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Life Insurance and Family Protection

University of Illinois at Urbana-Champaign
College of Agriculture
Cooperative Extension Service
Circular 1206

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Most families consider life insurance an important part of their economic security program because it provides protection for the future. At the same time, the amount of protection needed and the reasons for securing protection usually vary so much that it is not always easy for a family to decide which policy it actually needs. This publication explains the most common life insurance options and discusses how those options can help protect your family at various stages in its life cycle. A glossary is included on page 17 for the benefit of those not familiar with life insurance terms.

Three isolated incidents — the sound of screeching brakes on an interstate highway, a widow getting her first job at age 55, and a young man dropping out of college — brought three families to us asking for information on life insurance.

When Mr. Baron, who was on a business trip, heard the brakes screech and then watched the automobile crash that killed the parents of two young children, he began to worry about his own family. What would happen to his two daughters if he and his wife were to die suddenly? Where would they live? Who would pay for their food, their clothing, the rest of their everyday expenses? He decided it was time to talk with his wife.

Mr. and Mrs. Clark saw the “brave” look on their neighbor’s face when she got her first job at age 55 shortly after her husband died. They saw her give up her membership in many organizations and sympathized with her when she said she was just too tired to join them for an evening’s entertainment. They watched her try to make her small earnings pay the mortgage and buy her food and clothing as well as pay for her other living expenses. The Clarks decided they wanted some advice on providing for Mrs. Clark in case Mr. Clark were to die prematurely.

Bob Price couldn’t believe it when he heard that Gary Williams, who was planning to be a doctor, had dropped out of college in his freshman year. This happened shortly after the death of Gary’s father, who had been Bob’s business partner. Bob found out that his partner had left just enough insurance to pay his burial expenses and to meet the mortgage payments. Since his widow needed some additional training before she could earn enough money to support the family, it was decided that the best solution was for the oldest son to interrupt his education. Bob Price didn’t want that to happen to his wife and children.

This circular contains the kind of information we gave these three families to help them meet their life insurance needs.

Life Insurance and Protection

Families purchase life insurance for protection; that is, they buy financial protection for themselves in the event that the breadwinner dies before the children are grown. Some families also buy financial protection for the years that follow the breadwinner's retirement.

Since the father is usually the main breadwinner, most of the life insurance purchased by a family is on the father. Today, more and more families have two breadwinners, and the loss of income of either breadwinner could seriously affect the family's financial security. Families with two breadwinners, therefore, may need to consider insuring both individuals.

Life insurance is based on the law of large numbers. A large number of families share the common risk of losing the breadwinner and pay a small amount of money (called a premium) each year. Then the dependents of those who actually die during that year receive a much larger amount of money than the annual premiums that have been paid. The life insurance company uses mortality tables to calculate the risk of the insured dying during the year, collects premiums from the persons sharing the risk, and handles payments to beneficiaries of insured individuals who die.

The type of financial protection a family needs varies with family income, resources, goals, composition, and stage in the family life cycle. Used correctly, life insurance can make a valuable contribution to family economic security. Used unwisely, it can be an excessive drain on family finances and, indirectly, on family happiness and satisfaction.

Forms of Policies

Life insurance protection can be purchased in four different forms — ordinary, group, industrial, and credit. Different types of insurance policies — straight life, limited payment, term, endowment, and more recently, universal — are written under one or more of the different forms of life insurance.

Ordinary Life Insurance

Ordinary life insurance is still the most commonly used form of life insurance in the United States. It accounted for nearly one-half the total amount of life insurance in force in 1980. Families purchase ordinary life insurance policies on an individual basis from an agent, usually in amounts of \$1,000 or more. They then pay premiums to the insurance company annually, semi-annually, quarterly, or monthly. Most types of life

insurance policies (straight life, limited payment life, term, endowment, and universal) may be purchased on an individual basis as ordinary life insurance.

Group Life Insurance

Group life insurance is the second most commonly used form of life insurance in the United States. It is offered to groups of persons by organizations such as businesses, industrial firms, or governmental units. Today many professional organizations also offer group policies to members. Of the four forms of insurance, this form costs the least for a given amount of protection and is usually available without a medical examination. Sometimes employers pay all or part of the cost of the policy.

Group insurance is usually term insurance. When employees leave their company or group, often they are given the opportunity to convert the group insurance coverage into some type of permanent coverage on an individual basis. Many policies may also be continued into retirement, depending on the group plan.

Industrial Life Insurance

Industrial life insurance policies usually are issued for amounts under \$1,000. An agent visits the home of the policyholder every week or every month to collect the premiums. For a given amount of protection, industrial insurance is usually much more costly than either ordinary or group insurance, partly because of the high cost of premium collection, and partly because people who take out industrial insurance tend to have a high mortality rate. In the past, industrial insurance was used primarily by the American worker who was not able to pay premiums once or twice a year. Today, this form of insurance is the least important in the United States, probably because more American workers are able to pay larger premiums at less frequent intervals.

Credit Life Insurance

Credit life insurance is the fastest growing form of life insurance. It is usually issued through banks, retail stores, finance companies, or credit unions, and it is used to guarantee that debts or loans will be repaid if the borrower dies. This policy protects the borrower as well as the lender.

Illinois law sets a maximum on the amount that loan companies may charge for life insurance and health and accident insurance policies when these are part of the loan. When the borrower takes out credit life insurance as part of a loan, he or she must often pay interest on the premium.

In Illinois, the purchase of credit life insurance to insure a loan is not required by law. However, it may be required by the company issuing the loan. In addition, according to the Federal Truth in Lending regulation, if credit life insurance is included as part of the finance charge, this fact must be disclosed to the consumer.

Types and Uses of Life Insurance Policies

There are five basic types of life insurance policies: term, straight life, limited payment life, endowment, and universal. The many different names for policies, such as family income plan, retirement plan, and mortgage insurance, are just combinations or variations of these five types.

Term

A term insurance policy protects the policyholder's beneficiaries so long as the policyholder dies within the "term," or period of time, specified in the policy. Protection expires at the end of this period unless the policyholder has purchased a *renewable policy*: this option allows him or her to renew the coverage, regardless of any changes in health or occupation, until the age specified in the policy.

The premium for term insurance rises at the beginning of each new term, or as death becomes more probable. For the amount of protection it gives, term insurance is less expensive than any other type of protection up to about age 55. Most term policies can be renewed only up to age 65, although a few can be renewed up to age 100; the premium for a term policy past age 65 will be extremely high. Term insurance policies are seldom taken out past 65 because most families no longer need to protect against the loss of the breadwinner's income. By this time they may also have pension or retirement benefits adequate to cover living expenses for the surviving spouse.

Term insurance is especially useful to young families that have only a small amount of money to budget for insurance but that need a large amount of protection. In 1980, the average amount of life insurance in force per family insured in Illinois was \$48,500; in the United States, it was \$41,500. Clearly, even if the family had the average amount of coverage on the husband (in most cases, the main breadwinner), a wife with small children could not manage for very long on \$48,500. By purchasing term insurance on the husband, the family could secure much more protection for relatively low premiums.

Decreasing term, often called "mortgage insurance," is a form of term insurance that is bought for a specific purpose. This policy insures the life of the breadwinner for the amount of the mortgage at the time of the

breadwinner's death. If the breadwinner dies, the home will be paid for in full. The premium for decreasing term insurance is fixed, and the amount of coverage decreases over time.

There are other advantageous uses for term insurance. For example, a family that depends on current income to keep a child in college can take out insurance on the breadwinner's life for the amount needed to complete the child's education. A farm family in debt for equipment, machinery, or stock can insure the farmer's life for the amount of that debt.

Term insurance is often called "pure" insurance because it does not include a savings element; that is, it provides for no cash buildup, as does, for example, straight life insurance. A *convertible clause* gives the policyholder the right to convert a term insurance plan to straight life or some other permanent plan, and families often take this option when they are in a position to pay higher premiums. Since there is no cash buildup, families that rely solely on term insurance should be sure to build up adequate savings.

Straight Life

The straight life policy furnishes the maximum amount of permanent death protection at the lowest annual premium. Sometimes called ordinary life, it provides death protection throughout life with premiums payable continuously until the policyholder dies. It also contains a savings element, or cash value, thus allowing the individual to build up some savings at the same time that he or she is buying protection against premature death.

It should be noted, however, that the interest rate paid on the cash value has generally been very low, often less than 4 percent. It is especially important during times of high inflation to compare the interest rate offered by the insurance company with the rate offered by another type of investment.

The savings element, or cash value, that the straight life policy builds up may be used in several different ways. For example, it may be used to borrow money from the life insurance company. The loan must be repaid with interest, or the amount of the loan will be deducted from the face value of the policy upon death of the policyholder, thus reducing the benefits. The policy that has a cash value may also be used as security for a loan from a bank. Or the policy can be surrendered and the cash value taken in a lump sum.

Many insurance policies have special clauses or options that allow the cash value to be used in other ways. If the policyholder can no longer continue to pay the premiums, the policy can be converted into a paid-up policy for a lower amount. Sometimes the full amount of the policy can be kept in force for a limited time by converting to term insurance.

Limited Payment Life

In the limited payment type of policy, protection is offered for the entire life of the insured, but premiums are payable for a stated period of time, such as 10 years, 20 years, 30 years, or until the insured reaches a given age, such as 60 or 65. For a given amount of protection, the annual premium rate is higher for limited payment life than for straight life insurance because premiums are paid only for a definite number of years. This means that the cash value of the policy builds up at a faster rate for the limited payment life than for the straight life insurance policy.

The major objection to limited payment life insurance is that some families may be building up a savings fund when the real need in their insurance program is for protection against premature death. Families should keep this point in mind when considering this type of policy.

Endowment

The endowment policy is like a savings fund protected by term insurance. This type of policy offers insurance protection against death for a specified period of time. The policyholder decides that he or she wants to build up a certain amount of money by the end of a given number of years. In a sense, the insurance company establishes a savings fund to which the policyholder contributes regularly and on which interest is compounded, usually annually. If the policyholder lives to the end of the specified period, he or she will have accumulated, and can obtain, the face value of the policy. If the policyholder dies before the end of that period, the beneficiary will receive the face value of the policy.

The limitations of the endowment policy arise from its incorrect use. The prospect of having a large sum of cash at the end of a relatively short period of time leads many families to purchase this plan when their real need is for premature death protection. The family that considers using the endowment policy should be sure that it has some other form of protection against premature death.

Families should also be aware that the premium rate for endowment insurance is higher than it is for other types of policies discussed; in fact, many companies have eliminated the endowment policy because of its low interest yield. The policyholder always pays for the portion of the policy on which he or she does not collect: for the term portion if he or she lives, and for the pure endowment portion if he or she dies. If the policyholder dies, the family probably would have been better off with pure term insurance. If the policyholder lives, he or she probably would have been better off with a savings account.

Universal

A relatively new type of life insurance policy, universal is actually a form of term insurance with an added savings component. This component functions differently from the cash value in a straight life policy. Premiums are deposited in a special fund. From this fund the company deducts its fees and the monthly costs for the protection that covers the life of the policyholder. After making these deductions, the company credits interest to the fund at the market rate.

The rise in the savings component is predicted at rates similar to standard straight life policy rates. In addition, the policyholder receives a *variable interest rate*, which, depending on market conditions, is generally higher than the standard straight life policy rate. This variable interest can be used in several ways. (1) It can be used to increase the face value of the policy, which can be increased or decreased without rewriting the policy. (2) It can be used to increase the savings component while keeping the face value constant; when the policyholder dies, this extra cash will go to the beneficiary. (3) It can be used to help pay premiums.

As with straight life insurance, the policyholder can borrow from the savings component built up in the policy. In addition, with universal, he or she can actually withdraw cash without cancelling the policy. As long as there is enough money in the savings component, the policy stays in force.

Special Policy Features

Regardless of the type of policy or policies your family decides to buy, it is important that you keep your plan flexible. To help keep it flexible, you can add special clauses, known as riders, to your policy. Two of these clauses, the *renewable* and *convertible clauses* available with term insurance, were discussed on pages 6 and 7. Two additional clauses, which will add to the cost but which may help you keep your plan flexible, are the disability clause and the guaranteed insurability clause.

The *disability waiver clause* allows for a waiver of premiums if the policyholder becomes permanently disabled or unable to work.

The *guaranteed insurability clause* guarantees the policyholder the right to purchase stated amounts of additional insurance at specified times in the future without passing a physical examination.

These special features may help you keep your plan more flexible, but they also add to the cost of the policy. Evaluate your family's insurance program to determine how the protection offered through these clauses fits your family's needs.

Payment of Premiums

The premium is the amount of money you pay to keep your policy in force. The annual premium is almost always less when paid once a year, and paying twice or four times a year usually costs less than paying once a month. If you prefer to pay each month, you might be able to have the premium deducted from your checking account. You would then sign a card allowing the insurance company to bill the bank directly and allowing the bank to pay the bill without your signature each month. The cost for this arrangement is usually less than the cost of having the company bill you quarterly, and you never have to worry about missing payments or making them on time.

Life Insurance Needs across the Life Cycle

Life insurance needs of families change as different family members grow older. The amount of protection needed will also vary with the number of members in the family, the current and anticipated income of the family, the earning potential of the family members, other financial resources, and the goals of the various family members.

The Single Person

A single person does not need much life insurance if he or she is self-supporting and has no dependents. In general, such a person should carry only enough insurance to take care of final expenses and to cover any outstanding debts, such as loans for education, automobile financing charges, or home mortgages.

Sometimes the young single person will be encouraged to buy insurance early in order to get lower premiums. It is generally true that, the younger the insured, the lower the premiums for a given type of insurance. One reason is that the savings part of an insurance policy is spread over a longer period of time. (This does not apply to term insurance, which builds up no savings.) In addition, the younger the person, the lower the risk of death; however, the individual may be paying for protection that he or she does not need just to get lower premiums throughout life.

Single persons may want to take out insurance against their own death if they have dependent aged parents. This need for protection could apply during any stage of the life cycle.

Establishment of the Family Stage (No Children)

Insurance needs of the newly married couple with no dependents are likely to be the same as for the single person.

The businessman, the professional man, or the farmer who borrows

money to become established—for example, to purchase equipment, supplies, or livestock—should cover loans with insurance to protect his wife as well as his creditors. Term insurance should be considered to fill these needs.

The couple that purchases household equipment and furnishings, an automobile, or other merchandise on the deferred payment plan should consider purchasing decreasing term insurance to cover the period of the loan. Decreasing term can also be used for mortgage payment protection.

In this stage of the family life cycle, the couple should try to save for the future. Often the wife and the husband are both working. Some couples try to live only on the husband's income and save the wife's for emergencies or for future expenses—for example, if they plan to have children or purchase a home.

Although insurance (especially endowment insurance) can be used to save for the future, families should investigate other forms of savings before purchasing policies. In general, savings can be invested more profitably and safely in other ways than by taking out insurance. The table on this page shows what happens to \$100 a year that has been invested in a passbook savings account and left to accumulate at an interest rate of 5½ percent per year with interest compounded daily. Furthermore, there are other savings alternatives that currently pay interest or dividends much higher than a passbook savings account. Some of these alternatives involve little or no risk.

Growth of \$100 Deposit per Year at 5½ Percent Interest Compounded Daily and Left to Accumulate*

At the end of:	Actual amount deposited	Amount in account
1 year	\$ 100	\$ 106
5 years	500	593
10 years	1,000	1,376
20 years	2,000	3,780
30 years	3,000	7,978
40 years	4,000	15,311
45 years	4,500	20,826

* Annual effective yield is 5.73 percent.

By comparison, how much insurance can you buy with \$100 a year? This information is given in the table on page 12. In the long run, the savings account will be more profitable for the family. However, in the short run, the insurance policy provides the advantage of protection in case of death.

Life Insurance Protection Provided by \$100 a Year
for a Male Starting at Age 20*

Policy	Amount of protection	Cash value at age 65
Term to age 65.....	\$15,212	None
Straight life to age 65.....	\$10,652	\$5,070
Limited payment life paid up at age 65.....	\$ 9,445	\$4,987

* Approximate values under a nonparticipating policy — one that pays no dividends.

Preschool and Elementary School Stages

While the children are young, the death of the father usually is the greatest hazard faced by the family. Even though the young mother may be working or may be able to provide income for the family if the father dies, it is more difficult for her to leave home during the preschool and elementary school stages than at any other time during the family life cycle. If she is working, her income will not be sufficient for the family to maintain the same level of living it did on two incomes. If she was not working but now goes to work, her income may not be sufficient for the family to maintain the level of living it had with the husband's income. Therefore, young families usually need a great deal of income protection from life insurance. At the same time, they have relatively small funds for providing this protection.

If your family fits into the early life cycle stages, here are some suggestions for getting the major protection you need with minimum expenditures.

What protection should you buy? The most important insurance need for most families is to insure the life of the sole or principal earner — usually the father. So take care of this need before you buy insurance for any other family member.

The next important consideration should be burial expenses for the wife. If these expenses cannot be met out of current income or savings, buy a \$3,000 straight life policy on her life, or buy a rider for this amount on the husband's policy. If the wife works, your family might want to consider insuring against the loss of her income as well as against her death. Your family should also consider whether it can meet the cost of caring for the children out of current income if the mother were to die. If you feel you would have difficulty meeting this cost, consider taking out a decreasing term policy on her life. The family's income needs for child care will decrease as the children mature.

Look ahead to the protection you will want for the possible widow between the time the last child reaches 18 (and is no longer eligible for social security) and the time when the widow is eligible for social security or for other retirement benefits. The amount needed will of course depend on the ability of the wife to support herself during this period.

Since the risk of the children's death is so small and they have no income to protect, consider buying insurance on them only after the parents are adequately protected.

What forms or types to buy? If you can qualify for group life insurance (including veterans' insurance), buy this form first. To keep the cost of your insurance at a minimum, buy term insurance with a renewable clause. Renewable term insurance should serve your family quite well during this period, particularly if the need for income protection is quite large in relation to what you can pay.

Saving money. Life insurance is not the best means of saving money. If you are interested in saving, consider putting your money in a savings account (for example, with an insured bank, credit union, or savings and loan association), or in another form of investment. Individual Retirement Accounts (IRAs) and Keogh plans are excellent ways to save for retirement because they allow you to save with pretax income and to defer taxes on the interest earned.

If you set up an insurance program that provides for too much savings in relation to your protection needs, you may find your family in the same position as many others. They often must borrow on their policies when they reach a financial emergency, and then their protection is reduced or lost entirely. Our advice would be to set up separate systematic savings programs and protect your family income with term insurance of a renewable type.

High School and College Stages

The years when the children are in high school or college are good times to reexamine your family's needs for life insurance. Since the children will not be dependent many more years, you may want to change the kind or amount of protection you are carrying.

By the time the children are in high school, the mother will probably be working outside the home. She may therefore be in a better position to provide income for herself and the family if the husband should die unexpectedly. Any family's life insurance program should be reexamined whenever the wife enters or leaves the labor force in order to keep the family's economic security program up to date.

Recovery Stage

The recovery stage of the family life cycle is characterized by the financial independence of the children. The wife is usually the only dependent during this stage, and she may be in the labor force. If she is not working or cannot support herself, be sure that she is provided for in the period between the possible death of the husband and the time that she is eligible for social security or other retirement benefits.

Your family should make a special effort to build up savings for retirement during the recovery period. Put aside regular amounts for saving (see page 13).

Retirement Stage

When you reach retirement, your family's need for life insurance is usually much less than in former stages, especially if husband and wife are nearly the same age. The widow or widower may be eligible for social security or other retirement benefits if his or her spouse were to die. He or she may also have money from an IRA, Keogh plan, or some other form of retirement savings.

During this period, some families purchase annuities. Annuities are the opposite of life insurance — they are used to insure against dying too late and thus outliving your savings. If you plan to purchase annuities, save for them in a savings account in insured banks or savings and loan associations, not as part of your insurance, since often there is a heavy penalty for withdrawal. Buy your annuities when you are ready to retire, and pay for them with a lump sum.

Settlement Options

Upon the death of the policyholder, the beneficiary should contact the insurance agent, who will help file the claim. How the beneficiary collects the proceeds depends on his or her individual circumstances. The proceeds may be paid in a lump sum, paid in fixed installment payments, or turned into an annuity. The survivor need not decide immediately what to do with the proceeds. It might be best to leave the money with the insurance company temporarily and to let it draw interest until a settlement option has been chosen.

If the proceeds are paid in one lump sum, the beneficiary can then invest the money in some source that will give a higher rate of return than the insurance company. Of course, anyone taking this option must be a good money manager and must be able to resist many of the well-meaning

but not always expert suggestions of friends, relatives, and others on how to invest money.

Instead of receiving the proceeds in one lump sum, the beneficiary may prefer to leave the money with the insurance company and to receive the face value in fixed installment payments. The insurance company then holds the face value, plus the interest earned on this money, and pays it out in fixed amounts until it is used up. The money can also be paid out over a fixed period of time. If the beneficiary dies, payments will be made to the new beneficiary. With any fixed installment plan, the survivor should reserve the right to withdraw the entire sum at a later date. Depending on the interest rate paid by the insurance company, it may be wiser to deposit a portion in a savings account for immediate use and to put the remainder into accounts that mature at various times.

A last option is to take the proceeds, including the interest earned, and purchase an annuity. Many insurance companies, investment firms, and banks and savings and loan associations offer life-time annuities with guaranteed payment periods of 10 to 20 years. As with your other savings plans, compare annuities offered from different institutions.

Taxes and Insurance

Unlike the interest earned on money in savings accounts, the annual increases in cash value that come from the interest earned on premiums are not taxed every year. The annual interest is tax deferred. Life insurance policies with cash value may be a good tax shelter for people in high tax brackets. However, since the rate of return on the cash value is generally lower than that on many other forms of investment, this tax-deferred quality may not be an advantage to people in other income tax brackets.

Participating (versus nonparticipating) insurance companies pay dividends on both term and straight life policies. A dividend is not, as the name implies, an earned return on an investment; it is actually a return of an overpayment on the premium paid. For this reason, dividends are not taxable.

The proceeds after settlement are not taxed as income to the beneficiary. However, if the insurance proceeds are left with an insurance company to earn interest, that interest *is* taxable as income. If proceeds are taken in installment payments, the portion of each payment attributable to the basic death benefit is tax-free, but the portion attributable to interest earned on the proceeds is taxable. A surviving spouse can receive the first \$1,000 of income attributable to interest earnings tax-free.

Regulation of Insurance

The Department of Insurance is responsible for regulating the insurance industry in Illinois. Before a company can sell insurance in this state, it must be licensed by the Department. This rule applies to companies that maintain offices and agents in the state, as well as to companies that sell mail-order insurance in the state. Insurance agents, brokers, and solicitors working in Illinois must also be licensed by the Department before they can represent a company. Each company's assets, claim payment records, agents, and general practices are examined at regular intervals to insure that the company is continuing to do business in a reputable way. The various policy forms used by companies throughout the state must be approved by the Department.

The Department also maintains a consumer complaint division that will handle any complaint you have about an insurance company in Illinois. For example, you might have a problem with unpaid claims, or you might question the practices of a company or agent. If you need help from the Department of Insurance, write or call: The Department of Insurance, 213 East Monroe, Springfield, Illinois 62676; or 160 North La Salle, Chicago, Illinois 60603.

Keeping Your Insurance Program Effective

When life insurance is used to meet the changing needs of your family, it can be one of the most important parts of your economic security program. Consider the various types of life insurance policies that might meet your needs. Then, before you buy, check the cost and features of policies from different companies. Read the policy before you purchase it to be certain that it includes everything for which you have asked.

Every two or three years it is a good idea to look over the amount of insurance protection you have to see if your insurance needs have changed. Check to see that additional members of the family are protected, if your life insurance program calls for this protection. Be sure the beneficiaries you want are the same as those named earlier.

It is a good plan to keep your insurance policies in a place where your beneficiaries can locate them easily in the event of death. To speed up the settlement of the policies, the name of the agent to notify in the event of death should be attached to the policy. If your policies are stolen or lost or destroyed by fire, you can ask your insurance company to replace them. There is no risk if you lose the policies, since they are of value only to the family. Keep a list of the policy numbers in a different place than where you keep the policies so that you can get replacements easily. Let the

family, a friend, a relative, or your lawyer know where the policies are kept, and ask them to notify the agent at once in case of death.

Always let your insurance companies know when you are changing your address so that your premium notice will not get lost. With some types of policies, your protection stops if you do not pay your premium on time.

In general, your family gets no more than it pays for when buying life insurance. By careful planning, however, you may get more insurance protection at the time you need it most without increasing dollar expenditures for premiums. It is up to your family to build a program to meet your changing life insurance needs.

Life Insurance Terms

Beneficiary — the person named in a life insurance policy to receive the face value if the insured dies.

Cash Value — the amount of money that a straight life insurance policy accumulates as the policy matures.

Convertible Clause — a clause that gives the policyholder the right to convert term insurance to straight life or some other permanent insurance plan.

Decreasing Term — a type of term insurance in which the amount of insurance decreases according to a specified schedule. This type of policy is often used for insuring home mortgages.

Disability Clause — a clause that allows for a waiver of premiums if the policyholder becomes permanently disabled or unable to work.

Dividend — the amount you are paid each year if the company collects more premiums than is necessary to meet its expenses, death benefits, and reserve build-up. Part of your premiums are returned as dividends.

Face Value — the amount stated on the life insurance policy that would be paid if the insured died.

Guaranteed Insurability Clause — a clause which guarantees the policyholder the right to purchase stated amounts of additional life insurance at specified times in the future without passing a physical exam.

Maturity — when the life insurance policy is paid up and worth the face value.

Mortality Table — a table which lists the average length of life for a group of persons at any particular age.

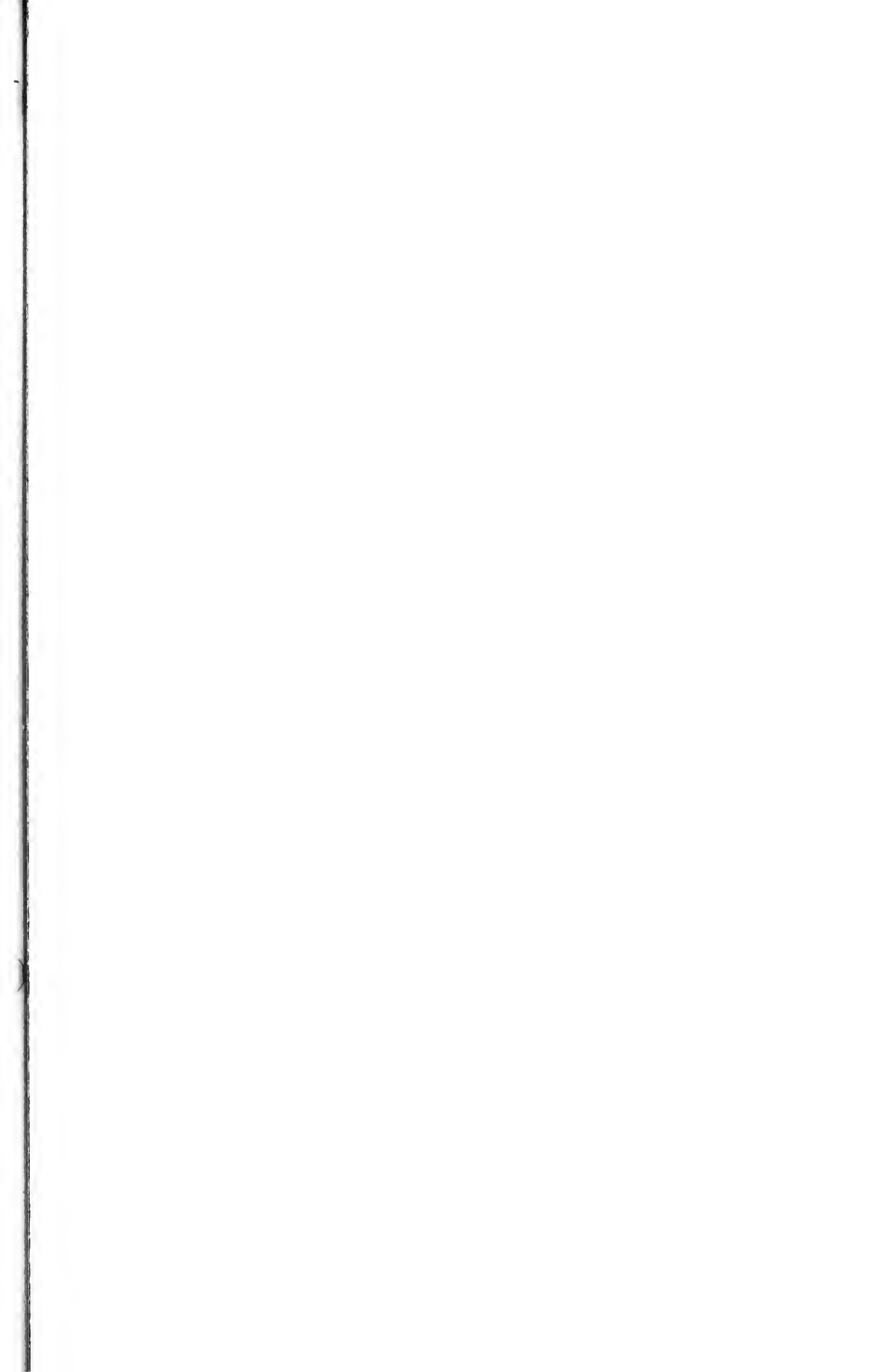
Nonparticipating Insurance — life insurance that is calculated as close as possible to actual cost so that no dividends are paid to policyholders.

Paid-up Policy — a life insurance policy upon which all required premiums are paid.

- Participating Insurance — life insurance that pays dividends to the policyholders (see Dividend).
- Policy Fee — a flat charge to cover the administrative costs of establishing the policy. The fee does not change with the amount of the policy and is sometimes referred to as a quantity adjustment fee or quantity discount factor.
- Policy Loan — a loan made to a policyholder for a proportion of the cash value of the policy.
- Premium — the amount of money paid by the policyholder at regular intervals to keep the policy in force.
- Proceeds — the money the beneficiary receives upon filing a claim after the death of the policyholder.
- Renewable Clause — a clause which gives the policyholder the right to renew his or her policy without a medical examination for another period of time.

References for Further Reading

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