



## Life Insurance: Term, Whole, and Universal

Many people do not view life insurance as an important part of their retirement planning. But in fact, life insurance can be an essential element to a sound financial plan by helping loved ones recover from financial risks and unexpected costs. The benefits of a life insurance policy can be unclear and may lead to challenges when trying to determine which policy is the best for different situations. In this article, we will examine each of the types of life insurance, what they cover, and when individuals typically use them.

### Term vs. permanent

All life insurance falls under one of two categories: term and permanent. Term life insurance only covers a pre-set amount of time, whereas permanent life insurance can cover the duration of the insured's life.

### Term life insurance

Term life insurance is a policy that lasts for a relatively short period of time—usually 10-20 years—and comes with a death benefit. Once the term ends, policies can typically be renewed, though usually at a higher cost (because the policyholder is older and inherently comes with higher health risks). Applicants usually need to pass a medical examination to qualify for term life insurance.

Term life insurance is typically the most affordable type of life insurance because it has a limited duration and no cash value that can be accessed. If the policyholder dies within the term, then beneficiaries will get a payment that they can use to cover lost income or to protect themselves from liabilities, such as a mortgage or outstanding personal debt. While this makes term life policies an efficient way to mitigate the biggest financial problems caused by early death, their temporary nature prevents them from being used in most long-term estate plans.

### Whole life insurance

Whole life insurance is a type of permanent life insurance that guarantees a death benefit for the duration of the policyholder's lifetime, provided that all premium payments are made. Due to the lifelong coverage period, this policy is better equipped for estate planning and charitable giving strategies than term life insurance. While most whole life policies feature fixed premiums that will not increase over time, their premiums are much higher than those for term life. This is because whole life insurance both provides a death benefit and accumulates a useable cash value.

A whole life policy's cash value can be used to produce dividends for its policyholder (typically at a predetermined rate) or can be borrowed against if the policyholder is in financial need. It is important to note that insurers put restrictions on borrowing against a policy and that any withdrawals will decrease the policy's cash value.

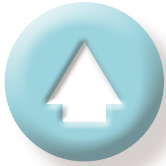
### Universal life insurance

Universal life insurance is another type of permanent life insurance that typically acts as a more flexible version of whole life. You are able to choose the length of guaranteed protection and the schedule for premium payments in advance. Both are guaranteed to remain unchanged (unless you choose to change them) so long as the premiums are paid on time and in full. As with whole life insurance, universal life provides both coverage and a cash value, so its premiums will tend to be higher than those for term life. However, universal life insurance policies typically offer more control over their cash value than whole life policies. Universal life insurance policyholders can increase their premiums to boost the policy's cash value or can use their accumulated value to cover premium payments. To qualify for most universal life insurance plans, individuals must pass a medical exam.

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# the July market

at a glance



**U.S. Large Cap**  
(S&P 500)

**2,816.29**

**3.60%**



**U.S. Mid/Small**  
(Russell 2000 Index)

**1,670.80**

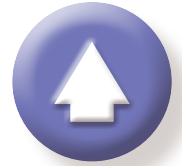
**1.69%**



**Foreign Large**  
(NYSE International 100)

**5,713.84**

**4.27%**



**U.S. Bonds**  
(Barclays US Aggregate)

**2,013.76**

**0.02%**

July 2018 market data

in action

- Facebook shares declined by 20 percent after the social-media company reported below-expectation revenue growth rates in its second-quarter earnings announcement. The decline wiped away nearly \$120 billion in market value.
- Fortune 100 construction equipment company Caterpillar Inc. revealed that newly imposed U.S. tariffs will reduce the company's bottom line by up to \$200 million. It intends to offset these losses by increasing prices and focusing on a stricter cost discipline.
- California has reached its 2020 greenhouse gas emission goal years ahead of schedule as the California Air Resources Board released its emissions report data for 2016, the latest year available. The state now produces less emissions than it did in 1990, and state law mandates another 40 percent decline by 2030.
- The European Commission has ordered a \$5 billion fine against Google for unjustly pushing the company's own Chrome and Search apps on Android smartphone users. Manufacturers were required to install the software as a condition of licensing Google's Android mobile operating system. The fine is the largest ever imposed by the European Commission.
- One of the most difficult tests in finance, the Chartered Financial Analyst (CFA) Program, has announced it will be adding a section on cryptocurrencies and blockchain in its 2019 exam. The addition confirms the recent surge of interest in the area and will be categorized under a new topic called "Fintech in Investment Management."

# What to expect with probate

Probate is the legal process of distributing a deceased person's estate according to their last will and testament and paying off any debt owed to their creditors. This process typically lasts four to six months but depends largely on the complexity of the will and size of the estate.

## Preliminary

In order to begin the process, there must be an individual named as the executor of the will. In many cases, the decedent's will explicitly appoints an executor. An application must then be submitted with the will and the death certificate in the county in which the decedent lived during the time of death.

In some cases, such as an unexpected death, there may be no executor named in the will or no will at all. This would require a court-supervised probate process to appoint one.

## Prove validity of the will

Once an executor has been named, they must supply the courts with evidence that the will is valid. In most states, this requires two witnesses, which the law prefers to not be heirs under the will. This ensures the will was made in proper capacity and was done freely.



## Initial hearing

An initial hearing is a formality to begin the legal process and usually doesn't require attendance. Formal legal notice must be sent to all beneficiaries named in the will prior to the hearing. This step can lengthen if beneficiaries dispute the executor's appointment or others included in the will.

## Alert creditors

In order to move forward with the distribution of assets to beneficiaries, all debts and liabilities due on the estate must first be paid. This involves alerting all creditors of the decedent's passing and posting a death notice in the local newspaper for any unknown creditors.

## Posting bond

In some cases, executors may be required to post a bond before handling an estate. This is because an executor is considered a fiduciary of the estate and the bond helps prevent fraud or mismanagement of assets. The bail amount will vary depending on the size of the estate and will be returned once the estate is closed without issues.

## Evaluating the estate

While the probate is being processed by the courts, a bank account should be opened in the name of the estate. Assets should be gathered and funneled into this bank account so they can be used to pay off any liabilities to creditors. A list of these assets must be provided to the court, which may need to be appraised to determine the value of the estate. Court approval may be needed before selling assets to pay off liabilities.

## Distributing assets

The process of distributing assets to beneficiaries can vary from case to case and may be subject to court approval. Due to potential time constraints, such as money for students currently enrolled in college, the process may need to be expedited.

## Dividing assets

For hard assets that can't be evenly distributed, such as homes and cars, a meeting with family members will determine how the asset will be handled. This commonly results in selling the asset and evenly distributing the proceeds. If an individual wants to take ownership of a hard asset, they must facilitate how to fairly compensate others.

## Variable life insurance

Variable life insurance, which is a variation of either whole or universal life insurance, permanently offers a death benefit to a beneficiary in the event of the policyholder's death. However, variable life insurance offers the ability to change premiums to adjust the amount of coverage. Like other forms of permanent life insurance, variable universal life insurance takes a portion of the premiums and invests them in a tax-deferred account. The investments are allocated in mutual-fund-type accounts and are therefore subject to market volatility, which will likely affect the total cash value of the account.

Insurance can be an important part of a comprehensive financial plan. However, different individuals have varying needs, and no single policy will be most appropriate for everyone. Ask your trusted financial advisor how a life insurance policy can best be integrated into your financial planning.

# August

## is National Immunization Awareness Month



This month, communities across the nation will join together to raise awareness about the important role vaccines play in preventing serious, and sometimes deadly, diseases. In collaboration with the Centers for Disease Control (CDC), various organizations will spread the word to improve vaccination rates and ensure that children, teens, adults and seniors understand and have the resources needed to ensure they are fully protected.

For information and tools displayed by age group, visit [cdc.gov](http://cdc.gov)



**Named to PLANADVISER's list of Top 100 Retirement Plan Advisors since 2016**

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