borrowing against your life insurance policy can be an effective way of getting access to the policy's cash value. However, you should make sure that such a step fits your overall insurance and financial plan. Your financial professional or insurance specialist will be pleased to discuss loans and other ways of gaining access to your money.

Tax consequences of borrowing from certain policies – In most situations, you can borrow from your policy without tax consequences. However, if the policy you have bought is considered a Modified Endowment Contract (MEC) for purposes of the Internal Revenue Code (IRC), the loan, or a portion of the loan, will be treated as income. For a more complete discussion of MECs and other tax issues, see "Tax treatment" below.

Tax Treatment

This general discussion on federal income taxes as related to life insurance is not intended as tax advice. It is not a complete discussion of the subject and does not address state tax law. You should consult your own tax advisor about your own circumstances.

Life Insurance in General

Life insurance is a means of providing death protection and possibly setting aside money for future needs. Congress recognized the importance of such planning and provided special rules in the IRC for life insurance. Simply stated, for cash value life insurance, these rules provide that you will not be taxed on the earnings on the money held in your life insurance policy until you take the money out. Your beneficiaries generally are not taxed when they receive the death benefit upon the death of the insured. Inheritance and estate taxes may apply.

Taking Money Out of Your Policy

You, as the policy owner, will not be taxed on increases in the value of a cash value life insurance policy until a distribution occurs, such as a surrender or an outstanding loan at surrender.

Under the IRC, certain life insurance policies are classified as MECs. The rules regarding the classification of a policy as an MEC are very complex, but generally depend on the amount of premiums paid into the policy during the first seven contract years or any seven-year period when benefits are changed. Because of the flexible premium nature of some life insurance policies (universal life, variable universal life or policies bought as single-premium policies), the determination of whether a policy qualifies for treatment as an MEC will depend on the individual circumstances of each policy.

If your policy is classified as an MEC, any loans or withdrawals from the policy will be treated as first coming from any earnings and then from your investment in the policy. Consequently, these earnings are included in taxable income and essentially taxes you based on the "last in, first out (LIFO)" theory of taxation. Furthermore, distributions from a policy within two years before it becomes an MEC will be treated as distributions from an MEC. The IRC also provides that any amount received from an MEC that is included in income may be subject to a 10% penalty. The penalty will not apply if the income received is:

- paid on or after the taxpayer reaches age 59½,
- paid if the taxpayer becomes totally disabled (as that term is defined in the IRC) after buying the policy, or
- paid in a series of substantially equal payments made annually (or more frequently) for the life of the policy owner or for either five years or until the policy owner reaches age 59½, whichever is longer.

If your policy is not an MEC, any surrender proceeds will be treated first as a recovery of the premium paid into the policy and, to that extent, will not be included in taxable income. Any loan will be treated as indebtedness under the policy and not as a taxable distribution.

Upon complete surrender or termination of the policy, if the amount that you receive plus any outstanding loan amount exceeds the total premiums you paid, the excess generally will be treated as ordinary income.

Personal interest payable on a loan under a policy owned by an individual is generally not deductible. Furthermore, no deduction will generally be allowed for interest on loans under policies covering the life of any employee or officer of the taxpayer or any person financially interested in the business carried on by the taxpayer except for, in limited circumstances, policies on "key persons" as that term is defined in the IRC. The deductibility of interest payable on policy loans may be subject to further rules and limitations under IRC Sections 163 and 264.

You should consult your tax advisor on the tax consequences of taking loans or distributions, or of exchanging or surrendering any policy.

Other Tax Considerations

Payment options – Under the payment options of some life insurance policies, the death benefit or the proceeds payable on the maturity date may be paid out as annuity payments. Under the annuity tax rules in the IRC, a portion of each annuity payment in excess of an exclusion amount is includable in taxable income. The other portion of the payment is treated as a partial return of your cost basis and is not taxed. How the annuity payment is divided between taxable and nontaxable portions depends on the dates when the annuity payments are expected to be made. Once you have recovered all of your cost basis, annuity payments received are fully includable in income.

Multiple policies – The IRC also provides that multiple MECs, which are issued within a calendar year to the same owner by one company or its affiliates, are treated as one MEC for purposes of determining the taxable portion of any loans or distributions. Such treatment may result in adverse tax consequences, including more rapid taxation of the loans or distributed amounts from such a combination of contracts. You should consult a tax advisor before buying more than one MEC in any calendar year.

Tax treatment of assignments – An assignment or change of ownership of a life insurance policy may be a taxable event. You should therefore consult a tax advisor if you want to assign or change the owner of your policy.

Qualified plans – Certain life insurance policies may be used in conjunction with certain qualified retirement plans. Because the rules governing such use are complex, you should not purchase life insurance in connection with a qualified retirement plan without the advice of a competent qualified plans consultant.

Income tax withholding – All distributions includable in your gross income are subject to federal-income-tax withholding. In most cases, however, you may elect not to have taxes withheld. If your withholding and estimated tax payments are insufficient, you may be required to pay penalties under the estimated tax rules.

Business use – Businesses can use certain life insurance policies in various arrangements, including non-qualified deferred compensation loans and split-dollar life insurance plans. The tax consequences of such plans may vary depending on the particular facts and circumstances. If you are buying a life insurance policy for any arrangement, the value of which depends in part on its tax consequences, you should consult a qualified tax advisor.

Moreover, in recent years, Congress and the Internal Revenue Service have adopted new rules relating to life insurance owned by businesses. Any business thinking of buying a new life insurance policy or changing an existing policy should consult a tax advisor.

Other – The estate, inheritance and other tax consequences at the federal, state and local levels related to ownership or receipt of policy proceeds depend on the circumstances of each owner or beneficiary. For example, when all or part of a policy or benefits under a policy are transferred or paid to an individual who is two or more generations younger than the policy owner, a generation-skipping transfer tax may apply.

Dividends – Certain types of policies provide for dividend payments to be made under the policy. Such dividends are paid out of the insurance company's surplus earnings for the year. Whether you take the payments in cash or allow them to accumulate in the policy, they are considered a return of premiums. As long as you don't get back more than you paid in, you are merely recouping your costs, and no tax is due.

Policy dividends are not guaranteed. Although some insurance companies offer you the option to pay or reduce premiums with accumulated dividends, such options are in effect only when the dividend is actually paid. If no dividends were paid for a particular year, you would be responsible for covering the full amount of the premiums that year.

IRC Section 1035 exchanges – Under IRC Section 1035, you may exchange one insurance policy for another without recognizing a gain on the policy. This is a tax free exchange. For a transaction to qualify as a 1035 exchange, the old contract must actually be exchanged for a new contract. It is not sufficient for you to receive a check and apply the proceeds to the purchase of a new contract. The exchange must take place between the two insurance companies.

The replacement or 1035 exchange can be useful if another life insurance policy has features you prefer, such as a larger death benefit, wider choice of investment options (applicable to variable life insurance plans only), a lower premium obligation or higher guaranteed benefits. However, you may be required to pay surrender charges on your original policy if you are still in the surrender charge period. In addition, a new surrender charge period and a new contestability period generally begin when you replace an existing insurance policy with a new policy. Further, the insured will more than likely have to submit to the new insurance company's underwriting procedures to qualify for the new life insurance policy.

Although you may exchange a life insurance policy for an annuity, you will lose the income-tax-free withdrawal and loan capabilities of the life insurance cash value as well as the income-tax-free death benefit of the life insurance policy. Please discuss all the tax consequences with your tax advisor before making any type of exchange.

Costs of Buying Life Insurance

Term Insurance

When you buy term life insurance, all costs and expenses associated with the policy are included in the premium you are charged. See the discussion on page 2 about premiums and underwriting.

Whole Life Insurance

Whether you buy whole life insurance on a fixed or variable basis, the insurance company has taken into account many of its costs and expenses in determining your scheduled premium. For variable life policies, you may incur some additional charges. (See below for a discussion about charges applicable to various forms of variable life insurance.)

Fixed Universal, Index Universal and Variable Life Insurance

Premium charges – The insurance company will deduct from your premium payment any front-end sales charges it may make. Before accepting your policy, you should consider your ability to pay the premiums on a long-term basis. If you fail to pay your premiums, your policy may lapse, and you may lose your coverage. The insurance company may also deduct any premium tax due in your state; this tax can be as much as 3% of your premium. Ask your financial professional or insurance specialist about the sales charges on any policy you are considering, and about premium taxes in your state.

Periodic deductions – Each month or quarter, the insurance company makes a deduction from the cash value of your policy. This deduction covers costs like administrative or policy fees, rider charges and cost of insurance, all of which are explained below.

The administrative or policy fees (which are referred to by a number of names) are charges assessed by the insurance company to cover administration, policy issuance, premium collection and the like. Together, these charges can range from $5 to $50. The rider charges are for any additional benefits you have elected, and they cover the cost of those benefits for the following month (or other period).

The cost of insurance compensates the insurance company for providing life insurance coverage on the life of the insured for the following month (or other period). This cost depends on the gender, age and health of the insured and on the amount of insurance. The amount is determined by the insurance company after it completes its underwriting process. In addition to your health, the insurance company may consider your occupation and hobbies; if they are considered dangerous, the company may charge you more for insurance coverage.

Variable life – In addition to the above costs and expenses, variable life policies have separate charges that are not built into the premiums paid for the policy like they are in whole life policies.

A "mortality and expense risk charge" (sometimes the charge has a different name) is assessed against the amount of your cash value in the separate account. This charge compensates the insurance company for the insurance risks it assumes under the policy, for assuming the expense risk that the current charges will be insufficient in the future to cover the cost of administering the policy and the separate account, and for the administrative costs not covered elsewhere. This charge can range from 0.50% to 2.25% per year.

Surrender fees are typical in most universal and variable universal life insurance policies and in variable single-premium policies. These fees are imposed if you surrender all or a portion of your policy and are usually only in effect for a period of years (for example, five to 15 years). The fees can be based on the actual dollar amount that was surrendered or on the amount of insurance, and can vary by year of surrender, your age at the time of issue, your gender and other variables.

Deductions are taken from the various investment options to cover advisory fees, operating expenses, 12b-1 fees (which are annual or marketing distribution fees), service fees and other costs associated with running a mutual fund. Other transaction costs are assessed under variable life policies for items like partial surrender fees and transfer fees, which are discussed on the next page.

Investor Characteristics

Insurance is generally a long-term purchase and is not suitable for pursuing short-term goals. Substantial taxes, as well as charges from the insurance company, may apply if you surrender your policy early. Variable life and variable universal life insurance may also involve investment risks.

Before buying a life insurance policy, you should learn about the specific policy you are considering. If you are thinking about purchasing a variable life or variable universal life policy, request a prospectus or any other available material from the insurance company or from your financial professional or insurance specialist, and read it carefully. Before you decide to buy an insurance policy, consider the following:

- What are your insurance needs, and how will this policy meet those needs?
- Can you afford to continue paying the premiums in the future?
- Do you understand the features of the policy?
- Do you understand all of the fees and expenses?
- If considering a variable life or a variable universal life policy, are you willing to take the risk that the cash value of the policy may decrease if the underlying investment options selected perform poorly?
- If considering a fixed-rate policy, are you willing to take the risk that the interest rate credited to your policy may decrease?
- Do you need to consult with a tax advisor about the application of federal and state tax laws?

Variable life insurance (VLI) and variable universal life insurance (VUL) are sold by a prospectus, which is prepared by the insurance company. You should carefully consider the investment objectives, risks, charges and expenses. The prospectus discusses these factors and other information in detail. Your financial professional or insurance specialist will provide you with a prospectus for any VLI or VUL contract that you are considering. Please read it carefully before deciding whether to buy such a contract.

Illustrations

You also may be given a document called an "illustration." The purpose of an illustration is to show you how your proposed policy works and how the cash value, cash surrender value and death benefit under a policy for a proposed insured of a given age and rating classification might vary over time. For a variable life or variable universal life policy, the illustration would show several different uniform gross annual rates of return. These rates of return are hypothetical; even if the investments were to perform at one of the illustrated rates, the actual return would fluctuate over and under the rate to result in an average rate.

The hypothetical returns shown in any illustration are only illustrative of how the policy values relate to performance and should not be considered a representation of past or future returns. Actual rates of return for a particular policy may be more or less than the hypothetical rates illustrated and depend on a number of factors. ***Illustrations are not guarantees.*** *They merely reflect how a policy's values and benefits could be affected by different rates of return.*

Although illustrations are hypothetical, they can help you understand the policy you are thinking of buying. You should review them carefully and ask questions. You should consider consulting your tax or financial professional or insurance specialist to assist you in reviewing them. Certain assumptions are used in preparing the illustrations, and you should make sure they are reasonable and in line with your insurance and financial needs.

Insurance Company Ratings

When considering buying insurance, you may also want to consider the company offering the policy. The insurance company guarantees many features in a life insurance policy, including the death benefit and interest rates credited to fixed accounts. Therefore, the financial strength of the issuing insurance company is very important. Several independent, nationally recognized rating agencies regularly review the financial records of insurance companies to assess their strength and claims-paying ability. The stronger and more secure the insurance company, the more likely it is that the company will be able to pay the benefits offered. However, even a strong rating does not ensure that the insurance company will be able to meet all of its obligations under the life insurance policies that it has issued.

For information about insurance company ratings, ask your financial professional or insurance specialist to provide the ratings, or contact the following rating agencies:

- A.M. Best Company (Best's Credit Ratings) (ambest.com)
- Fitch (fitchratings.com)
- Standard & Poor's (standardandpoors.com)
- Moody's Investors Service (moodys.com)

These ratings do not relate to the past performance or potential performance of the subaccounts.

Other Types of Insurance

Although the majority of the information presented in this guide is related to life insurance, there are other types of insurance that may help you reach your short or long-term financial goals. Your financial professional or insurance specialist can help you determine if the following kinds of insurance will benefit you:

Disability Income Insurance

Disability income insurance provides monthly benefits when you are unable to work because of a disabling illness or injury. Availability and cost of coverage will be based on an individual's age, gender, health, occupation, duties, earned income, investment income, net worth and state in which he or she is employed. Please consult with your financial professional or insurance specialist for a policy that fits your needs or for more information on this type of insurance.

Long-Term Care Insurance

As Americans are living longer lives, providing for long-term care has become an increasing concern. This is where long-term-care insurance can help. “Long-term care” is defined as personal care or supervision for an extended period of time that may be needed because of accident, illness or aging.

Long-term care insurance may be customized to fit your needs. Availability and cost of coverage is based on age, gender, health status, amount and duration of benefits, and any additional riders added to the policy. Please consult with your financial professional or insurance specialist for a policy that fits your needs or for more information on this type of insurance.

The Role of your Financial Professional and Insurance Specialist

As a licensed agent your financial professional or insurance specialist will provide you with information about insurance coverages, including benefits, risks, riders and other characteristics needed for you to evaluate the policy and determine whether it fits your needs. In some circumstances, the insurance specialist may act as a specialist and assist the financial professional in pre and post policy activities. Compensation to the insurance specialist is different depending on what the role they serve on the policy.

How Your Financial Professional, Insurance Specialist and Our Brokerage Firm are Compensated on Life Insurance

Our brokerage firm and financial professionals are paid by the insurance companies whose products we sell. Some insurance companies pay higher commissions than others, which may provide your financial professional or insurance specialist with an incentive to sell one policy rather than another. Regional Sales Managers and Branch Managers may also receive monetary incentives based on the revenues and profits of their regions or branches.

Our brokerage firm may receive compensation and other payments in many forms, including commissions, residuals or trail commissions (described below), marketing support payments, payments for training and education, and fees for reinsur-ance transactions. Our firm receives compensation up to 95% of the gross compensation paid by the insurance companies, including commissions, residuals and trails. We pay a portion of the compensation it receives to your financial professional or insurance specialist.

Our firm offers a broad variety of insurance carriers and life insurance products that our financial professionals or insurance specialists can sell or recommend. Our firm has performed due diligence on each carrier and product that we make available to our clients.

Your financial professional or insurance specialist are paid in ways that vary with the type of policy, the issuing insurance company and the premium amount. Below is a summary of the different forms of compensation:

Commissions – The amount of commission is based on the type of underlying policy. For example, financial professionals or insurance specialists are typically paid a higher rate of commission for permanent life insurance policies than for term policies. There may be instances when the underlying policy contains both term and permanent life insurance. This is commonly referred to as blending. It is important to note that your financial professional or insurance specialist can adjust the percentage of term and permanent life insurance within the policy, and the commission paid to the financial professional or insurance specialist will adjust to reflect that change. It is important to note that commission rates vary by insurance carrier and product design.

Compensation on excess premiums – In some instances, you may pay premiums in excess of the annual or target premium (typically referred to as "excess premiums"). Compensation earned on excess premiums may be up to 6% of the excess premium. This compensation is set by the insurance company. For example, if the annual or target premium is $1,000 and you make a premium payment of $1,500, an upfront compensation of up to $30 ($500 x 6%) is received on the excess premium.

Trail commissions – Ongoing payments, called "trail commissions," of up to 2% per year on invested assets that are held in your life insurance policy for more than one year may also be received. These ongoing payments/trails are set by the insurance company. For example, if a policy has invested assets of $10,000, there would be a maximum trail of $200 per year, if there were no growth in the cash value of the policy.

Ongoing compensation for renewal premiums – We may also receive ongoing compensation on your policy for subsequent premiums, also called "renewal premiums," paid by you after the first year. Renewal premiums typically pay compen-sation of up to 20% of the renewal premium. This compensation is set by the insurance company. For example, if the renewal premium on an insurance policy is $1,000, our firm would receive up to $200.

How your Financial Professional, Insurance Specialist and Our Brokerage Firm are Compensated on Long-Term Care and Disability Insurance

Our brokerage firm receives compensation from sales of long-term-care and disability insurance policies based on the point-of-sale and other administrative services provided. Your financial professional or insurance specialist is paid in ways that vary based on the type of policy, the issuing insurance company and the premium amount. This compensation can be paid in many ways, including commissions, renewals and residuals/ trails. Below is a summary of the different forms of compensation received by our firm:

Commissions – In general, our firm is paid up to 65% of the first-year premium payment made by you on a long-term care or disability policy. Your financial professional's or insurance specialist's initial compensation is based on a compensation formula applied to the premium. This type of compensation is usually referred to as a "commission." For example, if the first-year premium payment is $1,000, we would receive upfront compensation of up to $650.

Ongoing compensation for renewal premiums – We may also receive ongoing compensation on your long-term-care or disability policy for subsequent premiums, also called "renewal premiums," paid by you after the first year. Renewal premiums typically pay compensation of up to 20% of the renewal premium. This compensation is set by the insurance company. For example, if the renewal premium on an insurance policy is $1,000, we would receive up to $200.

At any time, you should feel free to ask your financial professional or insurance specialist how he or she will be compensated for any insurance transaction.

How You Can Get Additional Information

If you have questions about what role your financial professional, insurance specialist or any other team member is serving, or what compensation will be paid to your financial professional or insurance specialist for the purchase of an insurance policy, please ask your financial professional or insurance specialist.

Additional Compensation Received by Our Brokerage Firm From Insurance Companies

At our brokerage firm, in addition to the commissions described above, we receive marketing support payments from many of the insurance companies whose policies we sell. These payments may be used to pay for training and educational conferences and meetings for our financial professionals or insurance specialists, various administrative and recordkeeping costs, educational meetings and seminars for our current and prospective clients, and due diligence evaluations of the claims-paying ability of the insurance companies whose policies we sell.

Our firm may also receive up to $125,000 per insurance company for financial support for educational seminars. Those payments are used to pay for training and educational meetings for financial professionals or insurance specialists. We reserve the right in the future to limit branch access to insurance carriers and marketing companies that do not provide marketing support payments or meet other criteria.

These payments are not made directly by you. They are paid by the insurance company, an affiliate of the insurance company, or the investment management company that serves as manager of the underlying sub-account options for variable life or variable universal life insurance. None of these payments are passed on to your financial professional or insurance specialist as commissions or ongoing payments. However, the payments may be used to fund some of the general benefits provided to your financial professional or insurance specialist that are described above.

We believe that these financial arrangements do not affect the advice your financial professional or insurance specialist offers you. Insurance companies and their affiliates use a variety of sources for funding the commissions and payments described above. The funding sources may include, but are not limited to:

- the fees and charges assessed by the insurance company under the life insurance policy;
- revenues from the underlying investment options, if any, received by the insurance company, an affiliate of the insurance company, or the investment management company that serves as manager of the underlying investment options for variable life insurance; and
- investment earnings on amounts allocated to the general account of the insurance company.

Some of the information on these funding sources and payments for variable life insurance can be found in the prospectus or statement of additional information for the insurance policy, which is available on request from the insurance company. You can also find additional information about revenues from the underlying investment options in their prospectuses and statements of additional information.

Investment and Insurance Products:

▶ NOT FDIC Insured ▶ NO Bank Guarantee ▶ MAY Lose Value

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