



Topics Concerning Buyers of Commercial Insurance

MSP C 08/2010 – “Life Insurance 101”

August 2010

Commercial Insurance Update Newsletter

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Life Insurance 101

America’s Most Underused Risk Management Tool

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Almost four out of five U.S. households own some form of life insurance, which means that to some degree there is national consensus regarding the importance and usefulness of life insurance. However, the average household only buys enough coverage to replace 3.6 years of income, creating a significant gap between the amount of coverage families have versus the amount of coverage they actually need. 44% of U.S. households would agree that they do not have sufficient coverage to meet their potential needs. Why are so many Americans underinsured?

We suspect that one of the primary reasons so many Americans are insufficiently covered is that they are not sure about the type of coverage they need or how much. They have concerns about affordability as

well, especially in light of the nation’s current economic struggles. Most families are tightening their budgets in an effort to weather the storm, and unfortunately, life insurance is often one of the first expenses to go.

With these issues in mind, we have come up with some basic answers to some of the most common questions that families ask when considering the purchase of life insurance.

Why Do I Need Life Insurance?

Traditionally, life insurance has been viewed as a way to cover burial costs and replace income. However, there are many additional ways that life insurance can serve as a valuable investment and risk management tool.

For example, it can be used to pay estate taxes, pay off a mortgage, equalize an estate among multiple heirs, diversify investment and retirement plans, donate a substantial gift to charity, or purchase a partner’s share of a business if he or she passes away. If you do your homework, you may be surprised at the variety of life insurance plans that exist, their creative uses, and how they can benefit you and your family when you pass away and while you are still alive.

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Risk Management Seminars 2010 Series

450 B Tower, 450 B Street, Suite 1800, San Diego, CA 92101-8005

- **Navigating the Leave of Absence Minefield**
Friday, August 20, 2010 7:30-10:00 am
- **Sexual Harassment Prevention Training**
AB 1825 Compliant
Friday, September 10, 2010 7:30-10:00 am
- **Construction Site Theft Prevention**
Friday, September 17, 2010 7:30-10:00 am
- **Critical Thinking for the Human Resources Professional**
Friday, October 15, 2010 7:30-10:00 am

For more information about upcoming seminars

Click [here](#) to view our seminar list and individual flyers

To sign up for upcoming seminars

Contact Darcee Nichols at dnichols@cavignac.com or 619-744-0596.

**All training sessions available to our clients
Reserve early / seating is limited! ***

* NOTE: Due to the popularity of our seminars and limited seating, we regret we cannot provide refunds or credits with less than 72 hours advance notice of cancellation.

Published by

Cavignac & Associates

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What Type of Coverage Should I Purchase?

There are two main types of life insurance. **Term Life** is temporary insurance that is offered for a specified term only – usually 10 years, 15 years, 20 years, or 30 years. Policies expire at the end of the term, much like health insurance, car insurance, or property insurance. In most cases, term policies can be converted to permanent coverage for a period specified in the life insurance contract.

Permanent Life is just that – it's permanent! Such policies can last for life if designed and monitored properly. **Universal Life, Indexed Universal Life, Whole Life, and Variable Life** products all fall into the category of permanent life. They accumulate a cash value or internal cash reserve that can be used for a variety purposes. The cash value grows based on an interest rate determined by the insurance carrier.

Permanent insurance can be flexible, and transferable via a transaction called a **1035 Exchange**, which is much like a 1031 Exchange in real estate. Typically, permanent life has a variety of uses beyond providing a tax-free death benefit, which include supplying a retirement income, serving as a cash reserve while you're alive, offering long term care features, and giving you the opportunity to tap into the death benefit while you are still living to pay medical expenses if you become terminally ill.



Can I Afford Life Insurance, and How Much Do I Need?

The cost of life insurance depends on your age, your health, the type of policy you're applying for, and how the policy is designed. Typically, permanent insurance, with its flexibility and multitude of uses, is much more expensive than term insurance. As you get older and/or your health diminishes, insurance carriers identify you as being a higher risk, and therefore charge you higher premiums. It's best to lock in coverage while you're young and in good health.

How much coverage you need can be calculated based on your income, your projected future income,

Life Insurance 101 (continued on page 3)



your net worth, and your age. In the case of key-person business insurance, the potential loss of profitability that would result from your passing would be a key component

in the calculation. Insurance carriers consider each of these factors when determining the amount of coverage for which you qualify.

I've Had Some Health Issues — Will I Even Qualify for Life Insurance?

Underwriting is the process in which an insurance company reviews a prospective insured's medical records and life insurance physical exam to determine which underwriting class should be assigned to the insured. For example, ratings span from "Preferred Plus," which means that the insured is as healthy as possible for someone that age, to "Substandard," which means that the insured has below average health for someone in that age category.

The more health issues you have, the more expensive your coverage will be. One very important fact to consider, however, is that underwriting is subjective. One carrier's assessment of your health can be completely different from another carrier's assessment. If you have health issues, there is value in shopping around – you never know which carrier might give you just the offer you're looking for.



What If I Already Have Life Insurance?

Active life insurance policies should be reviewed at a minimum of every two to three years. Changes in interest rates, the market, mortality tables, and product efficiency make it critical for policy owners to have their contracts evaluated periodically to ensure that their policies are still competitive.



If you currently carry life insurance, it should be your goal to determine the following as part of your periodic reviews:

- Am I paying the lowest possible premium for the amount of coverage I have?
- How strong and stable is my insurance carrier?
- Is my current death benefit amount still sufficient to meet my needs?
- Is my policy guaranteed?
- Am I taking advantage of all of the living benefits my policy has to offer?
- Should my policy be owned by a trust?

As your life changes, your life insurance coverage should change to meet your evolving needs. ✨

Disclaimer: This article is written from an insurance perspective and is meant to be used for informational purposes only. It is not the intent of this article to provide legal advice, or advice for any specific fact, situation or circumstance. Contact legal counsel for specific advice.

How to Evaluate Your Family's Life Insurance Needs



How Much Should I Have?

When it comes to life insurance, two questions stand out: "How much do I need?" and "What kind?"

Planning for your family's basic financial security need not be difficult. A simple plan is actually better because it's easier to update.

To decide how much life insurance you should have, you need to determine how much money you would need to pay your debts, provide a roof for your family, educate your children, and replace your income.

Evaluate (Continued from page 3)

What's a Good Figure?



Whatever is realistic. If you inflate your needs, you will end up with a number you won't believe and probably can't afford to cover with insurance. To be realistic, **go for the bottom line** — the very least with which

you can be comfortable. Decide on the following for each of your family's four basic needs:

1. Calculate how much you want to leave.
2. Ask if you can do it for less.

The result will be a realistic bottom line you can act on without feeling you are overdoing it.

What Will It Take to Pay My Debts?

How much do you need to clear up short-term obligations such as credit cards and consumer loans? Don't forget to include funeral expenses and final medical expenses.

Bottom line: \$ _____

What Will It Take to House My Family?

What will it take to pay off the mortgage? This is the usual bottom line for most homeowners — it's pretty cut and dried. If you're renting, figure out how many years of rent you would want to leave, or what it would take to buy an adequate home.

Bottom line: \$ _____

What Will It Take for Education?

What kind of school should your children attend? Does it need to be a private college, or would a state school do? How about junior college for two years? Should they plan on working to pay part of the cost?

Bottom line: \$ _____

What Will It Take to Replace My Income?

How many years of transition time do you want to give your family before your paycheck stops? With you out of the picture, would your family need your entire income? Remember, you've paid your debts, cleared your mortgage, and provided for your children's education. Would 50% do? For how long?

Debts	_____
Housing	_____
Education	_____
Income	_____
Total	_____

Bottom line: \$ _____

Compute the total of the "bottom lines" for each of the sections above. This is the real bottom line — the amount of coverage you need to adequately meet your family's needs.

What Kind of Life Should I Buy?

Now that you know how much life insurance you should have, what should you buy? What is the best deal? Like everything else, it depends on your circumstances. On the following page are a few questions to ask yourself.

Evaluate (Continued on page 5)



2010 Human Resources Seminar Series

Navigating the Leave of Absence Minefield

Friday, August 20, 2010 7:30-10:00 am

Are you aware of the full range of legally-mandated leaves available to employees in the State of California, and how those various leaves of absence intersect?

This informative seminar will help you keep it all straight and navigate through the complexities of the multi-faceted leave issues and legal "minefields" they often create.

Topics we'll discuss include:

- Family & Medical Leave Act (FMLA), including new 2010 rules
- California Family Rights Act (CFRA)
- Disability & Accommodation Leave
- and MORE!
- Pregnancy Disability leave (PDL)
- Workers Compensation

View our [flyer](#) for additional information. **Seating is limited!** Contact **Darcee Nichols** at 619-744-0596 or dnichols@cavnac.com now for your reservation!



Some Facts about Permanent Life

Permanent life insurance provides a lifetime death benefit plus cash value. It comes in various forms and has many names — the best known of which are “whole life” and “universal life.”

As long as you pay the necessary premiums, the death benefit will always be there. These policies are designed and priced to be kept over a long period of time. If you only need protection for a limited time, or don't intend to keep the policy for the long term, this may be the wrong type of life insurance for you.

Most permanent policies have a feature known as “**cash value**” or “**cash surrender value.**” This feature is not found in most term insurance policies, and gives you several options:

- You can cancel or surrender the policy in total or in part and receive the cash value as a lump sum of money. If you surrender your policy in the early years, there may be little or no cash value.
- If you need to stop paying premiums, you can use the cash value to continue your insurance protection for a limited time, or to buy a lesser amount of protection for as long as you live.
- You may borrow money from the insurance company (usually), using the cash value in your life insurance as collateral. Unlike loans from most financial institutions, the loan is not dependent on credit checks or other restrictions. You must ultimately repay any loan with interest, or your beneficiaries will receive a reduced death benefit.

The cash values of many life insurance policies may be affected by the company's future experience, including mortality rates, expenses, and interest earnings.

Keep in mind that with all types of permanent policies, the cash value of a policy is different from the policy face amount. Cash value is the amount available when you surrender a policy before its maturity or your death. The face amount is the money that will be paid at death or policy maturity. ✨

Evaluate (Continued from page 4)

- **What can I afford?** First, figure out how much premium you are willing to pay. Then and only then, look at types of policies.
- **How should I select a policy?** Start with the face amount you need to buy, then look for an affordable policy that will give you that much coverage.
- **What's the best deal?** Whatever gives you the coverage you need at a price you can afford is the best deal for your family. Remember, they are the reason for buying the insurance.
- **What if I can't afford it?** If you've done your planning properly, the net amount you need is the least that is safe for your family. It's a necessity. Do some hard budgeting. Look at your life insurance premium like you would additional taxes. If you have to pay them, you'll find a way.
- **What about group insurance at work?** Get all you can. It's cheap, but don't count on it for the long term. Jobs and benefits can change.
- **Should I buy term or a cash-value policy?** Term is cheaper up front, but the premiums rise as you age. A cash-value policy (such as whole life or universal life) requires more premium up front, but offers the benefits of a level premium and cash-value accumulation that is accessible.

Let your pocketbook be your answer. Get the coverage you need first, then worry about the kind of policy. ✨

Cavignac & Associates INSURANCE BROKERS

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Life Analysis Worksheet

Name	Joe Smith
Age	45
Dependents	Wife + 2 children

A. Debt + Final Expenses

How much money will you need to clear up short term obligations and pay for your final expenses?

\$100,000

B. Housing

What is the current balance you owe on your home?

\$750,000

C. Education

How much will your children need to complete their formal education?

Annual Tuition	\$25,000
X Number of College Years	4
X Number of Children	2
= Total Amount for Education	\$200,000

D. Income Replacement

How much income will your family need, and how long will you want to extend the income stream?

Number of Years	10
X Annual Income	\$50,000
= Total Income Replacement	\$500,000

= Total Life Insurance Needed

\$1,550,000

Cost

Preferred Plus / Non-Tobacco

Total Needed	Type of Policy	Cost Per Year
\$1,550,000	10 Year Term	= \$ 858
\$1,550,000	20 Year Term	= \$1,769
\$1,550,000	30 Year Term	= \$2,935
\$1,550,000	Guaranteed Universal Life	= \$8,448

OR

Total Needed	Type of Policy	Cost Per Year
\$1,000,000	20 Year Term	= \$ 1,164
550,000	Guaranteed Universal Life	= 3,080
	Total	\$4,244



Articles courtesy of Cavignac & Associates Employee Benefits Department

LIVE WELL, WORK WELL

Are You a Wise Health Care Consumer?



Many Americans will search through the newspaper for a coupon that saves them a few dollars at the grocery store, but when it comes to health care – a far more complex and expensive purchase – they rarely ask questions or consider all the options to save time and money.

Learn to shop for value when it comes to health care – it could save you thousands

of dollars on your family’s medical bills. Consider these tips:

- **Make a deal** — Ask your doctor, hospital or dentist if they will accept less for the service. Many individuals who bargain for health care succeed.
- **Know the price** — You will be better armed to negotiate discounts when you know the real cost of care. Find rates on the websites of large insurers such as United Healthcare, CIGNA, and Aetna.
- **Pay in cash** — You can often save up to 10% on your bill by paying in cash up front. Doctors lose thousands of dollars each year on credit card processing fees, unpaid bill and collection fees.
- **Don’t skimp on preventive care** — Be sure your child gets routine checkups and vaccines as needed, both of which can prevent medical issues down the road. And be sure you are getting the recommended screenings to detect health conditions early.

- **Look for free services** — Search for free health screenings and vaccinations in your area.
- **Live a healthy lifestyle** — Focus on eating nutritiously, cutting back on fast food and getting more physical exercise. Striving toward a healthier lifestyle and maintaining a healthy weight can drastically reduce future medical conditions. ✨

Safe Sight for Sports

Did you know that the majority of childhood eye injuries occur while playing sports? And prescription glasses or sunglasses do not provide adequate protection to your child’s eyes while participating in sports?

It is recommended that you invest in eye guards for your child. They should fit securely and comfortably. Help find the right eye guards for your child:



- Purchase eye guards at a sports or optical store to be sure they have been tested for sports use.
- Ask your eye care professional to fit your child with prescription eye guards if he or she wears prescription glasses.
- Make sure the lenses are either part of the frame, or if the lenses are separate that they pop outward, away from your child’s face.
- Eye guards may feel uncomfortable for your child at first. Assure your child that this feeling is temporary and will help keep him or her in the game! ✨

August is Children’s Eye Health and Safety Month!

Community Bulletin Board

"Neighbors helping neighbors in San Diego"



- ✦ Resources
- ✦ Web Site

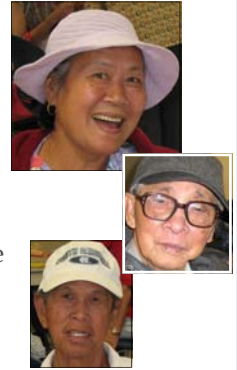


Senior Community Centers

Mission:

To provide quality and compassionate services for the survival, health and independence of seniors living in poverty

- ✦ West Wellness Center
- ✦ Web Site



- ✦ Web Site
- ✦ Membership
- ✦ Questions? Contact **Alicia Gettys** by phone at **619-232-7451** or e-mail **agettys@ymca.org**



The San Diego Police Foundation supports the men and women who "protect and serve" by raising community awareness of important

unbudgeted or "discretionary" needs that will improve crime-prevention and law enforcement efficiency. The Foundation puts your tax-deductible contributions to measurable work in local communities.

- ✦ Web Site
- ✦ SafetyNet
- ✦ For more information, contact **info@sdpolicefoundation.org**

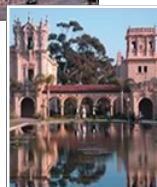


Monarch Schools

- ✦ Padres Community Partner
- ✦ Web Site



- ✦ Web Site
- ✦ Orchids & Onions
- ✦ Questions? E-mail **info@SDArchitecture.org**



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