

Life Insurance

# CHOOSING THE RIGHT DIRECTION

Term vs. Permanent



*Everything Insurance Should Be®*

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# TERM VS. PERMANENT LIFE INSURANCE

## Making the decision that is right for you

Proper planning with life insurance can help you and your family avoid financial problems after the death of a family member. Not only does life insurance provide prompt financial assistance for your survivors, but it is most often income tax free.

When you decide to purchase life insurance, you can choose between term or permanent life insurance. Each type has advantages and limitations. To make the right decision, know and understand your options.

## Term life insurance

You may benefit from buying term life insurance if you:

- need coverage only for a specific period of time
- need a lot of coverage but have a limited budget
- have a low cash flow
- have other investments and are committed and self-disciplined to make regular deposits

Traditional term life insurance provides guaranteed protection for a specified time period and usually pays a benefit only if you die during that period. Term periods can range from one to 30 years.

One of the biggest advantages of traditional term life insurance is that the premiums are initially lower during the guaranteed period than premiums for permanent insurance. While premiums remain level during the initial guaranteed period, premiums increase every year following the guaranteed period and can become very expensive.

One of the drawbacks of traditional term life insurance is that you pay premiums for a financial benefit that may never be used. An exception to this rule is a return of premium term policy. With these nontraditional policies, the initial premiums are higher than those of traditional term policies. However, the premium payments you pay during the guaranteed term period are returned to you, which may or may not include rider or substandard premiums.

Most policies do not allow you to increase the coverage should your life insurance needs change. You may be able to convert your term policy to a permanent life insurance policy without taking a medical exam or providing health information.

## Permanent life insurance

You may benefit from buying permanent insurance if you:

- have a high net worth and are seeking a tax-advantaged product
- don't want to risk outliving your term and having nothing to show for it
- understand that permanent insurance is a long-term commitment
- need insurance for estate planning purposes
- want guaranteed life insurance for life

Permanent life insurance combines a death benefit with a cash value that grows tax deferred. You can choose between whole life and universal life insurance.

## Whole life insurance

Whole life insurance is the most basic type of permanent life insurance. It offers the certainty of a guaranteed death benefit, level premiums that are guaranteed for the life of the policy and guaranteed cash values that are stated up front.

Whole life insurance provides guaranteed cash values that are stated at the beginning of the policy and grow tax-deferred. They will never decrease and are not affected by market fluctuations. Cash values may not be available in the first several policy years. Cash value is reduced by any indebtedness at time of surrender.

You may borrow against your policy during a financial emergency. You can later restore the full policy value by paying the loan plus any interest accumulated on the loan. Not paying the loan prior to the claim time reduces the death benefit by the amount of the outstanding loan plus any interest due.

Because of the cash value feature of a whole life policy, premiums initially cost more than term but remain level for the life of the policy. If premiums are not paid on a whole life policy, the cash value, if any, is used to exercise the nonforfeiture option of the policy.

Nonforfeiture options include automatic premium loan, extended term insurance or reduced paid-up insurance:

- Automatic premium loans pay overdue premiums on the policy by making loans against the policy's cash value
- Extended term insurance uses the cash value to purchase term coverage in an amount equal to the original policy's face value for as long a period as the cash value will purchase
- Reduced paid-up option uses the cash value to fully pay for a whole life policy but at a lesser death benefit than in the original policy

### Universal life insurance

A universal life insurance policy gives you the flexibility to choose the amount of protection that best fits your needs. Flexible death benefit amounts and premiums allow you to keep pace with today's changing life circumstances while building tax-deferred cash value.

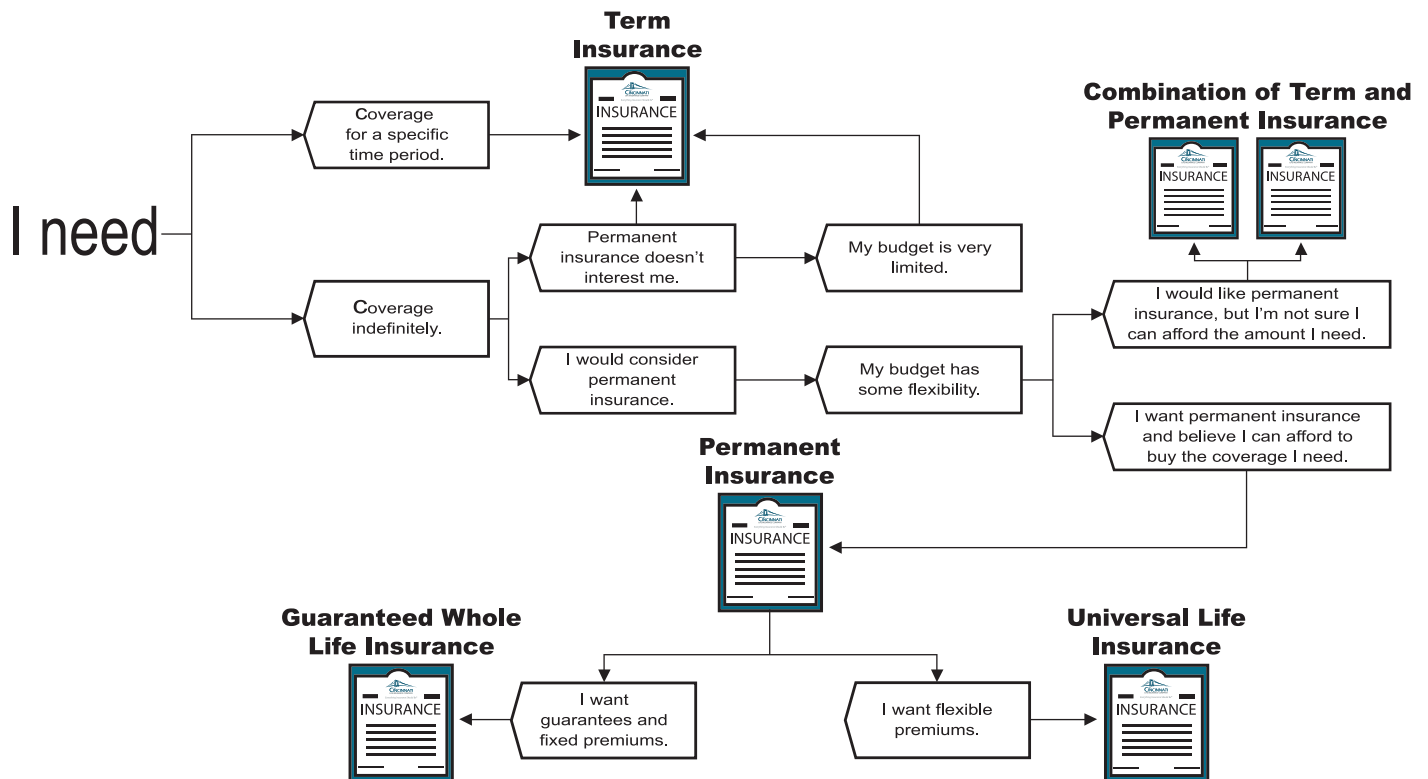
The key to a universal life policy's flexibility is the cash value. A portion of each premium goes into the cash value and earns the current interest rate. This interest accumulates on a tax-deferred basis. The policy also offers a guaranteed minimum interest rate.

As the policy accumulates cash value, you can adjust the amount and the timing of premium payments depending on factors such as past premiums, policy values and current interest rates. The policy remains in force as long as you have sufficient cash value in the policy to deduct the monthly cost of insurance — even if you skip premium payments.

You can either take a tax-free loan on your cash value or make a partial withdrawal. For the money you borrow, interest is charged on the outstanding loan, but the borrowed money continues to earn interest. Withdrawals on the policy reduce the death benefit and may be taxable.

Most universal life policies contain a surrender charge, usually during the first 10 to 20 years. This charge decreases each year until it vanishes. It applies if the policy is surrendered or lapsed or if the face amount is reduced.

### Make the choice that is right for you



## About Cincinnati Life

The Cincinnati Life Insurance Company stands among the top U.S. life insurers with a high financial strength rating from A.M. Best Co., an independent provider of insurance ratings since 1899. Through one of its predecessor companies, Cincinnati Life has more than a century of experience serving policyholders. A wholly owned subsidiary of The Cincinnati Insurance Company, Cincinnati Life was formed in 1988 when The Life Insurance Company of Cincinnati merged with Inter-Ocean Insurance Company. Please visit [cinfjn.com](http://cinfjn.com) for current information about Cincinnati Life and its financial strength ratings.

For more information, please contact your local independent agent recommending coverage.



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