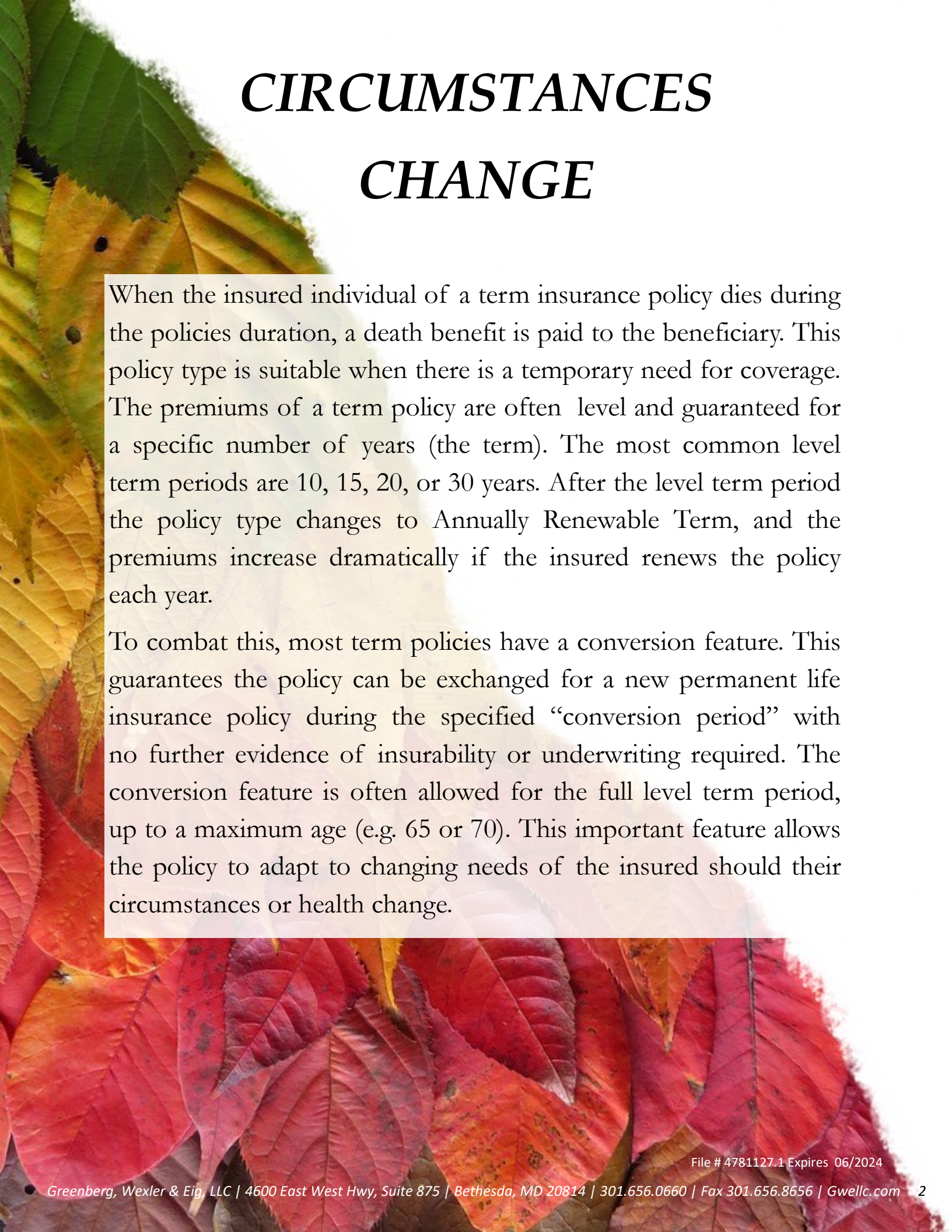


Not All Term Insurance is Created Equal

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CIRCUMSTANCES CHANGE

When the insured individual of a term insurance policy dies during the policy's duration, a death benefit is paid to the beneficiary. This policy type is suitable when there is a temporary need for coverage. The premiums of a term policy are often level and guaranteed for a specific number of years (the term). The most common level term periods are 10, 15, 20, or 30 years. After the level term period the policy type changes to Annually Renewable Term, and the premiums increase dramatically if the insured renews the policy each year.

To combat this, most term policies have a conversion feature. This guarantees the policy can be exchanged for a new permanent life insurance policy during the specified "conversion period" with no further evidence of insurability or underwriting required. The conversion feature is often allowed for the full level term period, up to a maximum age (e.g. 65 or 70). This important feature allows the policy to adapt to changing needs of the insured should their circumstances or health change.

Case Study 1: Young Executive

A 37 year old CFO living in Virginia, he is married, has 2 children (ages 4 and 7), and is in excellent health. His annual income is \$400,000. He wants \$5 million of coverage for income replacement for his wife until his children finish college. He was recommended two level 20-Year term insurance options:

- ◆ Policy A: Annual Premium of \$2,048

- ◇ Can be converted for the first 10 years to a policy that company makes available for conversion

- ◆ Policy B: Annual Premium of \$2,237

- ◇ Can be converted for the first 20 years to any permanent product

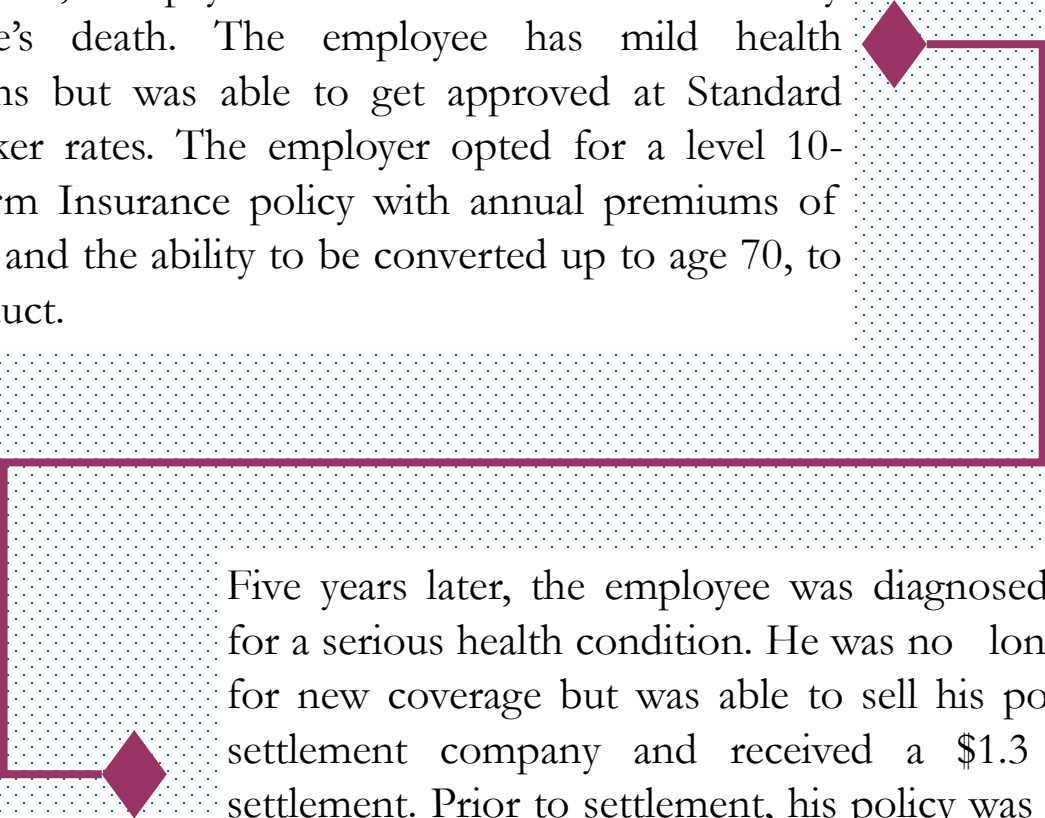


By age 55, he has accumulated substantial assets and faces a potential estate tax liability. He wants to convert to a permanent policy with fixed, level premiums. During the past 18 years, his health has changed. Due to his conditions, he would be rated at Table D when applying for new coverage.

Because he opted for Policy B with the full conversion feature, he is able to convert his term policy to a Guaranteed Universal Life contract with an annual premium of \$59,751. If he had selected a policy with a more limited conversion feature, or none at all, and submitted a new application for the same GUL policy, he would face annual premiums almost twice as high (\$116,656). By spending \$189 a year more (\$3,402 over the 18-year period) for a policy with a better conversion feature, he was able to obtain an annual premium savings of \$56,905 for his new GUL policy.

Case Study 2: Key Employee

A 62-year-old key employee works for a small business in Maryland. His employer wants \$3 million of keyman coverage to continue operations, recruit a suitable replacement, and pay off debts in the event of the key employee's death. The employee has mild health conditions but was able to get approved at Standard nonsmoker rates. The employer opted for a level 10-Year Term Insurance policy with annual premiums of \$17,430, and the ability to be converted up to age 70, to any product.



Five years later, the employee was diagnosed and treated for a serious health condition. He was no longer insurable for new coverage but was able to sell his policy to a life settlement company and received a \$1.3 million life settlement. Prior to settlement, his policy was converted to a permanent universal life policy. The employee used the proceeds to help with medical expenses and supplement his retirement.

To summarize, the conversion feature is an important provision which allows the policy to adapt to changing needs and health circumstances. In the long run, cheaper is not always better!

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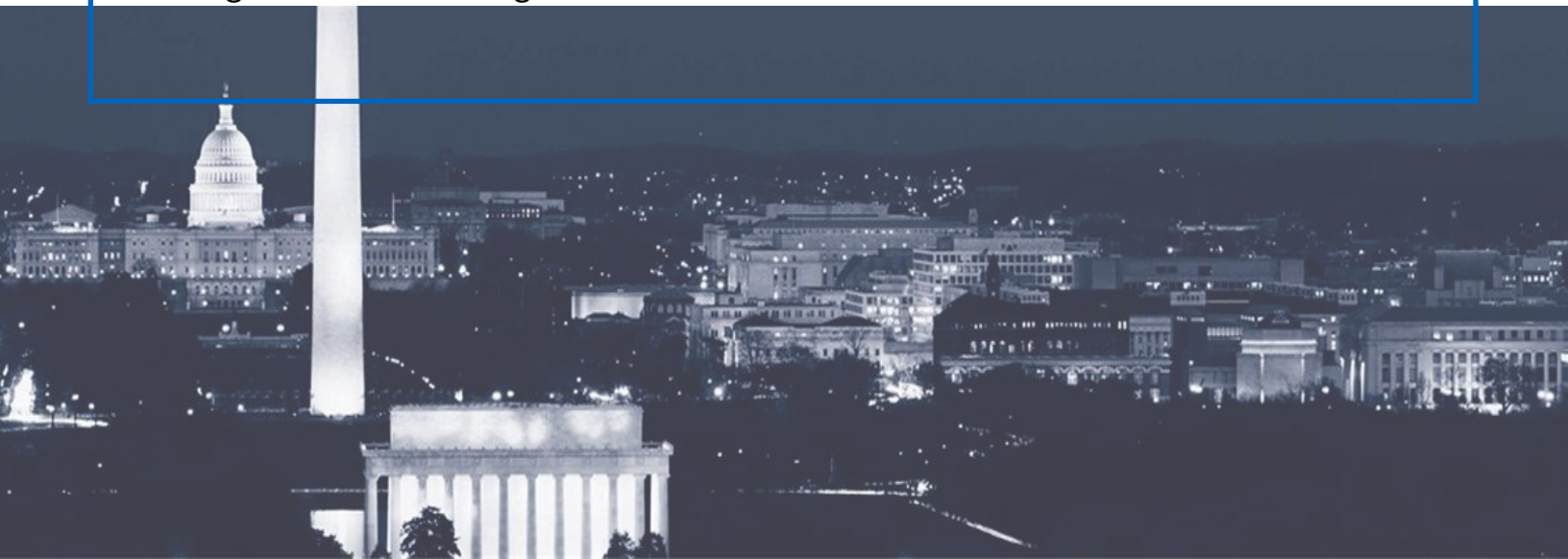
Mike is the Director of Case Design and Client Services at Greenberg, Wexler & Eig, LLC. Mike applies his extensive knowledge of life insurance to deliver clear and understandable presentations to assist clients as they make decisions regarding the structure and funding of new life insurance or optimizing the performance of their existing life insurance portfolios. Mike is a Fellow of the Society of Actuaries (FSA) and a Certified Financial Planner (CFP®)



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Andrew joined GWE in June 2021 as an Insurance Consultant. Born in Washington D.C, raised in Potomac, MD, and now residing in Bethesda, MD, Andrew is no stranger to the DMV. Andrew graduated from San Diego State University in May of 2019 with a Bachelor of Arts degree in Economics and has recently earned his Life & Health insurance licenses. As a second-generation member of the firm, Andrew is excited about working with GWE's clients and is looking forward to serving their insurance needs.



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All Examples are hypothetical and for illustrative purposes only and may not reflect the typical clients experience and are not intended to represent or guarantee that anyone will achieve the same or similar results.

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