"A valuable resource for anyone involved with a life insurance policy. It helps make a complex financial product understandable."

—INSURANCE BROADCAST NEWSLETTER

QUESTIONS *and* ANSWERS *on* LIFE INSURANCE

THE LIFE INSURANCE TOOLBOOK

TONY STEUER, CLU, LA

QUESTIONS *and* ANSWERS *on* LIFE INSURANCE

THE LIFE INSURANCE TOOLBOOK

TONY STEUER, CLU, LA

LIFE INSURANCE SAGE PRESS

CONTENTS

INTRODUCTION 1

CHAPTER 1: INTRODUCTION TO LIFE INSURANCE

Q1 What Is Life Insurance, Where Did It Come From, and Why Should I Care? . . . 3

Q2 Why Do I Need Life Insurance? . . . 5

Q3 How Much Life Insurance Do I Need? . . . 7

CHAPTER 2: TYPES OF LIFE INSURANCE

Q4 What Are the Basic Types of Life Insurance Products Out There? . . . 32

Q5 How Do I Tell the Basic Differences Between Term and Permanent Life Insurance? . . . 33

Q6 The $64,000 Question—Should I Buy Term Life Insurance or Permanent Life Insurance and Invest the Difference? . . . 34

Q7 What Are the Different Types of Term Life Insurance? . . . 36

Q8 How Do I Recognize the Advantages and Disadvantages of Term Life Insurance? . . . 37

Q9 What Are Some of the Characteristics of Permanent (Cash Value) Life Insurance? . . . 38

Q10 What Are the Types of Permanent (Cash Value) Life Insurance? . . . 39

Q11 What Are Endowment Life Insurance Policies? . . . 39

Q12 How Can I Tell the Difference Between the Many Types of Whole Life Insurance? . . . 40

Q13 What Is Universal Life Insurance? . . . 44

Q14 What Are Variable Life and Variable Universal Life and Why Are They Different? . . . 48

Q15 What Are No-Load/Low-Load Life Insurance Products? . . . 50

Q16 What Are Some Advantages and Disadvantages of Permanent (Cash Value) Life Insurance? . . . 52

Q17 What Is a Policy Rider? . . . 53

Q18 Are There Any Other Types of Life Insurance? . . . 54

Q19 How Do I Make a Cost Comparison Between Life Insurance Policies? 56

Chapter 3: Choosing and Evaluating a Life Insurance Policy

Q20 How Do I Choose a Term Life Insurance Policy? 57

Q21 What Are Life Insurance Illustrations and How Can They Help? . . . 59

Q22 How Do I Read a Typical Term Life Insurance Illustration? 59

Q23 What Should I Look for in a Term Life Insurance Illustration? 62

Q24 What Should I Consider in Choosing and Evaluating a Permanent (Cash Value) Life Insurance Illustration and Prospective Policy? . . . 65

Q25 What Are the Four Basic Components That Compose and Dictate the Performance of a Life Insurance Policy? 66

Q26 What Is Really Important in an Illustration/ Product Analysis? 66

Q27 What Type of Earnings Are There on a Life Insurance Policy? 68

Q28 What Are Dividends? 68

Q29 What Are Interest Rates and How Are Interest Earnings Credited? . . 71

Q30 What Is the Difference Between Gross and Net Interest Rates? . . . 72

Q31 On What Are the Interest Rate Assumptions in an Illustration Typically Based? 72

Q32 What Other Questions Should I Consider Regarding Interest Rates and Dividends? 73

Q33 How Is a Mortality Charge Determined? 74

Q34 What Are Overhead and Administrative Expense Charges? 75

Q35 What Are Persistency and Lapses? 77

Q36 What Is Lapse Support? 77

Q37 Why Should I Watch out for Lapse-Supported Products? 78

Q38 How Do These Factors Affect the Performance of a Permanent Life Insurance Policy? 79

Q39 What Are Some Other Considerations and Situations? 80

Q40 What Is a Universal Life Insurance Policy Illustration? 81

Q41 Is There Any Way to Guarantee the Death Benefit on My Cash Value Life Insurance Policy? 81

Q42 Is There Any Oversight of Policy Illustrations? 83

Chapter 4: How To Choose A Life Insurance Company

Q43 Where Do I Start in Choosing a Life Insurance Company? 86

Q44 What Is a Rating? 87

Q45 Who Are the Rating Agencies? 88

Q46 How Do I Find Out More About Each Rating Service? 90
Q47 How Do I Compare the Ratings from Each of the Five Major Rating Services on a Relative Basis? 93
Q48 What Are the Definitions for Each Rating? 94
Q49 What Would Be of Assistance in a Financial Analysis? 101
Q50 Who is IRIS (Insurance Regulatory Information Reports)? 105
Q51 What Is the Risk Based Capital System? 106
Q52 Are the Carriers Held to any Ethical Standard? 108
Q53 How Do I Find Out About Any Complaints Filed Against My Insurance Company or File My Own Complaint? 110
Q54 So, What is the Best Way to Select An Insurance Company? 111

CHAPTER 5: FINDING A LIFE INSURANCE AGENT

Q55 How Do I Find a Life Insurance Advisor? 112
Q56 What Are the Regulatory Resources for Researching a Life Insurance Advisor? 113
Q57 What Else Do I Need to Know About My Insurance Advisor? 114
Q58 How Is the Agent Compensated and How Will That Affect the Advice You're Given? 116
Q59 How Is the Current Compensation System Harmful to Agents and Consumers? 117
Q60 Can an Advisor Accept Both a Fee and a Commission? 119
Q61 Is There a Code of Ethics for Life Insurance Agents? 121
Q62 What Is the History, Purpose, and Structure of State Insurance Regulation? 135
Q63 Why Do States Currently Regulate Insurance? 139

CHAPTER 6: OTHER ISSUES BEFORE BUYING A POLICY

Q64 Okay, I'm Ready to Buy Some Life Insurance. What Should I Expect? 144
Q65 How Will I Know That This Is the Right Policy for Me; In Other Words, Is It Suitable? 145
Q66 Is There a Difference in How Often I Pay My Premium? 149
Q67 What Is Insurable Interest? 151
Q68 What Should I Consider in Choosing a Beneficiary? 155

Q69 Who Should I Name as the Policy Owner? 157

Q70 What Are Life Insurance Survivor Options?. 157

CHAPTER 7: UNDERSTANDING UNDERWRITING

Q71 What Is Underwriting and Why Is it Important to Me?. 159

Q72 How Do I Begin to Understand the Underwriting Process? 159

Q73 How Does the Underwriting Process Work? 160

Q74 What Are Some Tips for My Life Insurance Examination?. 161

Q75 Who Is the Medical Information Bureau (MIB)? 162

Q76 What Is a Rated Premium (and/or Do I Have a Known or Unknown Medical Condition)? 164

Q77 How Will My Build Affect My Insurance Premium? 167

Q78 What Are Some Sample Guidelines to Qualify for Preferred Rates?. .168

Q79 How Will Tobacco Usage Affect My Premiums? 168

Q80 How Do I Find Out Why My Life Insurance Application Was Not Approved or Modified? 170

Q81 What Is Financial Underwriting? 171

Q82 How Does the Conditional Receipt Work? 172

Q83 Why is Honesty the Best Policy and/or Can What the Insurance Company Doesn't Know Hurt You? 173

Q84 Is There Anything Else That I Need to Know About Underwriting? . .174

CHAPTER 8: MONITORING YOUR IN-FORCE LIFE INSURANCE POLICY

Q85 How Do I Monitor and Evaluate an In-force Policy? 175

Q86 What Areas Should I Review for Potential Changes? 175

Q87 Is My Current Permanent Life Insurance Policy in Good Health? . . .177

Q88 What Is an In-force Illustration? 182

Q89 How Do I Order an In-force Illustration? 182

Q90 What Will the In-force Illustration Tell Me? 182

Q91 Are There Other Issues If I Purchased a Limited Premium-Payment Policy? 195

Q92 How Do I Measure a Life Insurance Policy's Internal Performance and Compare It with Another Policy? 197

Chapter 9: What Should I Know About Life Insurance Replacements?

Q93 Why Would I Consider a Life Insurance Replacement? 214

Q94 How Is Replacement Defined? 216

Q95 What Issues Favor Replacement? 217

Q96 What Issues Favor Retention of an Old Policy? 217

Q97 What Are Some Questions to Consider Before Replacing? 219

Q98 What Type of Worksheet Can I Use With a Proposed Term Life Insurance Replacement? 220

Q99 What Type of Worksheet Can I Use With a Proposed Permanent Life Insurance Replacement? 222

Q100 Are There Any Special Situations to Consider? 224

Q101 Are There Any Tax Issues to Consider with a Replacement, and What Is Internal Revenue Code Section 1035? 227

Q102 What Are Some Myths About Replacement? 228

Q103 What Are Some Reasons for Replacing? 229

Q104 What are Some Areas to Use Caution in Making a Replacement? . . .230

Q105 How Have the Replacement Regulations Evolved to Provide More Protections For Consumer? 230

Chapter 10: What You Need to Know About Policy Loans

Q106 What Is a Policy Loan, and Why Might I Not Want One? 233

Q107 Are Policy Loans Tax-Free? 234

Q108 How Does a Policy Loan Become Harmful? 236

Q109 How Can a Policy Loan Be A Pitfall? 237

Chapter 11: Life Insurance and Qualified Retirement Plans

Q110 Should I Have a Life Insurance Policy Inside of a Qualified Retirement Plan? 240

Q111 Why Can It Be a Good Idea to Have Life Insurance Inside of a Qualified Retirement Program? 241

Q112 Why Is Having Life Insurance Inside a Qualified Retirement Program Not a Good Idea? 242

Q113 What Else Do I Need to Know About Life Insurance Inside a Qualified Plan? 243

Q114 Are There Any Government Regulation Issues and Concerns (Insurance Industry As Well) Regarding Life Insurance in a Qualified Plan? 244

Chapter 12: Taxes and Life Insurance

Q115 Does the Cash Value of My Permanent Life Insurance Policy Grow on a Tax-Deferred Basis?. 247

Q116 How Are Withdrawals from a Permanent Life Insurance Policy Typically Taxed? 248

Q117 Are Policy Loans Income Tax Free?. 248

Q118 What Are the Income-Tax Consequences of the Inside Interest During the Policy's Lifetime and at Surrender/Termination? 248

Q119 Are There Any Taxes on a Life Insurance Death Benefit? 249

Q120 How Could the Estate Tax Affect My Estate? 251

Q121 How Is a Monetary Settlement Received from an Insurance Company Class Action Settlement Taxed? 251

Chapter 13: Life Insurance Trusts

Q122 What Is an Irrevocable Life Insurance Trust, and Why Should I Consider It? 254

Q123 How Does an Irrevocable Life Insurance Trust Work? 256

Q124 What Is My Basic Role If I'm Named Trustee? 256

Q125 What Are Some Tools to Assist Me as a Trustee and Fiduciary? . . .257

Chapter 14: Miscellaneous Issues

Q126 What Happens When It Is Time for a Claim to Be Paid? 258

Q127 What Happens When You Need to Track down a Missing and/or Unknown Life Insurance Policy?. 260

Q128 What If a Life Insurance Company Goes Bankrupt? 263

Q129 As a Business Owner, Are There Any Special Planning Concepts?. .266

Q130 Can I Donate My Life Insurance Policy to a Non-Profit/Charitable Organization? 277

Q131 What Are Some Tips on Understanding Viatical and Life Settlements to Sell a Life Insurance Policy? 280

Q132 What Is Stranger-Owned Life Insurance (STOLI)? 289
Q133 What Is Premium Financing and How Does It Work? 296
Q134 What Is Private Placement Life Insurance? 301

Conclusion
What Should I Make of All of This? 304

Appendix A
Contact Information for All State Insurance Departments 306

Appendix B
Additional Factors That May Impact Underwriting
and What You Need to Know 316

Glossary
Key Life Insurance Terms 325

Services Offered 362

Professional Biography 365

CHAPTER 1

Introduction to Life Insurance

Q1 What Is Life Insurance, Where Did It Come From, and Why Should I Care?

Life insurance is a type of insurance that pays money when someone passes away. That's simple. However, to understand what life insurance is today you should look at how life insurance originated. Life insurance is one of the very oldest types of insurance/financial products in existence. It stems from the old principle that if a villager's house burned down, the other villagers would help to rebuild the house.

The first life insurance came from this concept. Then a concept known as the tontine annuity system was founded in Paris by the 17th century Italian-born banker Lorenzo Tonti. Although essentially a form of gambling, this system has been regarded as an early attempt to use the law of averages and the principle of life expectancies in establishing annuities. Under the tontine system, associations of individuals were formed without any reference to age, and a fund was created by equal contributions from each member. The sum was invested, and, at the end of each year, the interest was divided among the

survivors. The last remaining survivor received both the year's interest and the entire amount of the principal.

However, as the amount of money that people wished to be insured for increased, and the risk potential for violent fluctuations for those involved increased as well. To minimize this effect, it was necessary that the law of large numbers be applied to this situation. This is where we see the first roots of the actuarial practice. An actuary is a mathematician employed by an insurance company to calculate premiums, reserves, dividends, and insurance, pension, and annuity rates, using risk factors obtained from experience tables. These tables are based on the company's history of insurance claims as well as other industry and general statistical data.

This is an example of the principle known as the Law of Large Numbers. This principle states that the greater the number of similar exposures (in this case—lives insured) to a peril (e.g. death), the less the observed loss experience will deviate from the expected loss experience. Basically, the more people that the risk is spread out over, the more money (premiums) will be coming in. So, when a person does die, it will not be as big of a burden to the rest of the insureds. Of course, in certain circumstances, there will not be much that can be done.

The function of insurance is to safeguard against misfortunes by having the losses of the unfortunate few paid for by the contributions of the many that are exposed to the same peril. This is the essence of insurance—the sharing of losses and, in the process, the substitution of a certain small "loss" (the premium payment) for an uncertain large loss. (Reference—Black, H. and Skipper, K.; Life Insurance, Twelfth Edition, Prentice Hall (Englewood Cliffs, NJ), p. 18)

Life insurance, like any other financial product, is a tool to assist you in accomplishing a specific goal (or goals). As such, it will assist the beneficiary when there is an economic loss, due to the death of the insured that extends well beyond just funeral or final medical expenses. The loss of future income, due to the death of a breadwinner, can have a severe impact on the lifestyle of the surviving family members. Debt owed by the deceased may become due and payable as well as possible estate or inheritance taxes. Life insurance can create an immediate source of funds to enable the payment of these expenses and to provide a source of future income.

Benjamin Franklin helped found the insurance industry in the United States, in 1752, with the Philadelphia Contributionship for the Insurance of Houses from Loss by Fire. The current state insurance regulatory framework has its roots in the 19th century, with New Hampshire appointing the first insurance commissioner in 1851. Insurance regulators' responsibilities grew in scope and complexity as the industry evolved. Congress adopted the McCarran-Ferguson Act in 1945 to declare that states should regulate the business of insurance, and to affirm that the continued regulation of the insurance industry by the states was in the public's best interest.

The purchasing of life insurance is an uncomfortable task for many people, and the image of most life insurance advisors leave something to be desired with examples such as Bill Murray in *Groundhog Day* and Mel Brooks in *High Anxiety*. Typically, there is recognition of an obligation to protect one's dependents from the financial hardship of an untimely death, but no one likes to think about the fact that they will die someday. This is another reason—aside from the potential discomfort of dealing with a life insurance advisor—that can make it easy to delay and put off the decision to purchase life insurance.

Keep in mind as you go through this process that life insurance is not for you, it is for your survivors. Therefore, you typically will only have a need for life insurance when you are leaving behind someone or some entity that is dependent on your income.

"*Any road will get you there as long as you don't know where you're going*."
—Socrates

Q2 Why Do I Need Life Insurance?

Times have changed, and the reasons people buy life insurance have grown from the original purpose. The following is a list of some of the more common reasons:

- **Income Replacement**—Protect the premature death of a spouse or parent so that the loss of income is not devastating to the family.
- **Payment of Outstanding Debts**—Such as mortgages, car payments, and credit cards.

- **Final Expenses**—Funeral and other administrative expenses.
- **Education Funding**—The death of a parent may mean that the quality of education, intended for a child, may be out of reach.
- **Emergency Fund**—Any adjustment expenses, such as time off work and medical and counseling expenses.
- **Special Needs Child**—Life insurance provides a guarantee that the funds will be there to care for those special needs.
- **Business Continuation**—To provide funding to assist in orderly transfer of business ownership in the case of an owner's death—life insurance guarantees that the business is transferred as intended.
- **Business Insurance**—Key Person, Executive Bonus, Split Dollar, and Deferred Compensation funded with life insurance.
- **Estate Taxes**—Under current tax law, life insurance can provide liquidity at death to pre-fund the estate tax liability. This may not be necessary if the Estate Tax is permanently repealed.
- **Charitable Giving**—A charitable-minded client may leave a gift to a favorite organization, without significantly reducing the size of the estate, by using the death benefit to replace the value of the property gifted to heirs.
- **Equalizing Inheritance**—Provides additional liquidity to assist in providing each child with equal shares of their parents' assets.
- **Income In Respect of a Decedent**—People die owning assets that have not yet been taxed; these taxes then become the obligation of the beneficiary. Life insurance provides liquidity to assist in the payment of these taxes.
- **Second Marriages**—There can be conflict when a parent with children remarries. Life insurance on the parent provides the new spouse financial security from the insurance coverage. At the same time it allows the children to receive the parent's estate immediately. This can avoid unwanted animosity between the children and the new spouse and allow them to live in harmony.

Please note that that life insurance is commonly used for business reasons. Further information is in Question 129.

Is proper planning for everyone?

As the famous saying goes, only two things in life are certain: death and taxes. This table looks at the fact that no matter how rich and famous you are, you should always expect the unexpected.

Florence Griffith Joyner	Olympic Track Champion	Age 38	Died from suffocation from an epileptic seizure on Sept. 21, 1998
Phil Hartman	Comedian and Actor	Age 49	Gunshot on May 28, 1998
Linda McCartney	Photographer and Spouse of Paul McCartney	Age 56	Breast cancer on April 17, 1998
Ray Nitschske	Football Legend	Age 60	Heart attack on March 8, 1998
Sonny Bono	Celebrity and Congressman	Age 62	Skiing accident on Jan. 5, 1998
Brandon Tartikoff	NBC Television Executive	Age 48	Hodgkin's Disease on Aug. 27, 1997
Princess Diana	Princess of Wales	Age 36	Car accident on Aug. 31, 1997
Chris Farley	Actor and Comedian	Age 33	Drug overdose on Dec. 18, 1997
Michael Landon	Actor	Age 54	Cancer on July 1, 1991
Lee Remick	Actress	Age 55	Cancer on July 2, 1991
Jim Henson	Creator of the Muppets	Age 53	Pneumonia on May 16, 1990

Q3 How Much Life Insurance Do I Need?

This is an excellent question to which there are as many answers as there are people to ask. Every advisor, financial columnist, and relative has a formula that they consider the best. This section is designed to present the various methods used, as well as the pros and cons of each method ranging from the simple to the extremely complex. As these issues deal with how to value a life, it is indeed a very complex proposition.

The method that makes the most sense to you is probably the one that may work the best for you. No method is perfect, as you are trying to hit a moving target. Life brings many changes and your needs will change with them. The more assumptions you make, the more complex you'll make your planning, and the more chances there are that something will not work as planned. This does not mean that you should only use the simplest methods—it is to give you a concept of why it is important to actively participate in all

of your planning, fully understand it, and constantly monitor it. After all, it is your money. Remarkably, the simplest formulas can often be the best.

All of the issues discussed in this question will have an impact on the amount of life insurance and other assets needed. Often the desired goals may not be financially feasible. These issues are not only financially based; they can also be extremely emotional.

Another thought to keep in mind is that as your other assets grow, such as retirement plans and investments, your need for life insurance will decrease.

These are some of the more commonly used approaches.

BASIC APPROACHES

Multiple of Income

This method (also known as the "human capitalization value") uses the approach of a multiple of your annual income—typically ranging from five to eight times your annual income. This is one of the oldest and best known methods to determine how much life insurance you need, as well as one of the easiest to use. It's also the most frequently mentioned by financial columnists in consumer publications.

While simple, this earnings-multiple method misses a range of important factors. For example, it ignores household demographics, past savings, Social Security offsets, housing expenses, taxes, etc. It also ignores expected life changes and individual preferences about sustaining the living standards of survivors. It is simply a "best guess."

Cover Your Debts

This entails buying only enough life insurance to cover debts such as your mortgage, student loan bills, or outstanding car notes. The issues are similar to the issues for the multiple of income approach discussed above in that it misses a whole range of factors, such as not considering any future debts or needs like child care or college education costs. This method is also too simplistic to provide any real value.

Human Life Value Concept

The human life value concept deals with human capital. Human capital is a person's income potential. We all have a human life value. In wrongful death

litigation, human life value is measured daily in court (however, the litigation value tends to be significantly different). Insuring human life value is the primary purpose of life insurance. The human life value concept goes beyond numbers and considers the entire impact caused by the loss of a human life and the value to a person's loved ones. Here are some questions to give you a start:

- If you had been killed in a car accident last week, and someone else had been responsible for your death, how much money would your family sue the responsible party for?
- If you had been killed in a car accident last week, and you had been responsible, how much money would you want your family to receive?
- If you died of cancer last week, how much money would you have wanted your family to receive?
- How much are your tomorrows worth? What is your Potential Earning Power (PEP)?

Here are the steps to use the human value approach. The future expected earnings of the insured needs to be capitalized and the present value of income flow to the family (for the time frame needed) determined. This generally involves a multistep process:

How to Calculate

1. Estimate the insured's earnings for the period of time replacement would be needed. When estimating earnings, future increases in salary may be considered and an "average" annual salary used. Whether or not to include "growth" of earnings has a significant impact on the amount of coverage that will be needed.
2. Subtract from earnings a reasonable estimate of annual taxes and living expenses spent on the insured, in order to arrive at the actual salary needed to provide for family needs. Commonly, this is a percentage of salary. Rather than calculating a composite of each separate need, it is often suggested that the survivors will need about 70% of the pre-death income to carry on after the insured's death. A higher or lower percentage may be needed depending on a particular family's circumstances. The percentage of salary needed can be more accurately determined through a detailed examination of the family budget.

3. Determine the length of time the net earnings need to be replaced. This could be until the insured's dependents are assumed to be grown and no longer need the financial support of the insured, or until the assumed retirement age of the insured.
4. Select a rate of return with which to discount the future earnings. A conservative estimate on rate of return would be the return on U.S. Treasury bills or notes, or the rate of return paid for death proceeds left on deposit with the insurance company. A life insurance company will leave a death benefit in an interest bearing account. The rate paid on this type of account is the rate that should be used. A safe assumption would be the rate on a money market or certificate of deposit (CD) account.
5. Multiply the net salary needed by the length of time needed to determine the future earnings. Then calculate the present value of the future earnings using the assumed rate of return. This calculation can be performed using a spreadsheet, specialized software, a financial function calculator, or by using discount interest tables.

Example:
Let's assume you are age 40 and make $65,000 per year. By examining your family budget, it is determined that $48,500 per year is needed for family support. It is also determined that this income would need to be replaced until retirement at age 65 (25 years). If we assume a 5% discount rate, the present value of your future net salary would be $683,556. Stated another way, it would take this amount to pay $48,500 per year for 25 years based on a 5% rate of return. This assumes that the insurance proceeds will be liquidated over the needed period of income (the capital liquidation method). A more conservative approach would be to keep the principal intact and live off the income generated (the capital preservation method). See discussion under life needs analysis below.

The human value method is useful in situations where replacing the income lost due to the death of a breadwinner is the primary concern. However, this method only factors in the replacement of income and does not take into account any lump-sum needs at death. In addition, a client's financial situation may be more complex and additional analysis may be required. For

example, the issues of funding a college education, integration with Social Security benefits, paying estate tax, and determining what other sources of income are available are not included in the human value approach. In situations where a more detailed calculation is needed, the life needs analysis method can be used.

This method will provide only a rough sense of your human life value, which can be a factor in determining the amount of insurance you should have in your financial portfolio. It is most useful in situations where replacing the income lost due to the death of a breadwinner is the primary concern. Typically, the amount of life insurance indicated under this method is less than the actual need, as it does not take into account any lump sum needs at death as well as college-education funding, estate taxes, integration with social security, existing life insurance, and so forth. See the next section where we will discuss a needs analysis approach.

Capital Preservation and Capital Liquidation

This method can be used in conjunction with a needs analysis approach or separately as a quick calculation, if you just want do an income replacement approach on its own. Whether you are using this method strictly on its own or in conjunction with a needs analysis, once the amount of income that needs to be replaced is determined, a decision must be made as to whether the pool of capital to provide this income will be preserved or liquidated.

Capital Preservation:
The capital used for income replacement is left intact and the beneficiaries live off the income it produces.

Pros:

- Optimally provides an income stream indefinitely as the principal (death benefit) remains intact.
- Simple to calculate.
- The longer the payout period, the better this method becomes.

Cons:

- If the rate of return is lower than the assumed rate, the beneficiaries could run out of money prematurely. The interest rate chosen is up to you, but a conservative and realistic interest rate will have a greater

chance of meeting your goal. A good guide might be the historical rate of return on U.S. Treasury Bills.
- The amount of money needed to fund income replacement is typically greater than that of other methods, as the beneficiaries live off income only (optimally) rather than principal and income.

How to calculate:

1. Arrive at the annual income (either before tax or after tax) needed using any suitable method, including your own estimate, if you wish.
2. Divide this figure by the assumed after-tax rate of return (conservative) that can be earned on the income replacement fund.

Example:
For an annual income need of $100,000 (after taxes) and an assumed after-tax rate of return on the principal (death benefit) that is presumed to be 5%, the replacement need would be $2,000,000 ($100,000 divided by 5% (.05)).

Capital Liquidation:
The length of time of income needs to be replaced becomes a major factor in determining the capital needed for income replacement.

Pros:
- Typically requires less money than the capital preservation method as both principal and income are used.

Cons:
- The length of time that the proposed insured's salary needs to be replaced is highly subjective.
- Requires all the factors mentioned on the worksheet, and human value needs to be examined.
- The survivor can outlive the income stream.
- More complex to calculate.

How to calculate:

1. Determine the number of years of income replacement needed.
2. Multiply the net income shortage by number of years of income replacement.

3. Add immediate cash needs and any new capital needed to determine total capital needs.
4. Subtract existing capital from total capital needs to arrive at additional capital required.

Because the family (in the prior example) lives off income only rather than both principal and income, $2,500,000 would be needed to generate $100,000 per year using capital preservation, while only $1,562,208 would be needed using capital liquidation (assuming 4% after-tax return for both).

However, as the period of income replacement lengthens, the difference between income preservation and liquidation narrows. For instance, if we assume a 35-year income replacement need for the above example, the capital preservation value does not change while the capital liquidation value becomes $1,866,461.50.

Example:

As this example demonstrates, the capital-liquidation approach requires a lower income replacement need. However, this example assumed the income-replacement fund would be consumed over 20 years. If earnings are less than expected, the fund could be depleted sooner. Also, if the twenty-year figure is based upon the spouse's life expectancy, the spouse could live beyond that expectancy and there would not be any money available after 20 years. This points out the inherent risk of the capital-liquidation approach, while also assuming a 4% after-tax rate of return.

Assumptions about rate of return and life expectancy must be very conservative in order to avoid premature depletion of the fund. The capital-liquidation method may be appropriate in situations when the income-replacement period is certain or is short term. An example would be when income replacement would continue only until the children reach a specified age.

Life-Cycle Model of Consumption and Savings

As shown in the prior methods, planning can vary in complexity. These prior approaches are on a static, predictable future and are based on rough calculations.

The life-cycle model of consumption and savings is a new approach that is based on the life-cycle model which was developed in the 1950s and

1960s by Professor Franco Modigliani and his colleagues at Massachusetts Institute of Technology. Modigliani won the Nobel Prize in 1985 for developing the model, which built on early work by Yale economist Irving Fisher in the 1920s.

This model assumes that an insured's goals are to secure the living standards of the household and ensure comparable living standards for his or her survivors. In the economic approach, spending targets are derived by calculating how much the household can afford to consume in the present and still be able to preserve the same living standard in the future. Although spending targets under the Capital Needs Analysis approach can be adjusted to approximate those derived under the economic approach, there are practical limits to doing so. This is particularly true in the case for households experiencing changing demographics or facing borrowing constraints.

This approach is based on the fundamental goal of saving money and having insurance—the desire to avoid major disruptions in a household's standard of living. This approach uses advanced mathematical techniques to calculate the savings and life insurance needed to balance consumption in the present with consuming in the future and to preserve a household's living standard for survivors. This method describes how life insurance holdings are adjusted as life insurance needs change. All economic resources, tax liabilities and benefits—Social Security retirement benefits, and survivor benefits, etc.—are taken into account in the calculation, along with family demographics, tax-deferred savings, housing plans, special expenditures, estate plans, capacity to borrow, and lifestyle preferences.

This type of modeling includes contingent planning, which recognizes that survivors may have special needs and different incomes. Key variables—age of retirement, Social Security benefits, and tax-deferred asset withdrawals, for example—can be changed to determine how these factors alter the maximum sustainable living standard. The insurance recommendations are substantially different from those of the conventional methods. This type of approach (in theory) would allow the agent/representative to use a more comprehensive base to determine life insurance needs rather than the historical guessing/estimating theory. Without an economic modeling process, there is no mathematical ability for determining an appropriate amount of insurance.

A benefit of this approach is that it incorporates the fact that as other assets grows; the need for life insurance to replace income will diminish.

The downside of this approach is that it depends on a large number of assumptions and the more assumptions that are relied upon, the greater the chance that the calculations will be further off. The other issue is the complexity of this type of model.

To the best of my knowledge, the only software currently available for this type of calculation is ESPlanner available on the Web at www.esplanner.com.

The (Capital) Needs Analysis Method

The (Capital) Needs Analysis method is used by most insurance agents/planners and at most financial-planning Web sites. Chartered Life Underwriters (CLUs) know the method as the Human Life Value Concept or the Human Capitalization Method. These methods give you the income you will earn from your present age until your retirement age, assuming a rate of interest that represents salary increases through that period. These concepts are sometimes treated as one and the same and sometimes as differing methods.

Like the earnings-multiple method, the Capital Needs Analysis method projects the income the insured will earn between now and retirement (or later) and sometimes discounts these flows. But this procedure goes further; it calculates the net contribution of the insured to the family's living standard by subtracting the insured's present values of future tax payments and living expenses from his or her present earnings. The net contribution of the insured is then compared with today's spending needs of potential survivors. Such a needs analysis incorporates factors such as mortgage payments, other household expenses and special expenditures.

Here are some of the factors that are considered (if not all):

How to Calculate:

1. Estimate the individual's average annual earned income from the person's present age to the age of retirement.
2. Deduct the amount that is not allocated to others. Money spent for income taxes, life and health insurance premiums, and all other self-maintenance expenses should be deducted in this step. Typically this is

a percentage of salary. A good starting point is this Consumer Expenditures Survey by the Bureau of Labor Statistics, where the percentage of income required after taxes and expenses would be:

Annual Gross Income:	% of Gross Income Required:
Under $48,000:	70%
$48,000 to $53,000:	66%
$53,000 to $59,000:	63%
$59,000 to $65,000:	60%
Over $65,000:	57%
All two-income families:	70%

Please keep in mind that these are only averages. This table also assumes that educational expenses are taken care of separately and the mortgage is paid for.

3. Using a reasonable rate of interest, determine the present value of the amounts allocated to others for the working period used in step one. Most financial calculators can perform this equation for you.

However, the Capital Needs Analysis method raises several concerns:

- If the household sets a spending target too high for survivors, the method will generate a larger amount of life insurance than is appropriate. This will cost the household too much in life insurance premiums. If the spending target is set too low, the recommendation would leave the household underinsured.
- It does not take into account what your beneficiary's needs will be.
- Please keep in mind that these are only averages. Also it assumes that educational expenses are taken care of separately and the mortgage is paid for.
- It does not integrate with Social Security.
- It does not take into account other sources of income.

This method only factors in the replacement of income and does not take into account any lump sum needs at death.

Sample Worksheet:
(see after worksheet for more information on the various factors)

INCOME NEEDS

1. Annual income your family would need if you die today (typically between 60% and 80% of total income). Consider any lifestyle changes, and include any current expenses, such as mortgage/rent, groceries, clothing, utility bills, entertainment, travel, transportation, child care, etc.:
   $_____

2. Annual income available to your family from other sources—include all salaries, dividends, interest, current (or estimated) Social Security benefits, along with all other sources of income:
   $_____

3. Annual income to be replaced (subtract line 2 from line 1):
   $_____

4. Funds (capital) needed to provide income for your required number of years:
   $_____

   Multiply line 3 by the appropriate factor* below:
   *10 Years × 8.1; 15 Years × 11.1; 20 Years × 13.6; 25 Years × 15.6; 30 Years × 17.3; 35 Years × 18.7; and 40 years × 20.0

EXPENSES

5. Funeral expenses—average cost of an adult funeral is about $10,000:
   $_____

6. Administrative expenses (also referred to as an emergency fund and/or final expenses) can vary when cleaning up the affairs of the deceased (e.g., advisor fees, filing taxes). But this number should be approximately six months of the higher wage earner's salary (50% of annual salary):
   $_____

7. Mortgage and other outstanding debts (credit card debt, car loans, home equity loans, etc.). It may make sense to pay off these debts if the survivor will have a substantial income:
   $_____

8. College costs*: 2009-2010 cost of a four-year education: public college, $60,852; private college, $142,544; multiply by number of children; costs are increasing more rapidly than inflation:

$_____

9. Capital needed for college—multiply line 8 by the appropriate years before college Factor:

$_____

5 Years × .82; 10 Years × .68; 15 Years × .56 And 20 years: × .46**

10. Total capital required—add lines 4, 5, 6, and 9:

$_____

ASSETS

Keep in mind that current asset value may be considerately different at time of liquidation and the value may be significantly discounted due to forced sale such as real estate, family business, or other investments:

11. Bank accounts, money market accounts, CDs, stocks, bonds, mutual funds, real estate:

$_____

12. Retirement savings IRAs, 401(k)s, Keoghs, pension and profit-sharing plans:

$_____

13. Present amount of life insurance (including group life insurance assumed to continue):

$_____

14. Total income-producing assets—add lines 11, 12, and 13:

$_____

15. Life insurance needed—subtract line 14 from line 10:

$_____

---

* Factors: Inflation is assumed to be 3%. College costs indexed at 6%. The rate of return on investments is assumed to be 6% after tax.

** Source: The College Board, *Trends in College Pricing 2009*. Information and factors are based on information from the Life and Health Insurance Foundation for Education, a nonprofit organization.

An application of the capital liquidation/preservation model will assist in a more detailed analysis. A custom worksheet will allow you to include what is important to you and to control the degree of complexity. Please note that a separate worksheet should be required for each spouse.

This can be done by using all or some of the following steps as they apply; the factors are discussed previously and are listed for you to keep in mind.

Outflows

One-Time (Lump Sum) Expenses:

1. Funeral expenses (See following pages)
2. Estate administration, final and other miscellaneous expenses—(See following pages)
3. Estate taxes (See following pages)
4. Emergency fund/readjustment period (See following pages)
5. College fund(s) (See following pages)
6. Debt resolution (See following pages)
7. Uninsured medical costs
8. Workforce retraining
9. Offset for any assets included below
10. Home mortgage pay-off
11. Property taxes

Total One-Time (Lump Sum) Expenses: $_____

Income Need (Ongoing Expenses):

1. Annual income replacement needed by survivor(s) (including special needs dependents)—this includes all day-to-day expenses like groceries.
2. Multiply by % reduction, typically 60–70% (lower since one less person).
3. Multiply line 2 by ___ (use factor/discounted rate of return) years required.
4. Total Annual Income Needs (Ongoing Expenses): $_____
5. Grand Total Outflows: $_____

Inflows:

1. Social Security benefits (See following pages)
2. Savings and investments (See following pages)
3. Retirement assets (See following pages)
4. Present amount of life insurance (See following pages)
5. Non-cash assets that could/would be liquidated
6. Total any lump sum assets
7. Multiply line 6 by same factor as line 3 above

Total Inflows: $_____

Total Life Insurance Needed
(Subtract Total Inflows From Total Outflows): $_____

Keep in mind that your insurance needs will change from year to year and when you have any major changes in your life like a marriage, divorce, the birth of a child, a child moving out, retirement, purchase and/or sale of a home, changes in occupation, business relationships, worth, disability, and death. These are just some changes to keep in mind. Basically, any change that affects any of the factors above or any factor you add in will call for a reevaluation of your life-insurance needs. In any event, it would be optimal to review your needs annually and at a minimum of every three years. If you know when certain life events will be occurring, then you may have an idea of how long you will need certain amounts of life insurance. This can help you make the decision of whether you need permanent life insurance and/or term life insurance (and the number of level premium years). Keep in mind also that as your asset base grows, your need for life insurance will most likely decline; however, protecting against estate taxes may become a concern.

OUTFLOWS AND INFLOWS

Outflows

Funeral Costs

These can vary depending on location, type, and many other reasons. More than 2,000,000 funerals are arranged by Americans every year; they can cost

$5,000 to $10,000 or more. The average cost of an adult funeral is about $10,000. This is often a difficult subject to talk and think about. Nevertheless, it is a critical area to include in your life-insurance planning as well as in your overall financial strategy. The Federal Trade Commission (FTC) has developed an extensive consumer guide. This guide and the following resources will allow you to estimate the potential cost. The guide can be accessed from the FTC web site at http://www.ftc. gov/bcp/conline/pubs/services/funeral.htm

Highlights of the guide include:

- Pre-need planning and prepaying
- Different types of funerals
- Choosing a funeral provider
- What funeral costs include and calculating the actual cost
- Services and products
- Solving problems
- Worksheet of prices to check
- Glossary of terms

Administrative, final, and other miscellaneous expenses can vary for cleaning up the affairs of the deceased, advisor fees, filing taxes, and a number of other reasons can typically reach 50 percent of the higher wage earner's salary.

Estate Taxes

"Two weeks of solid work on his estate may be worth more to an executive than his financial gains of the past ten or fifteen years."—Price Waterhouse

Please note that this quote applies to all, whether or not they are an executive, male, or female—the Tax Code is non-discriminatory.

"The legal right of a taxpayer to decrease the amount of what otherwise would be his taxes, or altogether avoid them, by means which the law permits cannot be doubted."—Gregory vs. Helvering, 293 U.S. 465; 55 Supreme Court Reporter 266

"Over and over again, courts have said that there is nothing sinister in so arranging one's affairs to keep taxes as low as possible. Everybody does, rich and poor, and all do right because nobody owes any public duty to pay more than the law demands. Taxes are enforced exactions, not voluntary contributions."—Judge Learned Hand

Estate Tax Table:

The Economic Growth and Tax Relief Reconciliation Act of 2001 has changed the federal estate tax numbers. Below are the non-guaranteed changes:

Year	Exemption	Maximum Tax Bracket	Unified Credit
2010	N/A	N/A	N/A
2011 and beyond	$ 1 Million**	55 %**	$ 345,800**

**The Taxpayer Relief Act of 1997 numbers will be reinstated provided that The Economic Growth and Tax Relief Reconciliation Act of 2001 is not extended. Under current law, the federal estate tax is cancelled for only the year 2010.

How to do a rough calculation of your potential estate tax

Total your gross estate. Typical items include anything of value in which you have an ownership interest. Examples: home and other real estate, retirement plan balances, stocks, mutual funds, other investments, businesses, life insurance proceeds (not held outside your estate), etc.

Subtract from your gross estate all allowable deductions like funeral and administrative expenses (see above), mortgages, other loans, credit card debt, other debts/claims against the estate, charitable deductions, adjustable taxable gifts (post-1976 lifetime taxable transfers not included in gross estate), gift taxes paid on post-1976 taxable gifts; and any applicable tax credits, such as unified tax credit, state death tax credit, foreign tax credit, tax on prior transfers credit, and, if applicable (you must be married), the marital deduction and any other applicable expenses.

If you have a positive net estate then this would be your net taxable estate.

Use the table above to calculate your tentative estate tax.

Notes

Your unified credit is subtracted from your tentative tax, if unused during your lifetime. The unified tax credit means that no federal estate tax is payable on a taxable estate equal to your exemption equivalent. Estate taxes are due when your tentative tax is greater than your unified credit.

Your estate may be valued at death or six months later, whichever is more beneficial. If you own a farm or closely held business, your method of paying tax will be different. This will depend on the estate at death and what the executor decides, based typically on advice from attorneys and other professional advisors.

Please note that this is to generate a rough idea of a potential estate tax. Please be sure to check on whether this is the current tax table by visiting the IRS web site at www.irs.gov. You should consult with a properly certified estate planning advisor.

Emergency Fund/Readjustment Period

Consider at least two to six months, to cover time off from work and other expenses that may need to be covered (replaced).

College Costs

Knowing how much college costs is to some degree an uncertainty, as it will depend on many factors, including tuition, room and board, books, and expenses.

There are two types of college costs for which you will need to plan:

Direct costs—fixed charges established by the college, such as tuition and room and board (on-campus student housing and meals).

Indirect costs—expenses controlled by the student, such as personal expenses, books, and transportation. The college may be able to give you some guidelines on typical indirect expenses at their campus.

Estimate your expenses for one year, or you can request expense lists from colleges that interest you and adjust them for anticipated transportation and personal expenses.

If college is a few years away, you'll need to build future cost increases into your planning. If you have a particular college in mind, you may want to use current costs at that college to forecast your future expenses. College tuition costs have continued to increase by 5% to 7% from 1999 through 2009, according to the College Board (www.collegeboard.com)

This is only an estimate of your educational expenses. The actual cost may vary depending on many factors. This section provides a limited overview of

different resources for you to ascertain possible higher education costs, as well as how to plan for them.

Quick facts

- College costs average $142,544 for four years ($35,636 per year—up 4.3%) at a private school and $60,852 for four years ($15,213 per year—up 5.9%) at a public school (includes tuition, fees, room and board).[1]
- In 2020, four years at a private university will cost $270,000.[2]
- College costs are increasing almost twice as fast as the inflation rate. [3]
- The odds of winning a full athletic scholarship are less than 1%.[4]

1. Source: The College Board for the 2009-2010 school year
2. Source: Smartmoney.com
3. Source: The College Board, Trends in College Pricing 2000
4. Source: National Collegiate Athletic Association, Division I Facts and Figures 2000; NCAA, Division II Facts and Figures, 2001; National Center for Education Statistics, Digest of Education Statistics 2000

There is a tremendous number of resources available on the Web. These are just a few of them. For more, simply go to any search engine and type in "College Costs." You may want to visit http://www.smartmoney.com/college/investing/index.cfm?story=save. This site has a number of resources and a full planning center. The main site is www.smartmoney.com.

Another helpful site is www.collegeboard.com. This is one of the most comprehensive sites for figuring savings for future education.

Confusion occurs because there is much discussion of using life insurance as a funding vehicle for college. This is not applicable toward the purpose discussed here, where we are looking strictly at the death benefit rather than the cash value of a life insurance policy. Of course, if there are significantly more assets than you would need, then you will need either less or no life insurance at all for the purpose of college costs. That said, a word of caution: as most Web sites are built for sales purposes, their information may be biased toward their companies and services. However, they can assist you in determining a range of appropriate costs and savings plans.

Debt Resolution

Short-term obligations ranging to long-term obligations. Paying these off is not always a necessity and may not be the best option. Include mortgage balance, credit card debt, car loans, home equity loans, etc.

The Home Mortgage

This is an issue that should be addressed during the planning process. There are two options:

1. Pay off the mortgage. The advantage is that this reduces the overall debt load. The disadvantage is that this can use a sizeable chunk of the death benefit. This would be listed under one-time expenses and would reduce the income replacement/survivor living expense need.
2. Continue with the mortgage. This allows you to have more funds available for other purposes and to continue having the income-tax deductions.

Determining the Income Replacement/Survivor Living Expenses

Consider any lifestyle changes (impact of the insured's death), what portion of your income the survivor is dependent upon, etc. Include any current expenses, such as mortgage/rent, groceries, clothing, utility bills, entertainment, travel, transportation, child care, etc. There are two different methods, as discussed previously in this question. You can multiply the proposed insured's income by a certain percentage (70% is typical). Or, if you would like, you can perform a more detailed analysis with these steps:

1. Determine the gross income of the insured. This can be difficult due to potential promotions and cost-of-living increases in the future. It may be appropriate to assume that the insured's income conservatively increases each year to keep pace with inflation. Then take an average income based on the period that needs to be replaced. Factoring in future increases provides a measure of inflation protection for the family.
2. Consider how many years the survivor will require financial support—if they are a non-working spouse, will they go back to work, is there an adjustment for remarriage, and when will the children no longer need any financial support. Also consider if there is a special-needs child.
3. Subtract from the insured's gross income any costs associated with the self maintenance of the insured. Examples would include employment taxes, medical costs, insurance premiums, food, clothing, contributions to retirement plans, and discretionary funds set aside as savings. These costs can be arrived at through a detailed examination of the family

budget. This should leave the net income that is needed to provide support for the family.

4. Ascertain any other sources of income that will be available to the family. These would include survivor benefits from deferred compensation plans, income from pension plans and IRAs, income from investments, and any Social Security survivor benefits.
5. Decide whether the capital needed for income replacement will be preserved or liquidated. As discussed earlier, under the capital preservation approach, income can be provided to the family indefinitely. However, if capital liquidation is used, the length of time income needs to be replaced becomes a major factor in determining the capital necessary for income replacement.
6. Adjust the number of years of funds needed by investment growth: Discount the sum by the net (after tax and inflation) rate of return to arrive at new capital needed.

Inflows

With any inflow, consider that there may be penalties, or other charges or other reductions for early withdrawal:

- Social Security benefits—survivor's income
- Retirement assets—IRAs, 401(k) plans, Keoghs, pension and profit-sharing plans, etc.
- Savings and investments—bank accounts, CDs, stocks, bonds, mutual funds, real estate/rental property, etc.
- Present amount of life insurance—include group insurance and personal insurance purchased on your own
- Other assets—keep in mind that assets should grow, hopefully reducing the future amount of needed life insurance (however, they may increase the need for survivor life insurance), and only include liquid assets, not assets that would change your lifestyle, such as a car or home.
- Other sources

Social Security Benefits

Please note that as indicated above, this is based on information at the time of the writing of this book. Please contact the Social Security Administration to confirm this information. Their Web site is www.ssa.gov and their toll-free number that operates from 7AM to 7PM, Monday to Friday is 1-800-772-1213.

Social Security will provide a survivor's benefit upon the death of a worker eligible for Social Security. Of course, you will have to make a decision as to how you feel about the future of Social Security and consider the political risk (Congress) as well. Any Social Security benefits payable will reduce the amount of income that will need to be replaced.

Social Security benefits are also available to the surviving spouse if there are children under the age of 16. Social Security is also paid to a child (or children) until they turn age 18 or 19 if still in high school. Also, note that Social Security is available to widows or widowers at age 60 if the spouse had been covered. The period when no Social Security benefits are available is called the "blackout period."

Calculating the amount payable is complex. You may contact the Social Security Administration directly or visit their Web site and use their online retirement estimator.

Retirement Plans

Retirement plans, which are usually defined as pension plans, 401(k), and other profit-sharing plans, along with tax-sheltered annuities (TSAs), SEP, Simple Plans, and IRAs can all be used as a source of income replacement. Distributions from retirement plans require careful planning and thought in order to receive the maximum benefit from the plan. Besides the issues of capital preservation as opposed to capital liquidation, there is the issue of whether these funds should be left to grow on a tax-deferred basis as well as the issues of avoiding any income tax on the gain from the funds.

Current Life Insurance

This includes any personal, individual insurance as well as any group life insurance (through an employer, etc.). With group life insurance, you may also choose to not include it as usually it is only effective while you are with your current employer.

Life Expectancy and Mortality Issues

When faced with designing a life insurance portfolio (as well as for any financial planning), an important factor is estimating your life expectancy. This is a guessing game as much as a science.

There are a number of resources, tables, and Web sites (with simple to complex calculators), available for this purpose. Please keep in mind that the more variables you introduce, the greater the likelihood that your estimate will be wrong.

A good starting point is the table issued by the U.S. government, for use by life insurance companies in determining a basis for life insurance premiums. This table is updated every few years and is called the Commissioners Standard Ordinary Mortality Table (see the 2001 version on the next page).

The following are some of the many factors that can impact your life expectancy:

- **Gender**—males generally have shorter life expectancies than females as shown in the mortality table.
- **Tobacco use**—if you use tobacco, your life expectancy will be shorter than for those who don't use tobacco. Smoking will especially shorten your life expectancy.
- **Build**—being overweight can reduce your life expectancy. Your target weight is determined by your height. Exceeding that weight reduces your life expectancy. Please see Question 77 for further information.
- **Alcohol use**—excessive alcohol drinking can reduce your life expectancy.
- **Driving**—unsafe driving indicates a greater risk of accidents and death and will therefore reduce your life expectancy.
- **Blood pressure**—especially uncontrolled high blood pressure will reduce life expectancy.

Commisioner's Standard Ordinary Mortality Table 2001

AGE	MALE Average Future Lifetime	FEMALE Average Future Lifetime	AGE	MALE Average Future Lifetime	FEMALE Average Future Lifetime	AGE	MALE Average Future Lifetime	FEMALE Average Future Lifetime
0	76.62	80.84	41	37.39	41.05	81	7.01	9.35
1	75.69	79.88	42	36.46	40.11	82	6.57	8.81
2	74.74	78.91	43	35.53	39.17	83	6.14	8.29
3	73.76	77.93	44	34.61	38.23	84	5.74	7.79
4	72.78	76.95	45	33.69	37.29	85	5.36	7.32
5	71.80	75.96	46	32.78	36.36	86	5.00	6.87
6	70.81	74.97	47	31.87	35.43	87	4.66	6.43
7	69.83	73.99	48	30.97	34.51	88	4.35	6.02
8	68.84	73.00	49	30.07	33.60	89	4.07	5.64
9	67.86	72.02	50	29.18	32.69	90	3.81	5.29
10	66.88	71.03	51	28.28	31.79	91	3.57	4.96
11	65.89	70.05	52	27.40	30.90	92	3.35	4.61
12	64.91	69.07	53	26.52	30.01	93	3.15	4.26
13	63.93	68..08	54	25.65	29.14	94	2.96	3.93
14	62.95	67.10	55	24.79	28.27	95	2.78	3.63
15	61.98	66.13	56	23.94	27.41	96	2.62	3.38
16	61.02	65.15	57	23.10	26.57	97	2.47	3.18
17	60.07	64.17	58	22.27	25.73	98	2.32	3.02
18	59.12	63.20	59	21.45	24.90	99	2.19	2.82
19	58.17	62.23	60	20.64	24.08	100	2.07	2.61
20	57.23	61.26	61	19.85	23.27	101	1.96	2.42
21	56.29	60.28	62	19.06	22.47	102	1.86	2.23
22	55.34	59.31	63	18.29	21.68	103	1.76	2.06
23	54.40	58.34	64	17.54	20.90	104	1.66	1.89
24	53.45	57.37	65	16.80	20.12	105	1.57	1.74
25	52.51	56.40	66	16.08	19.36	106	1.48	1.60
26	51.57	55.43	67	15.37	18.60	107	1.39	1.47
27	50.62	54.46	68	14.68	17.86	108	1.30	1.36
28	49.68	53.49	69	13.99	17.12	109	1.22	1.25
29	48.74	52.53	70	13.32	16.40	110	1.14	1.16
30	47.79	51.56	71	12.66	15.69	111	1.07	1.08
31	46.85	50.60	72	12.01	14.99	112	0.99	1.00
32	45.90	49.63	73	11.39	14.31	113	0.92	0.93
33	44.95	48.67	74	10.78	13.64	114	0.85	0.86
34	44.00	47.71	75	10.18	12.98	115	0.79	0.79
35	43.05	46.75	76	9.61	12.34	116	0.72	0.73
36	42.11	45.80	77	9.05	11.71	117	0.66	0.67
37	41.16	44.84	78	8.50	11.10	118	0.61	0.61
38	40.21	43.89	79	7.98	10.50	119	0.55	0.56

- **Family medical history**—if a parent or sibling has/had a history of heart disease, cancer, diabetes, or high blood pressure prior to age 60, then life expectancy may be lower and is a factor though it is hard to measure.

A good resource is the life tables available from the U.S. Department of Health and Human Services—Center for Disease Control and Prevention (CDC). Annually, they publish a life expectancy table on their web site. This table can be a valuable resource and is found at http://www.cdc.gov/nchs/fastats/lifexpec.htm.

Here are some current life expectancy figures and the respective dates (as of):

- All Americans, at birth: 77.9 (2007)
- All Americans, at age 65: 18.6 (2007)
- All males, at birth: 75.3 (2009)
- All males, at age 65: 17.1 (2007)
- All females, at birth: 80.4 (2009)
- All females, at age 65: 19.8 (2009)

Source: National Vital Statistics Reports, Vol. 58, No. 1 (Deaths: Preliminary Data: 2007) (All figures are for the U.S.)

Another site of interest is www.livingto100.com. The Living to 100 Life Expectancy Calculator was designed to translate what has been learned from studies of centenarians and other longevity research into a practical and empowering tool for individuals to estimate their longevity potential. The average person is born with a set of genes that would allow them to live to 85 years of age and maybe longer. People who take appropriate preventive steps may add as many as 10 quality years to that. People who fail to heed the messages of preventive medicine may subtract substantial years from their lives.

A search on any Internet search engine will find a multitude of sites and calculators on the Web. Almost everyone will give you a different estimate. Therefore, in doing your planning, the best option will typically be the one you best understand and makes the most sense to you.

How long will you live? http://gosset.wharton.upenn.edu/~foster/mortality/ is another interesting site—sponsored by the University of Pennsylvania—that provides two different "life calculators" and links to other supporting sites.

Professional Biography

TONY STEUER
Chartered Life Underwriter (CLU) and Life and Disability Insurance Analyst (LA)

Anthony Steuer is a specially licensed Individual Life and Disability Insurance Analyst. There are only about 30 such analysts licensed by the State of California. As an analyst, Tony has the knowledge, and the authority, to provide non-biased advice regarding life insurance. Tony specializes in the analysis of life insurance products and provides fee-based analytical and due care services directly to clients and their professionals and other fiduciaries.

Writing

- Author of *Questions and Answers on Life Insurance*
  - Textbook - PHD/Master's Program Personal Financial Planning Texas Tech University
  - Writer's Notes/Eric Hoffer - Notable Achievement Award – Business Category (2006)
  - Editor's Choice Award – iUniverse Publishing (2006)
  - Book of the Day – *Insurance Newscast* (6/14/05)
- Article for NOLO.com: "How Much Life Insurance Do You Need? (non-attributed)
- Contributor to www.thenest.com (Nestpert)
- www.lovetoknow.com Interview – *Life Insurance Expert* (9/2006)
- Contributed articles for A.M. Best's *Best Review* magazine
- Frequent speaker at various professional meetings
- Technical editor for the *The Retirement Bible* and *The Investing Bible*

Speaking and in the news

- Radio interviews with: Bob Brooks for the *Prudent Money* show; Chris Murray for the *Your Financial Editor* show; Suzy Glasscock from the *Suzy G in the Morning* show at Withers Broadcasting of Iowa; Larry Shannon for the *Larry Shannon* show (2009)
- Interview and Quote for *Newsday* Article (May 2009): Complicated legal issues in Parente murder-suicide
- Interview for *Slate Magazine* (April 2008): "Can I Buy Life Insurance on A Stranger?"
- Youandyourfamily.com Article on Life Insurance (2007)
- Appearance on *The Wall Street Journal This Morning* radio show
- Frequent speaker at various professional meetings

Teaching

- Author of Online Continuing Education Courses
- Moderator of Courses for Life Underwriter Training Council
- Instructor for Courses for Continuing Education for Society of Financial Service Professionals

Affiliations/Organizations

- Member—California Department of Insurance, Curriculum Board
- Member—Society of Financial Service Professionals
- Board of Directors—Marin Community Institute for Psychotherapy
- Past Director—San Francisco & Marin Life Underwriters Associations
- President (1993)—Leading Life Insurance Producers of Northern California
- President (1996-1997)—S.F. Chapter Society of Financial Service Professionals & Regional Liaison

Prior to commencing his own practice in 1995, Tony was an Assistant Vice President with Acordia-Lloyd, a multi-line insurance brokerage. His responsibilities were as a lead on an endorsed life insurance program with the State Bar of California as well as working with health insurance produc-

ers and property and casualty producers to assist in developing life insurance programs for their clients.

Tony earned his Bachelor of Science in Finance degree from California State University at Chico.

326 Ansel Avenue, Alameda, CA 94501
(510) 337-9468 (Phone), (800) 450-8909 (Toll-Free Phone)
(510) 337-9467 (Fax)
e-mail: tony@tonysteuer.com, web: www.tonysteuer.com
Insurance License #LX0721016