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Integrated Wealth Management
A Registered Investment Advisor

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Securities offered through Securities Equity Group Member FINRA, SIPC, MSRB

Universal Life Insurance

Summary

Universal life insurance is a type of permanent life insurance that allows policyowners to decide how much premium to pay (so long as stated minimum costs are met), when to pay premiums, how much the death benefit will be, and more. Learning about the following features of a universal life insurance policy will help you decide whether this is the right coverage for your situation.

Flexibility in paying premiums

When you buy universal life insurance, the policy provides for a level planned premium amount. But you don't have to make regular or level payments each payment period (e.g., monthly, quarterly). You can make larger or smaller payments, more or less frequently than planned. With each payment you make, your insurance company deducts a portion for administrative expenses related to your policy. The remainder is credited to a cash value account, from which the cost of insurance coverage is deducted each month. Your policy will remain in force as long as you maintain a positive balance in your cash value account, even if you didn't make the planned premium payments. Your cash value accumulates tax deferred and at current interest rates determined by the company (though a minimum rate of interest is guaranteed*).

Adjustable death benefit

With universal life, you can also increase or decrease your policy's death benefit as your financial circumstances change. You can generally lower the death benefit at any time, but if you want to raise the amount of coverage, you'll need to go through the company's underwriting process again, which may include a new medical exam. And one of the unique features of a universal life policy is that you can choose a level or enhanced death benefit.

The level benefit option is usually known as option 1 or option A. Under this option, your beneficiary receives a minimum guaranteed amount when you die*. This amount is made up of the cash value and the pure insurance known as the net amount at risk. The higher the amount of your cash value, the lower the amount of insurance coverage you must pay for. For example, if you own a \$200,000 policy with \$50,000 of current cash value, you pay the cost of only \$150,000 of pure insurance coverage. Your premium requirement is lower than if you had no cash value and the full \$200,000 of coverage.

Option 2 or option B allows you to add the cash value to the face amount when the death benefit is paid. For example, if you die when you have \$50,000 of cash value within your \$200,000 policy, your beneficiary receives \$250,000. But this additional amount is not free--the increased benefit means that you will

See disclosures on final page.

pay for \$200,000 of pure insurance coverage throughout the life of the policy, no matter how much your cash value grows.

*Any guarantees associated with payment of death benefits, income options, or rates of return are subject to the claims-paying ability of the insurer.

Understanding your universal life policy

Your policy contract as well as the annual statement of your universal life policy reveals all aspects of its cost structure, including the monthly cost of insuring your life, the amount of interest credited to your cash value account, and expenses. This information is not readily available on the contracts and annual statements of other types of policies. Once the policy is purchased, you cannot really manage a universal life policy except for death benefit and premium changes, loans, and so on.

Accessing the money in your policy

As with most permanent life insurance policies, you can obtain loans from your insurance company by using the cash value of your universal life policy as collateral. Loans are

assessed interest at current or fixed rates.

Borrowing against the cash value of your policy will affect the growth of your cash value. Be aware that if you can't pay back a loan, the proceeds payable to your beneficiary will be reduced by the amount of all outstanding loans and accumulated interest at your death.

Another unique feature of universal life insurance is that it allows you to take partial withdrawals from your policy's cash value. Depending on the policy, you may be able to withdraw up to 90 percent of the cash value. But be aware that such withdrawals are regarded as permanent withdrawals and will permanently reduce your policy's death benefit. Partial withdrawals are generally tax free because the principal is withdrawn first before taxable interest or gains in the cash value. But talk to your insurance company, agent, broker, or tax professional before making a withdrawal. Withdrawals are generally not allowed in the first few years of the policy.

Disclosures – Important – Please Review

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State, national and international laws vary, as do individual circumstances; so always consult a qualified investment advisor, attorney, CPA, or insurance agent on all investment, legal, tax, or insurance matters.

The effectiveness of any of the strategies described will depend on your individual situation and on a number of other factors. After reviewing your personal situation, we may recommend that you not use any strategy in this document but instead consider various other strategies available through our practice.

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