Ultimate Guide to Life Insurance

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What is Life Insurance?

Life insurance provides protection against economic loss by enabling the policy owner to share the loss with others exposed to similar risks.

It is a financial tool designed to protect individuals against financial hardship in the event of a loss occurs.

According to the Insurance Code or IC, life insurance is insurance on human lives… or connected therewith. (Section 181, Insurance Code). The insurance benefit may be made payable upon the death of the person, or on his surviving a specified period… (Section 182)

What can you insure in a person?

In general, Insurance Code provides that you can get insurance against any unknown event, whether past or future, which may damnify you having an insurable interest, or create a liability against you (Section 3, Insurance Code)

Types of insurance

Life insurance is just one of the classes of insurance. Chapter II of IC provides for 7 classes of insurance, to wit:

1. **Marine Insurance** – insurance against loss or damage to vessels, cargoes, effects, etc. while in transit or while docked.
2. **Fire insurance** – insurance against loss by fire, lightning, storm, tornado, earthquake or allied risks.
3. **Casualty insurance** – this is commonly known as non-life insurance which covers loss or liability arising from accident, employer's liability, motor vehicle liability (such as Third Party Liability, Own Damage, Property Damage), theft insurance, personal accident, hospital reimbursement, and health insurance; but of course excluding those covered by marine and fire insurance.
    a. **Under casualty insurance, Motor Vehicle Liability Insurance (MVLI) or TPL, is mandatory by law for all vehicle owners –** The law says that "it is unlawful for any motor vehicle owner to operate in the public highways unless there is an insurance or guaranteed cash to indemnify the death, bodily injury, and/or damage to property of a third-party or passenger." (Section 387)
4. **Life insurance -** Life insurance is insurance on human lives and insurance appertaining thereto or connected therewith. There are also different types of life insurance which I will be discussing here and in the link above.

5. **Microinsurance –** those that meet the risk protection needs of the poor and has certain limitations as to premiums and benefits. These are usually offered in pawnshops, shopee, GCash, and lending companies.
6. **Mutual company -** An insurance company that is owned and controlled by the policy owners who also share in the earnings of the insurance company in the form of dividends.
   a. Here, the insured themselves benefit from the payments they give, instead of just benefiting a private corporation.
7. **Bancassurance** – these are insurance products presented and sold by the bank to its customers **within the premises of the bank** duly licensed by the Bangko Sentral ng Pilipinas. (Section 375 of IC)

Insurable interest

Who can be insured?

Basically, anyone in the Philippines can be insured except a public enemy. (Section 7, IC) Who are public enemies? In the case of Filipinas Compañia de Seguros vs. Christern Co. Inc., the Supreme Court ruled that "All individuals who compose the belligerent powers during a state of war… are public enemies." Belligerent means hostile. The citizens or aliens serving the hostile country during the war are a public enemies. This is consistent with the law of nations where all trading, all acts that increase income, transmit money, and insurance on the lives of aliens in service of the enemy are prohibited. The purpose of war is to cripple the resources of the enemy. It will be absurd if your enemy destroyed your property, or was killed, and will then be enriched because of your pooled money from insurance."

But before a person can be insured, it is important that the owner has an insurable interest in that person to be insured.

What is insurable interest?

It means that there is a genuine risk between the insured and the policy owner or beneficiary. This is satisfied when the insured is financially indebted or dependent to the beneficiary.

- It is deemed to exist if there is substantial economic or financial loss on the part of the owner or beneficiary upon the death of the insured
- It exists by virtue of a relationship by blood, also called by consanguinity, or by marriage, or known as affinity.
- It must exist at the inception of the policy or at the time of the application for life insurance.

Who has a legitimate insurable interest?

Legitimate insurable interest is a precondition before a person can be considered a policy owner or beneficiary of the insured. What are the examples of persons **with legitimate insurable interest**? Section 10 of the Insurance Code enumerates the following:

- **An individual on his own life -** everyone has an insurable interest in his own life. When you want to insure your own life, the law looks upon this as valid. Even without beneficiaries or if your beneficiaries can no longer be found, the benefits will go to an entity which is called an "estate" under your name. If a certain period of time, still no one claims it, under the law, there is a so-called "escheat" proceedings where property may revert back to the State.
- **An individual on the life of his spouse** – this is very obvious because without the working spouse, the couple or the family may not make ends meet. If the insured is the non-working spouse, the working spouse may use the proceeds to pay for deathcare, burial, and raising up of the children.
- **An individual on the life of the person who supports his education**
- **An individual on the life of the person who has legal obligation to pay the former, or to render service, such as parent and child relationship**
- **An individual on the life of the person whom he has interest or estate. An example of this is…**

A creditor towards the debtor – a creditor can also insure the life of his debtor to protect himself. This arrangement may be called a "collateral assignment." For example, before a bank releases a loan to the borrower, the bank may require the client to get a life insurance policy where the latter makes a collateral assignment in favor of the bank. In other cases, this is so-called a Mortgage Redemption Insurance or MRI – wherein when the home-borrower dies, the life insurance proceeds will pay the creditor the total price of the insured's house.

How Does Life Insurance Work?

Life Insurance helps people meet financial losses through the following laws and principles:

1. **Risk Sharing** – a group of people places a fund together in preparation for an uncertain event;
2. **Law of Probability.** Life insurance companies use the principle of probability in determining the mortality or life span of a particular age within a given period within a given group. For example, the probability of death

is also called as life expectancy. Life expectancy differs from country to country, and also with various professions or medical conditions.

3. **Spreading losses.** The fundamental advantage of life insurance model is that it helps people meet economic or financial losses by spreading these losses to over a large number of people. It's like having a pie, and everyone should contribute to that pie according to his exposure to that risk. Whoever incurs the risk shall have a share of that pie.
4. **Risk selection –** a systematic evaluation of an insurance applicant for the purpose of determining the classification of risk for possible coverage
5. **Policy reserve.** The law requires that a life insurance company must accumulate funds from premium payments required to meet contract obligations. This fund is called policy reserve. This needs to be shared because there are some Filipinos who have a so-called trauma in these topics because of the failure of a company called CAP in the 90s or beyond.
6. **Law of Large Numbers –** the more frequent a particular event is observed, the more likely that the observed results will approximate the true probability of the event happening;

Are Life Insurance Companies trustworthy?

- To answer this question, the best answer is to cite the promulgation of the Insurance Code on July 23, 2012, as an amendment that aims to "strengthen the insurance industry"
- *The following are required for life insurance companies:*
- **(1) Solvency requirements.** "Section 200. An insurance company doing business in the Philippines shall at all times maintain the minimum paid-up capital and net worth requirements as prescribed by the Commissioner of the IC. Such solvency requirements shall be based on internationally accepted solvency frameworks and adopted only after due consultation with the insurance industry associations.
- **(2) Reserves.** Section 216 and 217 require every life insurance company doing business in the Philippines to annually make a valuation of all policies… obligations.. according to international standards… and shall be evaluated according to the standard table of mortality… and reported to the Commissioner. The aggregate value shall be deemed as its reserve… and the Commissioner must make sure these are placed in safe legal securities.. it must also provide the variable nature of such securities.
- **(3) Regular checking.** Life insurance companies are subject to regulations, authorizations, checks and balances, assessments, reporting, and many other measures to ensure stability, integrity, and solvency.

- **(4) Metrics-driven.** To ensure the stability of insurance companies and uphold the trust of the people, Insurance Commission uses the following quantitative metrics to determine the state of health of the companies:
    - Premium income
    - Paid-up Capital
    - Net Worth
    - Net Income
    - Assets
    - Invested Assets
    - Net Premiums
    - Gross Premiums
- **(5) Security Fund.** Worst case scenario, what if the life insurance company becomes insolvent? What will happen to all my contributions?
    - The law has created a fund called the Security Fund (Section 378 of the IC) which shall be used in the payment of claims. These claims shall be charged against the insurance company remaining unpaid by reason of insolvency.
    - It may also be used to reinsure or transfer the policy from the insolvent to the solvent insurer.
- **(6) Cease and Desist.** Also, when the IC, upon evidence finds out that an insurance company is on the verge of insolvency, or would be hazardous to policyholders and creditors, the Commission can order it to cease and desist and gather all its assets and if necessary, and bring suits to foreclose the company's liabilities.

Will a young, single or unmarried person benefit from a life insurance policy even though he has no dependents? Will a person who dies at old-age benefit from life insurance?

Importance and Benefits

Importance of Life Insurance as a whole

- Life insurance is important for **"Critical Years" -** this is the period of your life when your children are still of young age and cannot provide for themselves. Critical years are also the time when you have dependents that don't have a means to financially aid themselves when you are no longer alive.
- **Community relief and mindset development.** It contributes to the welfare and progress of the country. How? By partially relieving the community of the care of dependents, encouraging provision for the future, developing a "forward-looking" mindset among the citizens, and accumulating capital through investment in commerce and industry.

- **Collateral for borrowers or access to capital** - If you secure a loan from a bank or financing institution, they may want you to sign-up for a life insurance policy or use your existing one. Recommendation? Make a collateral assignment and assign the bank as your beneficiary. Here, you give assurance to the bank that when you are taken out of the picture, the proceeds from life insurance will cover your loan's remaining balance. You can then get a bank loan.
- **Business continuity** - When the heirs of the business owner are not interested or skilled to continue the business, life insurance can be used to ensure the continuity of the business. This involves instituting an agreement with the most trusted person in the business, and a lawyer.

Guaranteed death benefits for the following purposes:

- **(1) Clean-up fund** – when a person dies, there may be payments to be settled such as hospital bills, death care, burial, car loans, housing or condo mortgages, and estate taxes.
    - **Case 1**: Pablo signed up for traditional life insurance at age 30 with a death benefit of P1.5 million. He got married at age 33 and kept renewing his life insurance policy until he was diagnosed with cancer at age 56. Pablo spent weeks at the hospital for 6 months, his family incurred a debt of 500,000 from their aunt in the US for the hospital bills, and Pablo died in the 7th month. How will his life insurance policy help him?
        - **Solution**: If the policy is in force, the guaranteed death benefit of P1.5 million could help his family "clean up" obligations. It can pay their 500,000 debt from their aunt in the US, pay for death care and burial expenses of Pablo, and pay estate taxes for the transfer of his assets to his wife or children as the case may be. If Pablo's children are still in school, the remaining balance may be used to sustain their education until they become employable and able to find a job.
- **(2) Cushion fund -** Cushions the family's sustenance when the breadwinner dies. It will be used by the surviving spouse to raise up the small ones until he/she is able to find stability. It can also be used to hire a helper, acquire services, or transfer residence.
    - **Case 2:** Moses and Zipporah were high school sweethearts for 10 years They were both engineers. After getting a stable job, Moses signed up for a death benefit of 2 million pesos and an additional 500,000 pesos accidental death benefit. Then he married Zipporah. They were blessed with 2 children – Paul and Silas. Moses and

Zipporah agreed that the latter will become a stay-at-home mom to take care of their children. When the children are at the age of 6 and 5 respectively, Moses died in a car accident. How will life insurance help the family?

  - **Solution:** A total of 2,500,000 will go to his wife, not 2,000,000. It is the sum of the 2,000,000 death benefit and 500,000 accidental death benefit. The primary use of that money is to cushion the financial burden of Zipporah while she raises the children until they are able to take care of themselves, and until Zipporah can find a full-time job. It can also be used by Zipporah to pay for a relative or nanny to take care of the children while she will work in the daytime.

- **(3) Educational fund** - pays for the tuition of the child or children. When the breadwinner dies, the surviving spouse is left alone to raise money for education and care for the child. The educational fund is very crucial before a child graduates from grade 12 or college because it is only when they can be employable.
- **(4) Mortgage redemption**– life insurance pays for the housing loan and ensures shelter for your children. Without life insurance, the surviving spouse may have no means to pay the monthly amortization in the bank or in PAGIBIG, and the family will be in danger of losing a home and stability in life.
  - **Case 3**: Ryan has been working as a seaman for 5 years. One day, he decided to buy a house for his wife and 2 young children. He paid the P3M balance via a P3,000,000 loan from BBB Bank. In the 7th year of his life as a seafarer, he signed up for life insurance. At the 8th year, he died in a work-related accident. His wife does not have a job. Will they lose the house?
    - **Answer**: **GR – it depends.** (1) If Ryan's life insurance coverage is sufficient to pay for the remaining bank loan, they won't lose the house; (2) If Ryan's life insurance proceeds is below the balance of the house, (e.g. the balance is 2.9M, and the death benefit of LI is 2M), it depends if they have other savings and if the wife wants to pay it to the house; (3) It also depends if the policy is in force when he died.
- **(5) Emergency funds –** Life insurance benefits are not just enjoyed at the time of death. There are life insurance policies with a savings component, and others with an investment component or VUL which can be used for emergencies by the insured or the owner while alive.

Factors affecting life insurance policy

Life insurance applications usually carry a large amount of information relating to the insurability of the applicant such as employment, medical condition, and family history.

Why do insurance companies need to appraise the risks in the life of a person?

This is to prevent anti selection. What is antiselection? Also known as adverse selection, is when an applicant gains life insurance at a cost below his true level of risk. For example, a smoker who pays the same cost as a non-smoker with the same life circumstances is anti-selection. To guard against anti-selection, life insurance companies practice risk selection.

Pre-existing conditions

Are those medical conditions that exist at the inception of the policy. These are asked in the application form, and the proposal may be revised if there are pre-existing conditions that are deemed necessary for the change of premiums.

Contestability period

Life insurance usually has a contestability period:

- Contestability period – this is a period of time where the company has the right to deny a claim. Any misstatement of material facts could void the policy during the contestability period.
- Incontestability period - the period where the company is already prevented to deny a claim.

Suicide Provision

Under Section 183 of the Insurance Code: “The insurer in a life insurance contract shall be liable in case of suicide only when it is committed after the policy has been in force for a period of two (2) years from the date of its issue or of its last reinstatement, unless the policy provides a shorter period: *Provided, however*, That suicide committed in the state of insanity shall be compensable regardless of the date of commission.”

Minor policy owner

Note: When a company discovers that the policy owner was actually a minor at the time of application, they have the right to rescind a policy. Life insurance will ask about birthday, occupation,s and vocation, or hobbies for the purpose of appraising the risk.

Smoking Habits: Smoker and non-smoker
Needless to say, smokers may have a higher premium than non-smokers.

Holding an elected or appointed position in the Government

Third-party or beneficial owner who funds the account

Payment of initial premium
The initial premium is the consideration required by the life insurance company to make the insurance coverage effective at the onset. A contract does not take effect without payment of the first premium to the insurer or agent. Of course, the payment of succeeding premiums according to schedule is also important to make the policy stay in force.

Change of Occupation?
What if you as the policyholder change your occupation without notifying the company, might it affect your benefits under your policy? No. The benefits agreed upon at the inception of the policy are the benefits insured all throughout and may not be changed when your occupation changes.

Sources of Information for Insurability
Sources of information that the insurance company may require from a client or agent pertaining to insurability are:

- Medical examination report
- Agent's inspection report
- Applicant's personal appearance or body build
- But note that tax records are not required

Effects of Failure to disclose
What if an applicant failed to disclose that he is already a high-risk candidate for high blood pressure during the initial years of policy? How will his contract be affected by such information? In this case, the contract will be valid unless the insurer can prove fraud. It won't automatically void the policy from the beginning - the insurer must first prove bad faith or fraud at the moment of the inception of the policy. This may entail investigation and responsibility on the part of the insurance agent.

Traditional Life Insurance

What is Traditional Life Insurance?

- Policyholders do not have investment options but may have savings or guaranteed cash components
- Premiums, cash values, and death benefits are pre-determined
- Implicit charges
- The reason why it is called traditional is that what insurance used to be before the innovations of VUL has come.
- Under traditional policies, we have non-participating and participating policies.

Definition of Terms:

But first, some definitions of terms:

1. Insured – is the person whose life is covered by the insurance policy.
2. Applicant or Policy owner – the person is buying the life insurance – it could be for himself or for another person.
3. Beneficiary – the person designated to receive the insurance proceeds upon the death of the insured.
4. Face amount – the amount stated in the policy as payable under a life insurance policy if the policy is in force and the insured dies.
5. Premium – the sum of money given by the insured as a consideration for the insurer's promise to indemnify or replace a loss
6. Death benefit – the amount payable upon the death of the insured
7. Maturity benefit – the amount payable if the insured outlives the protection period
8. Cash values – the guaranteed amount received in case the plan is terminated prior to the insured's death or maturity of the policy.
9. Dividends – the return of excess premium paid annually to the owner of the insurance policy based on the insurer's performance and experience over a given period.

Types of Life Insurance

There are different types of life insurance policies. The ones I will mention are the general types but insurance companies have specific product names.

Types of Traditional Plans

First grouping type: Non-participating and participating

(1) **Non-participating** life insurance policies are those that do not provide for the distribution of dividends, surplus, or cash benefits to the policy owner. This is usually cheaper than participating policies. Means, that the premiums are lower.

In Sun Life, non-participating products are the following:

- **SunStartUp** is a 10-pay endowment insurance plan. Meaning, that upon inception, you will have a death benefit equal to 100% of the Face Mount, and after 10 years of paying, the policy matures and you will get the benefit equal to 50% of the total annual premiums paid.
- **Sun Safer Life** is a renewable term insurance every 5 years and may be converted to Whole Life, Endowment, or VUL. The premiums are adjusted based on the insured's age upon renewal.
- **Sun LifeAssure** is renewable every 5 years that provides 100% of the Face Amount either upon death or upon diagnosis of a covered critical illness, whichever occurs first. Coverage is until age 70.
- **Sun Maiden** is designed for women and is a renewable term insurance every 5 years. It provides a cash benefits equal to 100% of the Face Amount upon diagnosis of a female-specific critical illness and surgeries. The Sun Maiden Plus provides 2% of the Face Amount for every child delivered for a maximum of 3 birthing, and 10% of the Face Amount in case of pregnancy-related complications.
- **Sun First Aid Plus** is a hospital reimbursement income plan for 10 years. Means, that you get a reimbursement equal to the number of days you are hospitalized. It also offers 50% or 75% return of premiums if the insured outlives the coverage period.

(2) Participating in life insurance policies

- These policies provide for the distribution of dividends to the policy owner.
- Under the law, there must be a provision in the policy that the company shall periodically provide or ascertain any divisible surplus accruing or accumulating on the policy under conditions specified therein.
- Premium in this type is higher than a non-participating policy
- Here, you have cash benefits where you can place for: (a) accumulated dividends; (b) extended term insurance; (c) paid-up addition.
    - o If you want to have maximum cash for emergencies, choose accumulated dividends.

- o If you want to use the cash benefits to prolong your coverage, opt for extended-term insurance.
- o If you want to increase your death and living benefits, choose paid-up addition.

In Sunlife, the following products are participating life insurance policies:

- Sun Dream Achiever
- Sun Acceler8
- Sun Smarter Life Classic
- Sun Smarter Life Elite
- Sun Senior Care
- Sun Fit and Well
- Sun Cancer Care

I will share more about them in the next videos, so please like and subscribe for updates.

Second grouping type: Term, Endowment and Whole Life

Term

(3) Term insurance

- One of the most affordable forms of life insurance;
- Insurance protection will be limited only for a specific period;
- No savings component (e.g. Cash Value and Dividends);
- Also known as "temporary protection"
- Renewable – meaning that if a policy owner wants to renew term insurance he may renew the same coverage on a higher premium;
- Has so-called "Natural premium" - when premium increases as you renew or convert the plan (at a certain attained age);
- Specific riders can be attached;
- Convertible Feature: Term insurance can be changed to permanent insurance without evidence of insurability; Some can be converted to endowment or VUL;
- Limited - the premiums are for a limited term of years for the protection of the life of the policyholder.

In SunLife, term insurance includes the following products:

1. Sun Safer Life (5YRCT)
2. Sun LifeAssure (5YRT)
3. Sun Maiden (5YRT)

4. Sun Maiden Plus (5YRT)

(4) Renewable term life
a policy where premiums increase every time the policy is insured,

(5) Level-term insurance
insurance protection will be limited for a specific period

Endowment

(6) Pure Endowment Policy
Pays proceeds to the insured only if he lives to the end of a specified period.
- In this kind of policy, the insured person will receive the full face amount on the date of maturity.

(7) Endowment insurance
- insurance protection will be limited for a specific period with savings components such as cash value, endowment benefit if any, and dividends;
- Usually payable for 10 or 20 years;
- also called a combination of level term and pure endowment;
- With non-forfeiture options: means that the policy owner may discontinue premium payments but the policy may be kept in force;
- Endowment insurance pays a percentage of the face amount in case of death of the insured during the coverage period or the insured gets the face amount if he survives to the end of the period stated in the policy;
- Example: A 35-year-old individual purchases a policy under which, in 20 years, he will receive the face amount of the policy himself, is he is alive at that date. This policy is obviously a 20-year endowment.
- Here you can avail the Fully-Paid Up and Early Maturity option
    - **Paid-up insurance option** - if the policy owner chooses this option, the premiums cease and the protection continues with a reduced amount of coverage.
    - **Early maturity** - the maturity amount entitled to a life insurance policyholder is paid in structured periodic installments (up to a certain stipulated period of time post maturity) instead of a 'lump-sum' payout.

In Sun Life, the following are traditional endowment plans:
- Sun Acceler8

- Sun First Aid Plus
- Sun StartUp
- Sun Dream Achiever

Whole Life

(8) Whole Life
provides protection with premiums payable for life, and usually has a low level of savings as an alternative to continued protection in old age.

- If a prospect wants to be insured for his entire life with the least annual cost until he dies, a whole life policy is the best type of life insurance to get;
- Pays a percentage of the face amount in case of death of the insured during the span of his life or up to age 100;
- **Savings components** options are cash value, dividends, and endowment benefit
- Premiums are level – meaning, it is a series of equal installments rather than lumpsum
- With non-forfeiture options: mean that the policy is kept in force but the policy owner discontinues premium payments.
- **Straight premium or Limited payment**
    - Straight-premium or regular pay whole life policy - advantage of this is that premium payments are concentrated during the period of highest earnings of a policy owner;
    - Limited payment whole life policy - premium payments are only spread out to a number of years, regardless of earning years or not. (???)
- Can avail of Full paid-up option, early maturity, and premium offset:
    - **Paid-up insurance option** - if the policy owner chooses this option, the premiums cease and the protection continues with a reduced amount of coverage.
    - **Early maturity** - the maturity amount entitled to a life insurance policyholder is paid in structured periodic installments (up to a certain stipulated period of time post maturity) instead of a 'lump-sum' payout.
    - **Premium offset** - you can use dividends (if any) to pay all or part of your premium payments.

In Sun Life, the following are Whole Life Plans:

- Regular-Pay Whole Life
    - Sun Smarter Life Classic Peso Regular Pay
    - Sun Smarter Life Elite Peso Regular Pay

- Limited-Pay Whole Life
    - Sun Smarter Life Classic Peso 5/10 year pay
    - Sun Smarter Life Elite Peso 5/10
    - Sun Fit and Well 10/15/20
    - Sun Cancer Care 5/10/15/20
    - Sun Senior Care 3/5/10

Variable Universal Life or Variable Unit-Linked

Variable Universal life
Also called non-traditional life insurance. VUL is an investment-linked life insurance plan that provides life insurance protection and the opportunity to grow savings over time with the option to choose the vehicle of investment and the amount of premiums.

Your fund types depend on the type of investor you are, your goals, and your objective for the money. This is usually classified as conservative, balanced, and aggressive. The fund type, consistency of payments, and top-ups you pay will determine the fund you will have – hence the word **variable**. The higher the amount that goes to your fund value and the better the performance of your chosen fund, the higher the possibility of your beneficiaries' death benefit and/or your future funds.

The components
- Insurance protection: Pays out a minimum guaranteed amount of insurance coverage in case of Insured's death.
- Savings/Fund value: Accumulates a variable and non-guaranteed amount that is linked to the investment fund or funds chosen by the client.

Important VUL-related Terms

Unit Pricing
The process whereby the unit price of units is set.

Offer price or selling price
The price which the insurer uses to allocate units to a policy when premiums are paid.

Bid price or buying price

The price which the insurer will give for the units if the policyholder wishes to cash in or claim under the policy.

Top-ups
Single premium injections can be used to buy additional units.

Premium holiday
The cessation of premium payments on variable life insurance contracts for a certain period of time, with the intent to continue it later on.

Allocation of premiums
The periodic distribution of premiums to insurance and units

Fees that are charged to VUL contracts: Policy fees, Fund Management Fee, Change in Fund Allocation Charge.

The Fund Types
The variable funds on top of the life insurance premiums are invested in cash or investment instruments: Three main fund types are conservative, moderate, and aggressive:

- Conservative is less risky, and economic downturns are less likely to affect your funds as compared to aggressive, but growth is not the same as aggressive. This is also called Fixed-Income Securities which may include bond funds, money market funds, dollar bonds, and global income funds.
- Aggressive is riskier, economic events will most likely affect its performance but its long-term growth has better returns compared to conservative. This is also called Equity Securities. It includes index funds, stock market equity funds, and global growth funds which include investing in top-performing companies in the world.
- Balanced is a mixture of both or is designed to start as aggressive, and gradually transform into an aggressive as the agreed year approaches. (e.g. My Future 2040 Fund of SunLife)

What are the benefits of VUL for you?

- Freedom to choose – you can choose to beat inflation and get better returns because historically, bonds and stocks perform better than savings deposit interest. The potential return that you will enjoy in the future is in your hands. You have the power to choose which funds your money will be placed.
- Diversification – when you have chosen a fund, each contribution that you make not only goes to a single company but is invested in several companies. It is actualizing the

saying "spreading your eggs in different baskets." Diversification is a good practice to mitigate risk.

- Professional Management – knowing when and what to buy takes years of study and experience. With VUL, you don't need to study them all. Just go and focus on your vocation, family, or job. VUL Fund Managers do the rest for you. It's instant knowledge and expertise.
- Life insurance coverage – there is a built-in life insurance coverage in this solution which guarantees a certain amount to pass on to your family in case unexpected death knocks on your doorstep. The continuity of income and money for final expenses are guaranteed.

Disadvantages of VUL

- Market downturns may affect your fund value. That's why it is better to be clear with your goals, especially, when you need the money or what is it intended for.
- Extra charges for fund managers. You have to pay for their services which is usually zero if you invest the money on your own.

May also be called as Investment-Linked or VUL. They are

- Sun FlexiLink1
- Sun MaxiLink One
- Sun FlexiDollar1
- Sun FlexiDollar
- Sun MaxiLink Dollar One
- Sun FlexiLink
- Sun MaxiLink100
- Sun MaxiLink Bright
- Sun MaxiLink Prime

I will share more about these in the next videos, so please like and subscribe for updates.

Other life insurance types

(9) A modified life policy

is where the initial premium rate applies to the first 5 years of the policy and a higher premium rate applies to the remainder of the premium payment period.

(11) "Joint Life Policy"

This is a policy that covers two or more persons at the same time, and the face amount or benefits will be payable when any of the insured dies. When the face amount is paid, the joint-life policy terminates automatically.

If a spouse without gainful employment applies for life insurance, the agent should examine the adequacy of the husband's insurance coverage. This is because it is the breadwinner that is primarily protected by life insurance. Before a non-employed spouse should get life insurance, the husband must have sufficient life insurance first.

(12) Joint and survivorship annuity
After a specified period of premium payments, the cash values will provide income for the insured as long as he lives and when he dies, it would continue to his spouse as long as she lives.

Standard vs. Sub-standard rates

"Substandard rate" - refers to premiums charged to persons who are considered higher-than-average risk categories or applicants with moderate physical impairments.

Increased rates. Applicants with sub-standard risks may be insured at increased rates to compensate for the extra hazard.

Some substandard rates are not permanent - in some cases, a person may be considered sub-standard during the application but the life insurance company may review his or her status after a certain period to qualify him or her as a standard risk. For example, at the time of application, if the applicant is overweight, the client may be given a substandard rate, but after 2 years, the weight may be asked again so that premiums will be returned to a standard rate.

Factors. The variables or factors that may qualify you for a sub-standard rate include hazardous occupation, location of your work, hobbies, health condition, family health history, etc.

Hazardous occupation - exposes the worker to a degree of sustaining an injury, or where the working conditions expose him to elements that can cause sickness or social hazards.

Blanket policies - refer to insurance policies covering all hazards.

Rate adjustments - these are instances when the amount of the death benefit of a policy is restricted during the early years of the policy.

Beneficiaries

Revocable primary beneficiary vs. Irrevocable primary beneficiary vs. Contingent

- In general, beneficiaries can only receive the policy proceeds if he is alive at the time of the insured's death.
- The irrevocable primary beneficiary will receive the face amount of the life insurance free of Estate Tax. He cannot be replaced without his consent or signature. An irrevocable beneficiary is very similar to an Absolute Assignee.
- When one is designated as an irrevocable beneficiary, his consent must be obtained by the policy owner in order to (a) name a different person to receive policy benefits; (b) obtain a loan under the policy; (c) surrender the policy for its cash value; (d) make substantial modifications in the policy such as deletion of riders.
- Policy loans by the policy owner don't need the signature of primary beneficiaries.
- Revocable beneficiaries can be replaced without his consent and are subject to Estate Tax.
- There can be primary and secondary revocable beneficiaries.
- The insured can add a third beneficiary at any time.
- Contingent beneficiaries - these are the beneficiaries where interests remain inoperative during the lifetime of the insured. Their designation does not need the approval of primary beneficiaries, only by the policy owner.
- What if both the insured and the primary beneficiaries died together in a car accident? And there are no contingent beneficiaries. Where will the proceeds be paid to? In the estate of the insured.

Transferability and Absolute Assignee

Can a life insurance policy be passed on to your child upon your retirement?

- Yes. By making him your Absolute Assignee, your present life insurance policy will be payable to your estate to your son, who will assume the premium payments. He will be free from Estate Tax Liability. Note that an absolute assignee is similar to the irrevocable beneficiary.

- Section 184 of the Insurance Code: “A policy of insurance upon life or health may pass by transfer, will or succession to any person, whether he has an insurable interest or not, and such person may recover upon it whatever the insured might have recovered.”

Settlement and Claim Options

1. Cash Value - is the savings element that builds up in permanent insurance plans
2. Cash Surrender Value - the sum of money an insurance company pays to a policyholder or an annuity contract owner if their policy is voluntarily terminated before its maturity or an insured event occurs.
3. Extended-term insurance option - allows the policy owner to use the cash value to purchase a term insurance policy with a death benefit equal to that of the original whole-life policy.
4. Non-Forfeiture Option - an option for whole life or endowment policies while such policies are kept in force but the policy owner discontinues premium payments.
5. If this option is chosen, the guaranteed policy values will no longer be assured to the policy owner, even if premium payments are discounted.
6. If there are misstatements, death claims will still be granted.
7. If another beneficiary is added to the policy, the premium will still be the same.
8. If the insured’s health becomes impaired, the face amount will still be the same.
9. Policy Loan - money that is borrowed against future benefits payable under a life insurance policy. How much can you loan against your life insurance policy? It is limited to the amount of your cash value. The amount includes the interest.
10. Paid-up insurance option - if the policy owner chooses this option, the premiums cease and the protection continues with a reduced amount of coverage.
11. The following is an example only and not an exact illustration of products: Pedro signed up for life insurance at age 40 with a face amount of 2 million. The policy allows paid-up insurance option when he reaches age 60. At age 60, he chose a paid-up insurance option until age 90. This means he stops paying premiums, but at age 61, his face amount is not already lower than 2 million. Perhaps, 1.95M. At age 62, 1.90M. At age 63, 1.85M. At age 64, 1.80M… until the face amount becomes zero or is withdrawn

12. Paid-up addition - is one of the features in a participating policy where the death benefit will be maximized.
13. This addition affects the cash value of the policy.
14. Extended Term Insurance - a provision in a permanent life insurance policy that grants that if premiums are discontinued, full insurance will be maintained for a specific period.
15. A retirement annuity is a kind of regular annual savings arrangement to provide a pension for life with no life coverage.

Add-ons or riders

What are riders? These are separate provisions from the life insurance policy which enhances it and provides benefits of a different nature.

Disability Waiver of Premium Rider

the payment of premiums is set-aside or canceled when the person is disabled.

- But the disability must be total and permanent and must have continued for a specified period such as six months. It is always attached to a life insurance policy. Usually, it must occur before a stated date.
- This is not paid for self-inflicted injuries.
- if you add on a Waiver of Premium to your policy, you won't pay the premiums for the face amount when the condition happens. For example, waiver of premium upon the disability of the policy owner - here, you won't pay your face amount if you no longer are able to work permanently.
- Waiver of premium - if you add-on a Waiver of Premium Benefit (WPB) to your policy, you won't pay premiums for the face amount when the agreed condition happens.
- For example, if you add a waiver of premium upon the disability of the policy owner, you no longer need to pay for your face amount premiums if you are unable to work permanently or are permanently disabled for sustaining a living.
- When you die during the period where you are permanently disabled for work, the proceeds or the benefit that your beneficiaries will receive will be the face amount. The face amount is the sum promised in the life insurance policy contract.

Supplemental Term Rider

a rider that could greatly increase the total life coverage of a permanent basic policy.

Family Income Rider

provides a monthly income from the date of death of the insurance to some future date specified in the contract.

Premiums or Payments

A premium is a legal consideration needed to effectuate a life insurance policy. Generally, premiums that are paid monthly, quarterly, or semi-annually are higher than those paid annually.

Termination and Reinstatement

How to stop life insurance

When you stop your life insurance as a policyholder, this is called “surrendering”. You can get immediate value when you surrender your life insurance policy depending on what kind it is. If it is non-participating life insurance (like Sun Fit), you would get the Cash Value.

Non-payment, Reinstatement Period, and Lapsed policies

What happens when I cannot pay my life insurance policy?

If it is a non-participating policy or non-VUL, your policy will lapse. Then you will be given a grace period. Afterward, you have a period where you can pay for reinstatement. You basically repay your indebtedness by submitting an application for reinstatement and paying back the premiums with interest.

Grace Period

The grace period is designed to give the insured more time to pay the premium while coverage remains in force.

The grace period is usually 31 days and it is not required that cash will be paid for the premiums during the grace period.

If it is a participating policy, has cash value, or is a VUL, your premium charges will be charged against your fund value or cash value. If they are exhausted, you can still avail of reinstatement.

But if the reinstatement period ends without payment, the policy is considered “lapsed”.

What if the insured dies during the grace period and the premium supposed to be paid was not paid? The insurance company will usually pay the beneficiary the face amount of the policy minus the unpaid premium.

Convertible feature of term insurance policies
When a term insurance policy reaches its termination period, it can be changed to permanent insurance without evidence of insurability. This feature is called convertibility.

To reinstate a policy after it has lapsed for non-payment, what is required?
- Application for reinstatement
- Payment of all overdue premiums plus interest
- Evidence of insurability

The Life Insurance Agent

Prohibited Acts:
1. No person shall act as an insurance agent without first procuring a license to act from the Insurance Commission. (Section 307 of IC)
    a. Insurance companies are imbued with public interest, that’s why becoming an insurance advisor entails several exams and compliance requirements.
    b. They are not employees of the Ins. Company but rather independent contractors. Hence, what they receive is not salary but commission.
2. Should not rely on pressure selling but use effective needs selling and service-oriented attitude.
3. Alter the application without the applicant’s prior written approval. For changes, the agent must send the client an Amendment of the Application form or something similar.
4. Should not convince a prospect to cancel his policy in one insurance company to buy a policy from the insurance company which he represents.
5. “Commission Sharing” or “Commission Refunds” - where the motivation of the agent to the prospect is to give back a part of his commission coming from the client’s payments.
6. Approve an application for insurance - it will be submitted by the agent to the insurance company underwriters which takes days if not weeks.

7. Waive any of the requirements of the company - whatever will be required by the Insurance Company, the agent has no choice but to require that to the applicant.
8. Guarantee dividends on participating policies - dividends are not guaranteed and only the company can declare or guarantee it which benefits the insurance policyholder.
9. The Insurance Commissioner has the power to revoke the license of an agent if he
10. Intentionally withheld information concerning his conviction of a crime involving moral turpitude.
11. When the agent has diverted any premium collection for his personal use

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Mandatory or Allowed Acts:

1. The correct approach in selling is to use Total Needs Selling which determines the prospect's complete financial requirement before offering a policy proposal.
2. Prepare routing proposals for life insurance coverage. You can ask a complete comparison of policies that the agent sells or compare it with other proposals offered by other competing insurance companies.
3. Furnish initial information as to the insurability
4. Give details pertaining to non-forfeiture options. An NF option is a clause stipulating that an insured party can receive full or partial benefits or a partial refund of premiums after a lapse due to non-payment.
5. Help determine insurable interest. Insurable interest exists when a person's death has a genuine risk to the policy owner.
6. When the client pays the initial premium to the agent, he must issue a provisional binding receipt where the life insurance company provides interim insurance or temporary insurance. This remains in effect until the policy is issued or the application is declined.
7. He must make you confident in the product and in himself as an advisor. His job is to make you happily involved in the ownership of your policy and you must not feel that your money is being squeezed out as much as possible.
8. Just make sure that the policy can be sustained by the client because too many lapsed policies can cause an agent's license to be canceled. The agent also loses all future commissions on renewal premiums.
9. If your agent resigns or is no longer with the life insurance company, the policy owner is called an "orphan policy owner"

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Conditional premium and settlement date

After you sign-up and pay, our advisors will usually issue a conditional premium receipt. The purpose of this is to acknowledge payment of your initial premium or payment for life insurance, and (2) to provide insurance coverage earlier than the policy delivery date if certain requirements are met. This date of completion is called the “settlement date”.

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Loans and Claims

In practice, most claims for the death benefits of life insurance policies are paid promptly as soon as forms are properly completed and received by the insurance company.

Under the law (Section 248 of IC), insurance companies are required to pay the proceeds of a life insurance policy within 60 days from the presentation of the claim and proof of death of the insured. Failure to release the claim within the said period will entitle the beneficiary to collect interest.

As a policy owner, when the time comes that your beneficiary will claim your life insurance proceeds, what are the basic settlement options?

1. Fixed amount until exhausted. For example, the death benefit is P1M. The beneficiary opted that he will be given 100,000 per month. So, he will receive 100,000 per month for 10 months.
2. Fixed period - payment of the proceeds to the beneficiary over a fixed period. For example, the death benefit is P2,000,000. The beneficiary may opt that it will be paid over a period of 5 years. So, P2M divided by 5 yrs = 400,000 per year.
3. Life income
4. Interest on deposit
5. Life Annuity - when the beneficiary does not want a lump sum payment but wants to receive a monthly allowance for the rest of her natural life instead, this claim option is a life annuity.
6. Interest option for an entity - an option for endowment policy owners who want to provide an organization or church with a monthly donation as long as it exists. Provided, that no legal impediments exist.

Question: What happens when the actual age of the insured is older than what was stated in the insurance policy, and such insured person dies?
The face amount to be received by the beneficiaries will be adjusted for misstatement of age.

Borrowing or Loaning against the policy

- A policy loan is a settlement option where money is borrowed against future benefits payable under a life insurance policy.
- What if the insured fails to pay during the policy anniversary? Meaning after a year, if you failed to pay the loan, the present loan will be increased by the interest.
- If the indebtedness exceeds the cash value, after reasonable notice, the policy will lapse.
- If a one-time large loan is taken after the policy has been in force for some years, the interest cost may exceed the premium.
- If the insured dies and the loan remain unpaid, the proceeds of the policy or the claim for death benefit will be reduced by the amount of the unpaid loan.
- What is Automatic Premium Loan Provision? It's a provision whereby the company automatically pays the premium out of the loan value and charges it as a loan to the insured if said premium due is not paid within the grace period.

Question
What is the best insurance policy for a client who is 65 years old and only wants to pay the minimum? Term policy
What is term policy?

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Group Life Insurance

What does group life cover?

Death of the employee regardless of cause except suicide during the first year or sometimes the first two years. It can cover death outside working hours or outside the place of employment. It may cover both accidental or natural death such as by sickness.

Notes:

- In a non-contributory plan, meaning employees' compensation is not deducted, 100% of the group members must be included.
- Most group policies pay dividends to employer

Questions: What if an employee leaves the company when the company has availed for them a group life insurance plan for several years?

Group life will cover him for a reduced amount of paid-up term insurance until the end of the current policy year.

Let's call him Mr. Santos, for example. If Mr. Santos is employed by Company X, and Company X availed group insurance with P1M death benefit for each employee for 10 years term. If Mr. Santos left at the 2nd month of the 5th policy year of the group life insurance, the payment for his premiums ceases and Mr. Santos will be covered from the 3rd to 12th month of the 5th year with a reduced face amount. This means that the life insurance will be reduced only based on the equivalence of the premium remaining. (Exception: If the company pays annually, then the face amount remains the same until the given policy year terminates)

But generally, a covered employee who terminates his employment continues to be covered for 31 days after the termination date.

Roles in Life Insurance Companies

1. Insurance agents and insurance brokers
2. Reinsurance brokers
3. Resident agents
4. Non-life company underwriter
5. Adjusters
6. Actuaries
7. Underwriters - use the laws of probability to determine future death rates among members of a given group.
8. Interpleader - decides on conflicting claims on the same insurance proceeds
9. Officer or employees