



“ Safe Money Report ”

By Steve Pomeranz, CFP

Host, *On The Money!* WXEL 90.7 FM

Life Insurance 101

Ever wonder what you're paying for when you send in your premium payment? Take a look below....

Where the premium money goes

The typical life insurance premium pays for as many as eight types of expenses:

- **Distribution costs.** These are a big expense, especially in the first year of the policy, when they often equal or exceed the premium. They include agents' commissions, which can represent 50% or more of the first-year premium, and all other expenses associated with sales and marketing.
- **Cost of insurance.** This is the amount the company charges per policyholder to provide death benefits to its policyholders' beneficiaries. Actuaries calculate this cost based on mortality rates for policyholders (or some representative group), plus the company's underwriting policies, its targeted customer base, expected returns on its investment reserves, and the rate at which its customers allow their policies to lapse.

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1-866-MONEY-01



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- **Administrative, underwriting, and policy-issuance costs.** Each of these represents a small portion of the overall premium.
- **Reinsurance costs.** Many insurance companies lay off some of their risk by purchasing insurance of their own. Technically, it's called reinsurance, and its cost must be reflected in the companies' premiums.
- **Profit.** Some portion of every premium is assigned to what the insurer hopes will represent its profit margin.
- **Savings.** Applicable only to permanent cash-value policies (as opposed to finite term policies), this portion of the premium is set aside for the benefit of the policyholder. As it builds up, it is referred to as the cash value of the policy, since it is the amount the policyholder will get back if he or she lets the policy lapse.
 - With whole life and universal life insurance policies, the savings component is invested along with the issuer's general reserves, meaning it is invested principally in bonds.

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- With variable and variable universal life policies, the savings component is invested in diversified portfolios similar to mutual funds, as directed by the policyholder.

So, next time you see your agent, ask him or her to show you the costs associated with **you're** policy. Remember to always “Know What You Own”

Good luck and thanks for listening!

Steve

Steve Pomeranz, CFP
“The Investor’s Advocate”
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