RAYMOND JAMES®

INSURANCE 101

Insurance and Annuities are ways to utilize having compensation or income paid out at a later date for beneficiaries. There are various forms of Insurance & Annuities. But the key is to understand your ultimate objective of wanting some form of protection. Knowing your objective will ultimately determine what solution fits best that need.

Below is a brief summary of the various insurance and annuity products as well as the general basis of what solutions they can potentially fulfill.

Life Insurance

Life Insurance is a form of insurance that pays out a death benefit compensation when the insured dies. In most instances an insured is seeking to protect their loved ones or leave a legacy for their beneficiaries. Death benefits from an Insurance pay out could be used to pay off the deceased debts, funeral costs or to cover expenses from missed income of the deceased. Further, in other instances, the death benefit could be used as a mode of creating an estate that can be passed tax-free to your loved ones.

Below are some forms of life Insurance:

Term Insurance-

*This is a form of temporary insurance that covers the insured for a specific amount of time (ex, 10 years, 20 years and 30 years).

*Usually a lower cost form of life insurance in comparison to permanent life insurance.

*Usual purpose is to provide a death benefit to the beneficiary if the insured prematurely dies. For example, a family where the sole provider dies. A term insurance death benefit could be applied to cover future lost income from the deceased for that family.

*The term insurance policy ends after the negotiated term period. Thus, if the insured is still alive after the term period the death benefit expires; unless the insured is extended or converted to permanent insurance.

Permanent Insurance-

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*Type of insurance that covers the insured for life

*As long as the negotiated premium is paid, the death benefit is available for the beneficiaries.

*This is a form of Insurance that is used to fund an estate for the beneficiaries or to provide a death benefit to cover some of the same objectives of term Insurance.

*In most instances, permanent insurance has a cash value portion of the policy that can grow tax deferred and the insured can access during their life time.

Further, there are various forms of Permanent Insurance that have unique characteristics that can fit specific objectives.

A. Whole Life-

*Fixed Premiums

*Guaranteed death benefit

*Guaranteed cash value growth at a fixed interest rate

*Insured has access to the tax deferred cash value of the policy

B. Universal Life-

*Flexible and adjustable premiums

*Cash value earns interest that adjusts as interest rates increase or decrease

*Provides a stated death benefit as long as the policy is in force

* Insured has access to the tax deferred cash value of the policy

C. Indexed Universal Life-

*Flexible and adjustable premiums

*Cash value growth is linked to the performance of the S&P 500

*Can provide downside protection on cash value growth

*Provides a stated death benefit as long as the policy is in force

* Insured has access to the tax deferred cash value of the policy

D. Variable Universal Life-

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*Flexible and adjustable premium payments

*Potential for cash value growth through market participation

*Premium payments can be allocated among investment subaccounts

*Provides a stated death benefit as long as the policy is in force

* Insured has access to the tax deferred cash value of the policy

Annuities

An annuity is a contract between an insurance company and the insured that entitles the owner with a series of income payments based on the negotiated terms of that specific policy. There are two periods within an annuity. The Accumulation period is when the investor funds the contract via premiums and the Annuity period is when the owner will receive the payments from the contract. The owner of the contract either pays one payment or a series of payments.

The usual purpose of purchasing an annuity is to help ensure a set amount of income for the beneficiary to either cover them at retirement or for their beneficiaries. Annuities are usually more complex than conventional insurance and thus have various options to choose from.

Below are some forms of Annuities:

A. Fixed Annuity-

*Designed to minimize the effect of general market risk

*Payout a steady declared rate of return each year for a desired term

*The rates for Fixed Annuities are set by the insurance companies and based on the premium amount, current interest rates, the annuitant's age, life expectancy and gender

B. Fixed Index Annuities-

* Designed to minimize the effect of general market risk

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*Returns are linked to broad based stock indices that have the potential to earn a higher interest rate in comparison to a Fixed Annuity

C. Variable Annuities-

*Offer higher return potential in comparison to Fixed Annuity and Fixed Index Annuities.

*The owner of the Variable Annuity invest in sub accounts which can potentially generate profits and losses within the accounts.

*Any sub account growth is tax deferred

*There is no principal protection and thus the riskier option in comparison to Fixed Annuity and Fixed Index Annuities.

Summary

There are various options to choose from and the above products are just a brief summary of features and examples that could fulfill an objective. The key purpose is to know what is available for you. The next step for you is to do further research or talk with an Advisor.

Please feel free to contact me if you want to discuss further your specific situation and objectives.

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