

THE BASICS OF
**LIFE
INSURANCE**



THE VALUE OF AN ADVISOR. THE STRENGTH OF FIDELITY.

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Protection for Your Family

One of the most important things in life is knowing that the financial needs of your loved ones will be taken care of should something happen to you. Providing this type of security for your family is easy when you and your advisor add life insurance to your financial plan.

What Is Life Insurance?

A multipurpose financial planning tool

Life insurance is designed primarily to protect your family's financial security after you die. But life insurance can also help you build assets to meet needs during your lifetime. So it's a smart addition to any financial plan – because it can serve different functions within your overall investment strategy.

Security for your family should something happen to you

Life insurance can:

- Help pay off your debts and taxes after your death
- Allow your family to maintain their standard of living
- Support your dependents' goals and dreams
- Provide immediate access to cash

Financial support during your lifetime

Life insurance also may serve as:

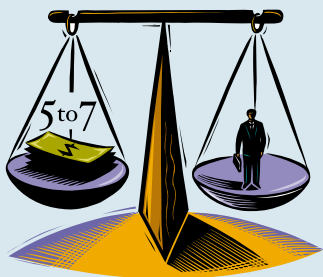
- A supplement for your retirement income
- A funding vehicle for a college education, starting a business, or buying a second home

Withdrawals from life insurance may be subject to fees, penalties, and income taxes depending on the specific life insurance policy and the policyholder's tax situation.

How much insurance do you need?

One rule of thumb is to buy life insurance equal to five to seven times your annual gross income.¹

However, there is no substitute for a careful evaluation and review of your life insurance needs with your financial advisor.



1. Source: American Council of Life Insurance, December 2001

Basic Types of Life Insurance

You choose what's right for you

There are essentially two types of life insurance:

- Term insurance and
- Permanent insurance

The difference between the two is like the difference between renting and owning.

The choice you make will depend upon your financial situation and your goals.

Your advisor can help.

Term life insurance “renting”

- Offers protection for a specified period of time – the term of the policy.
- Requires the policyholder to pay only for the protection against death.
- Does not enable policyholder to build cash value.
- Death benefit² paid if the insured dies during the specified period.
- Premiums generally remain level or increase throughout the specified period.
- Most term life policies can be renewed without having to undergo any additional underwriting.
- Can be less expensive than permanent insurance and gives policyholders the alternative of using the savings to invest on their own.

Example of Term Insurance

A 45-year-old married couple wants to insure the life of the primary wage earner until the mortgage on their house is paid off. So they purchase a 10-year term life insurance policy.

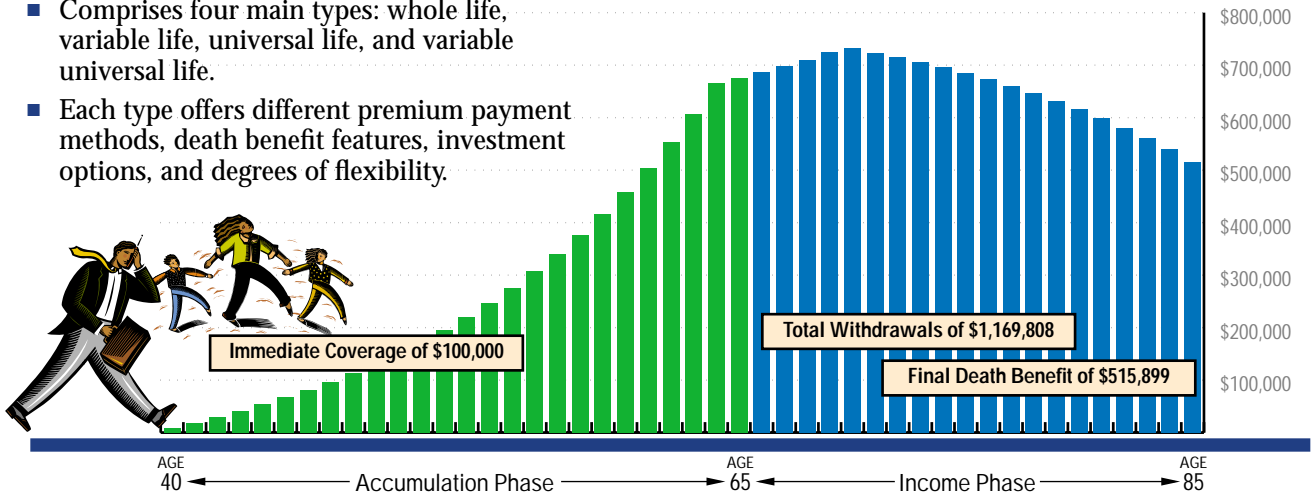
After 10 years the couple has two options. They can renew their policy, or if they no longer need the protection, they can end the policy and walk away with no cash.



2. Death benefit guarantees are subject to the claims-paying ability of the life insurance company.

Permanent life insurance "owning"

- Offers protection for the entire life of the insured.
- Allows you to accumulate assets in the cash value of the policy.
- Comprises four main types: whole life, variable life, universal life, and variable universal life.
- Each type offers different premium payment methods, death benefit features, investment options, and degrees of flexibility.



Example of Permanent Life Insurance³

A 40-year-old married man with two children wants to have financial security for his family and to save more for retirement on a tax-deferred basis through insurance.

He pays \$10,000 per year in premiums to a variable universal life (VUL) policy, and earnings accumulate on a tax-deferred basis.⁴

A \$500 portion of the annual premium is used to cover the cost of insurance, resulting in an immediate initial \$100,000 death benefit coverage.⁵ Another \$400 of the premium covers various fees, and the remaining \$9,100 is invested and accumulates tax deferred.

The policy earns an 8% net average annualized return, totaling \$665,264 over 24 years.⁶

At age 65 to help supplement Social Security and income from his retirement plan, the insured begins withdrawing \$40,000 a year tax free for 5 years and then \$61,538 in taxable income until his death at age 85.⁷

Note that most VUL policies allow initial tax-free withdrawals of the cost basis.

At 85 the insured dies after total withdrawals of \$1,169,808 from the policy's cash value.

The beneficiary of the policy (e.g., the wife of the insured) receives a tax-free death benefit of \$515,899.⁸

3. For illustrative purposes only. This hypothetical example does not reflect actual performance, and your own results will vary. Variable universal life cash values will fluctuate.

4. Scenario assumes premiums are paid on 12/31 of each year and all fees and insurance costs are deducted prior to investment.

5. The death benefit will generally increase, as the \$100,000 face value would be supplemented by any cash value less applicable fees.

6. If the rate of return had been 0%, the value of the initial investment after 24 years would have been \$227,500.

7. Scenario assumes that all withdrawals are made on 1/1 of each year. On the sixth year of withdrawals, \$27,500 would be tax free and \$19,231 would be taxable. Note that all taxable income is grossed up to include the impact of a combined federal and state income tax rate of 35%.

8. At age 65, the insured suspends premiums, which removes the \$100,000 insurance coverage. After age 65 the beneficiary is entitled to the cash value less any applicable fees.

Features of Permanent Life Insurance

Increases your options
and flexibility

If you and your advisor decide that permanent life insurance will best meet your family's financial needs, you have a number of options to choose from. Again, the decisions you make will depend on your specific needs and how they may change throughout your life.

Buying insurance that meets your needs

Whole Life

- Cash value build-up



Variable Life

- Cash value build-up
- Underlying investment options
- Current interest rate or investment performance crediting



Universal Life

- Cash value build-up
- Current interest rate or investment performance crediting
- Premium payment flexibility
- Choice of death benefit options



Variable Universal Life

- Cash value build-up
- Underlying investment options
- Current interest rate or investment performance crediting
- Premium payment flexibility
- Choice of death benefit options





Whole life insurance

- You pay a guaranteed fixed premium for the life of the contract.
- Premiums are invested in the insurance company's general account.
- Regardless of the general account's performance, you're guaranteed to receive the policy's cash value and your beneficiary is guaranteed to receive a death benefit.⁹
- You're also guaranteed to receive interest on the cash value of your policy; however, the interest rate will fluctuate depending upon the performance of the general account.
- The amount of the cash value and death benefit will rise and fall according to the performance of the general account.

9. Death benefit guarantees are subject to the claims-paying ability of the life insurance company.



Variable life insurance¹⁰

- You make fixed premium payments and receive a guaranteed minimum death benefit.
- You have the flexibility to invest your premiums in one or more underlying portfolios that offer different levels of risk and growth potential. These investment options provide long-term growth potential, tax-deferred or tax-free earnings, and the ability to make tax-free transfers among the investment portfolios.
- The cash value of the policy is not guaranteed.
- In addition to the variable investment options, many insurance companies offer a fixed-rate account providing a minimum guaranteed rate for a specific period of time.

10. VL and VUL policyholders should understand that while poor investment performance can lead to a reduced cash value and a lower death benefit, strong investment performance can lead to a higher cash value and increased death benefit. Also, assets invested in underlying investment portfolios are kept completely separate from the insurance company's general account. Therefore, in the unlikely event that the insurance company becomes insolvent, separate account assets that support the cash value are protected from the company's creditors. However, death benefits in excess of cash value do not have this same protection. Variable life offers policyholders more upside potential for growth than whole or universal life. However, both the policy's cash value and the amount of the death benefit have the potential to fluctuate up or down based on the performance of the investment options that are selected.



Universal life insurance¹¹

- Premium payments are flexible. You can make an initial payment and then make additional premium payments at virtually any time and in any amount you choose (subject to certain minimums and maximums).
- The policy continues as long as there is enough cash value to cover monthly insurance charges.
- Your cash value earns interest at a rate that is set periodically by the insurance company and is generally guaranteed not to drop below a certain level.
- Choose one of two death benefit options:¹² a level benefit equal to the policy's original face amount, or an increasing benefit equal to the original face amount plus any existing cash value.

11. Universal life policyholders should understand that a decrease in the death benefit may result in surrender charges.

12. Death benefit guarantees are subject to the claims-paying ability of the life insurance company.



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Tax Advantages

You keep more for yourself
and your family

Whether you purchase whole life, variable life, universal life, or variable universal life insurance, you may benefit from important tax advantages.

Death benefit is income tax free

The death benefit of your permanent life insurance policy is passed on to your beneficiaries free from income tax.

Premium withdrawals may be tax free

Some policies have withdrawal provisions. These provisions allow you to withdraw up to your total premiums paid without owing any taxes. Also, as long as the policy remains active, you can access your cash value, including earnings, through tax-free policy loans.

Transfers are tax free

Transfers among the underlying investment options of a VL or VUL insurance policy are not subject to current income or capital gains taxes.

Withdraw early with no penalty

You can take loans or withdrawals from a life insurance policy prior to age 59½ without the 10% early withdrawal penalty that may apply to IRAs, 401(k)s, and other tax-deferred retirement plans or annuities.¹⁵

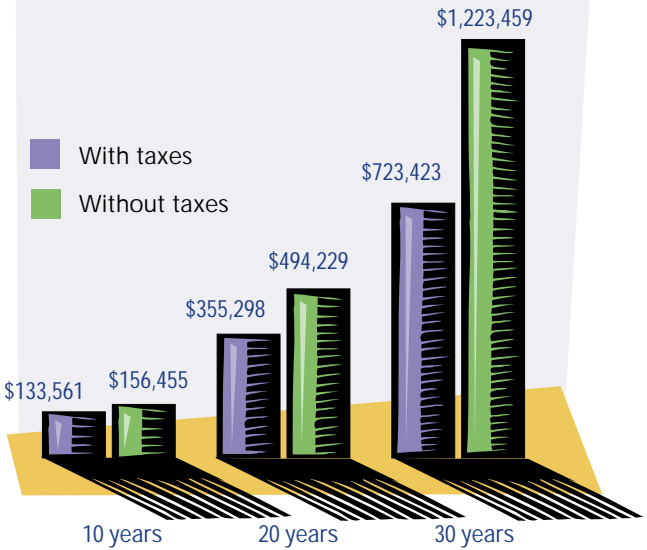
15. Withdrawals made from a life insurance policy during the surrender charge period may incur surrender charges. Loans and withdrawals will reduce the amount of the death benefit. Withdrawals will be taxed at the recipient's current tax rate.

Accumulation is tax deferred

Earnings accumulated in your insurance policy's cash value grow free from taxes until you withdraw them.

Your money may grow faster without taxes

- \$10,000 annual hypothetical investments
- Assumed 8% average annual return
- Results shown at end of 10, 20, and 30 years



Taxable results assume a 35% federal tax rate. The results do not reflect actual performance of any underlying investment portfolio, and your own results will vary. Results without taxes taken out do not include mortality and expense charges, administrative fees, or any other expenses associated with life insurance. If these charges were included, the results would be lower. Recipients will pay taxes at the time of reimbursement.

Without taxes, earnings that would normally end up in Uncle Sam's pocket may remain in your policy to generate additional earnings.

Choosing a Life Insurance Company

Your advisor can help

A little research can go a long way when buying life insurance. After all, the financial strength of an insurance company is what enables that company to deliver on its promise to you. Your financial advisor can help you review important factors such as the independent ratings of insurance companies, as well as their customer service quality, before you purchase a policy.¹⁶

Independent ratings

There are a number of independent rating organizations that measure the financial strength of insurance companies, including:

- A.M. Best Company
- Standard & Poor's Corporation
- Moody's Investors Service
- Duff and Phelps
- Weiss

Service Quality

Unless you purchase term insurance, you'll probably own your policy for life. So it makes sense to consider a company that offers high-quality customer service, including:

- Easy-to-read policy statements
- Easy telephone and Internet access to policy information
- Knowledgeable service representatives

A Must-Have for Your Financial Plan

Your advisor can help

No matter what kind of life insurance you choose, there's no substitute for the peace of mind it can provide. Life insurance is one of the ways you can protect your family's financial security should something happen to you.

Talk to your financial advisor about your long-term needs, and he or she can help you determine:

- Which type of insurance is right for you
- How much protection you and your family need
- The best way to invest your premium dollars



16. Although a high financial rating does not guarantee financial stability, it may be an accurate indication of a company's ability to meet the financial obligations of its policyholders. Keep in mind, however, that the ratings provided by these companies do not reflect the performance of the underlying investment portfolios and that each portfolio subjects investors to a different degree of risk.

Life Insurance Worksheet

Estimate your life insurance needs

With this information you and your advisor can develop an insurance plan that suits your budget and provides the financial protection your family needs.

STEP ONE: Determine what your family's financial needs would be if you passed away.

1. Final expenses

Final medical/hospital costs	<input type="text"/>
Funeral expenses	<input type="text"/>
Attorney/executor fees	<input type="text"/>
Probate costs	<input type="text"/>
Total needed	\$ <input type="text"/>

Estimate 30%–50% of your annual income for “total needed.” Individuals with large estates should consult a tax specialist regarding estate taxes.

2. Emergency fund

Major home repairs	<input type="text"/>
Auto repairs	<input type="text"/>
Medical emergencies	<input type="text"/>
Total needed	\$ <input type="text"/>

Estimate 30%–50% of your annual income for “total needed.”

3. Children's education fund

Total cost of degree	<input type="text"/>
Number of children (multiply by)	<input type="text"/>
Total needed	\$ <input type="text"/>

According to the Annual Survey of Colleges based on The College Board, New York, NY, 1999–2000 academic year, the average annual cost of tuition, room, board, books, and supplies for a four-year college education is \$8,767 for a public university and \$22,039 for a private university. Depending on the number of years before your child attends, costs are likely to have increased.

4. Mortgage balance

Mortgage balance	\$ <input type="text"/>
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5. Debt repayment

Auto loans	
Home equity loan	
Credit card balances	
Other	
Total needed	\$

6. Annual dependent/home care expenses

Care for dependent(s)	
Home maintenance	
Food/clothing	
Annual amount	\$

Estimate 30%–50% of your annual income for “annual amount.”

Years to continue support (multiply by)	
Total needed	\$

7. Calculate total amount needed

Add totals needed from numbers 1–6

STEP TWO: Determine your existing liquid assets and life insurance protection.

8. Total assets and life insurance

Life insurance (including group life policy)	
Cash and savings accounts	
Other liquid assets	
Total available	\$

(Over)

STEP THREE: Calculate the amount of additional life insurance you need.

9. Enter total of your family's financial needs
from number 7

10. Enter total available liquid assets and existing life insurance
from number 8

11. Calculate the additional life insurance needed
Subtract number 10 from number 9 above

To protect your family's financial security, how much can you comfortably set aside each month?

BENEFICIARY

The person you, the policyholder, designate to receive the insurance benefit when you die. (Note: You may designate more than one beneficiary.)

PREMIUMS

The payments you make into your insurance policy.

CASH VALUE

The cumulative value of your premium payments and the earnings of the account, minus any front-end sales fees, state premium taxes, insurance costs, and other administrative expenses.

DEATH BENEFIT

The money your beneficiary will receive when you die.

GENERAL ACCOUNT

The account where whole life premiums and other assets of the insurance company are invested.

SEPARATE ACCOUNT

The account where the premiums (or cash value) of a variable life or variable universal life insurance policy are invested.



Variable life insurance policies generally combine a death benefit with an investment account that can be allocated among one or more investment options. Variable life policies vary considerably. Most include charges for cost of insurance, mortality and expense risks, sales loads, and administrative fees, which operate to reduce the cash value of the policy.

Withdrawals prior to age 59½ may result in an IRS 10% early withdrawal penalty and earnings being taxed at your current rate.

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