Today's Lecture - #14
Life Insurance

How Life Insurance Works
Traditional Types of Life Insurance

How Life Insurance Works
Establishing a pool of funds
Calculating the probability of death
Mortality Table - Appendix F
Gender as a classification factor
Level premium plans

Life Insurance vs. Annuities
Life insurance pays when you die
Annuities make periodic payments as long as you live
Current problem area:
Reverse mortgages - pays an elderly homeowner periodic payments while they live, with the home serving as collateral

Life Insurance Contracts
Traditional
Term Life
Whole Life
Endowment Life
Newer Types
Universal
Current Assumption Whole Life
Variable Life
Variable Universal Life

Term Life
Temporary Protection
Renewability
Convertibility
Death Benefit Pattern
Premium Pattern

Term Life - Examples
Yearly Renewable Term
5 Year Level Term
Decreasing Term
Reentry Term
Front-end-loaded term
Whole Life Insurance

“Permanent” Protection 
(as long as premiums are paid when due)
Straight Life (a.k.a. Ordinary Life)
Limited-Payment Life
20 payment whole life
Life paid up at 65
Single-Premium Life
Tax advantaged investment

Tax Treatment of Life Insurance

Investment Earnings
Investment income on a life insurance policy is not taxed when it is earned
Death Benefits
Are not subject to income tax
May be included in owner’s estate for estate tax purposes

Tax Treatment of Life Insurance

Surrender Values
If you cancel a policy, the difference between what you receive and what you paid for the policy, in total, is subject to income taxation at that time
Example
Pay $1,000 per year for 20 years
Receive $5,000 in dividends
Surrender the policy for $25,000
Taxable income
$25,000 - [(20x$1000) - $5000] = $10,000

Endowment Life Insurance

Pays if the insured dies during the specified period
Also pays if the insured survives until the end of the period
Possible use
College accumulation fund