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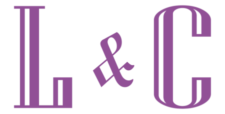

Insurance Part 3

Lilith Academy Workbook

Introduction to Insurance Part 3: Types of Insurance

In Lilith Academy's Insurance Part 3 workbook, you will dive into the specific contract options for life insurance. This booklet provides real-world examples to help illustrate how different policies can be applied to meet individual needs and circumstances. Understanding these options empowers individuals looking to have insurance to make informed decisions that align with their financial goals and risk tolerance.

Section 3.1: Ordinary Life Insurance

Let's look at life insurance on the basic level. Ordinary life insurance plans provide individual policyholders with various temporary and permanent insurance protection options.

The broad range of life insurance options enable life insurance agencies to offer plans that suit every individual's lifestyle, risk, and financial capacity. A 25-year-old college graduate, for example, requires a low-payment life insurance due to their low risk of death. As the person's age progresses and they enter the injury-prone era of 70 and higher years of age, the person has a higher risk of passing away and, if they are applying for the first time through a new life insurance agency, they will have a higher premium.

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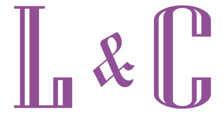

While the benefits of life insurance mostly occur upon the insured's death, and thus may only seem important for the elderly, it is wise to apply for life insurance at a young age. Healthy young people receive a lower premium than older policyholders due to their low risk.

One primary purpose for applying for life insurance at a young age is to secure the finance of the policyholder's family in the unfortunate event that the policyholder passes away at a young age. The loss of a parent provides financial burdens in addition to the emotional stress to a family.

Families are faced with short-term costs of funerals and settling legal matters. Those that lose a member that served as the primary source of income will also struggle with the long-term battle between a minimalized income and the hefty price of sustaining a family. To prevent these financial stresses, an individual can purchase a life insurance policy that will provide a predetermined sum to their beneficiaries (ideally, the family) upon the insured's death.

It is important to note that the amount that an insurance agency pays the family or otherwise named beneficiaries may not be enough to completely sustain the family for a long time. Still, depending on the contract determined by the agency and the policyholder, the sum provided to the family will help them find a new primary source of income.

Section 3.2: Term Life Insurance

There are options for individuals who can not afford large life insurance contracts. As a basic life insurance option, individuals may choose to purchase a low-cost and temporary term life insurance policy.

Term life insurance provides low-cost insurance protection for a specified period of time. Under this contract, the insurance company will only pay a sum to the beneficiaries if the insured dies during the specified period of time.

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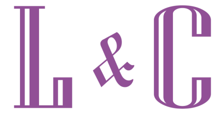

There are two overarching types of term life insurance: level term and decreasing term.

Level Term: the premiums and death benefits are constant values throughout the term.

Decreasing Term: the death benefits decrease over time. Often, the benefits are used to cover benefits rather than serving their initial purpose of funding beneficiaries.

Let's look at an example. A young couple purchases a 20-year level term life policy to protect their children's education expenses in the possible event that one of the policyholders passes away during the twenty years. Because they chose the level term policy, the predetermined sum will not decrease in value by the time that the children receive the funds.

On the other hand, if the couple chose the decreasing term policy because the parents choose to take some out in order to pay off their mortgage, then the children will receive less money upon the parent's death.

The decision between level and decreasing term life insurance policies depends on the insured's budget and expected possibility of needing to take money out of the sum that was reserved for the beneficiaries. Decreasing term life insurance is useful if the policyholder expects that their beneficiaries will require less money over the specified period of time.

Section 3.3: Types of Term Life Insurance

Within the options of level and decreasing term life insurance, there are many subtypes of term life insurance. Below are in-depth explanations of the major term life insurance types.

1 – Mortgage Redemption Insurance: a contract in which the insurance agency pays off the insured's mortgage if the insured dies before fully paying off the loan on their property.

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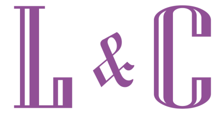

This type of term insurance serves as an example of a life insurance policy that covers the material wealth of the insured. This enables policyholders to account for financial burdens that their family members will need to handle upon the insured's death beyond simply sustaining their lifestyle without the insured member as one of the primary sources of income.

Take, for instance, an individual who recently purchased a home with a thirty-year mortgage. At this point in the payment lifespan, there is a lot of mortgage left to pay the loaner before the property is truly theirs. It would be wise for this individual to purchase a mortgage redemption insurance plan to insure that their family won't lose the home if the insured dies before the mortgage is fully paid.

2 – Credit Life Insurance: a contract in which the life insurance agency will pay the amount that the insured owes on a loan to the lender if the insured dies before the loan is repaid.

In most cases, the beneficiary is considered to be the lender. The specified time period for the insurance coverage is typically the pre-established time period that the insured expects to pay off their debts by.

Instances of debt that this insurance policy covers include car and student loans. For example, after graduating from college, an individual has a significant amount of student loan debt. They also loaned money to purchase a car so that they can travel to work. They realize, however, that in the possible event of their unexpected death, their family will be forced to pay off the individual's substantial debt.

The individual therefore chose to purchase credit life insurance on their car and student loans, so if the insured passes away before the loans are paid off, then the insurance will take on the responsibility of paying the remaining debt.

3 – Group Life Insurance: a contract in which the employer or group that provides the coverage will pay all or a portion of the premiums so that the covered employees and plan participants can receive a certificate of coverage.

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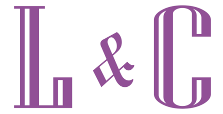

Large corporations often offer group life insurance as part of its employee benefits package, which will provide a basic level of insurance coverage to all employees. If your employer offers this package, you can choose to not opt into the coverage. You may choose to opt out of the insurance package because you have access to a more beneficial insurance package elsewhere. However, employees often choose to accept the group life insurance so that they do not have to pay the insurance premium in full by themselves.

4 – Industrial Insurance: a contract in which life insurance agencies offer life coverage to low-income individuals and families.

This type of term life insurance is typically a small face value policy that the low-income individuals and families can afford. Agencies often go door-to-door to sell this policy type, and premiums are collected weekly or monthly.

A factory worker, for example, may choose to purchase industrial life insurance because, without an employer that offers group life insurance, they can not afford to secure their finances for their family. They purchase the industrial insurance policy to cover burial expenses and provide a small financial cushion for their family in the possible event of their unexpected death within the time period that the contract outlines.

Section 3.4: Permanent Life Insurance

Whereas term life insurance only lasts for the time period that the policy contract outlines, permanent life insurance types will last for the duration of the insured’s lifetime. This option provides the insured with the peace of mind that their beneficiaries will always be provided for after their death as long as the recurring premiums are paid.

Here are a couple of permanent life insurance types:

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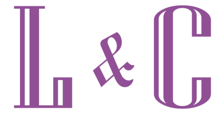

1 – Universal Life Insurance: a contract that has flexible premiums as well as adaptable death benefits. There is usually a cash value component that can earn interest.

One benefit of choosing universal life insurance is the flexible premiums. This feature allows policyholders to adjust how much they are paying for the premium. While this flexibility comes with limitations, it reassures the insured that in the event of a salary-cut or job-loss, they can lower the premium to a price they can afford.

A second benefit is the cash value component. A small portion of each premium that the insured pays for this insurance policy is placed on reserve and will grow from interest and the frequent premium payments. Once this reserved money builds up, the insured has the option of withdrawing money or borrowing money from this reserved pot. It is important to keep in mind that taking money out of the cash value pot lowers the death benefits and will be taxed.

2 – Variable Life Insurance: a contract in which the insured has investment options for their cash value with a potential for growth and loss.

Similar to universal life insurance, a portion of the insured's premium goes into a tax-deferred savings account. The insured can invest this money into the stock market, bonds, or mutual funds. As with any investment in the stock market, there is a risk of losing money in a poor market. Regardless of the status of the investment, most insurance agencies offer a guaranteed minimum for their death benefit.

3 – Variable Universal Life Insurance: a contract in which the insurance agency offers both flexible premiums and investment options.

This life insurance policy type is a combination of universal life insurance and variable life insurance. Like variable life insurance, policyholders can invest the cash value in various investment options. Like universal life insurance, premiums can be adjusted within certain value limits. The insured also has a choice between a level and increasing death benefit.

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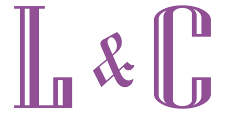

4 – Joint Life Insurance: a contract in which the lives of two or more individuals are covered.

There are two options for when the death benefits will be provided to the beneficiaries. This decision will be predetermined in the policy contract. If the contract determines this timing as first-to-die, then the beneficiaries will receive the death benefit upon the first death. This often provides the second person and the family with an income replacement or mortgage protection.

Or, the contract may have a last-to-die policy. In this scenario, the beneficiaries will receive the death benefit upon the last death. The beneficiaries often use the money for estate planning or inheritance tax purposes.

Conclusion

Each type of life insurance coverage contract is designed to meet the specific needs and preferences of the insured. From the flexibility of universal life insurance to the investment opportunities of variable life insurance, these specialized policies offer diverse options for individuals with varying financial goals and risk tolerances.

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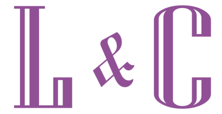

Insurance Basics Part 2 Quiz

Multiple Choice

1. Which type of term life insurance has premiums and death benefits that are constant values throughout the specified term?
    a. Level Term
    b. Decreasing Term

2. Which type of term life insurance has premiums and death benefits that decrease over time?
    a. Level Term
    b. Decreasing Term

3. Which type of insurance should an individual get if they are afraid of leaving their family with a large mortgage to pay off upon the individual's death?
    a. Variable Life Insurance
    b. Joint Life Insurance
    c. Group Life Insurance
    d. Mortgage Redemption Insurance

4. Which type of insurance will cover the amount that the insured owes on a loan to the lender if the insured dies before the loan is repaid?
    a. Credit Life Insurance
    b. Total Debt Insurance
    c. Variable Life Insurance
    d. Decreasing Term Insurance

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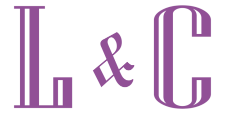

Fill in the Blank

5. Individuals who are older in age will have a __________ (HIGH / LOW) premium because of their high risk of death.

6. Variable universal life insurance offers __________ (BOTH / EITHER) flexible premiums and/or investment options for the insured.

7. Variable life insurance offers ________________ (FLEXIBLE PREMIUMS / INVESTMENT OPTIONS) for the insured's cash value with a potential for growth or loss.

8. Universal life insurance offers ________________ (FLEXIBLE PREMIUMS / INVESTMENT OPTIONS) as well as adaptable death benefits. There is usually a cash value component that can earn interest.

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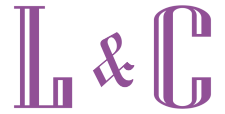

Answers to Insurance Basics Part 2 Quiz

1. A. Level Term
2. B. Decreasing Term
3. D. Mortgage Redemption Insurance
4. A. Credit Life Insurance
5. High
6. Both
7. Investment Options
8. Flexible Premiums

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