

A black and white photograph of a hand wearing a watch, moving a black chess piece on a chessboard. The chessboard is set up with various pieces, and the hand is in the process of moving a piece from one square to another. The background is a plain, light-colored surface.

INSURANCE 101

A close-up photograph of a black and gold pen pointing to a line graph on a document. The graph shows several lines representing data over time, with the x-axis labeled with years from 1996 to 1999. The text 'portfolio flow indicator' and 'of market capitalisation' is visible on the document.

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Diversified Strategy Financial
LLC

INSURANCE 101



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Insurance Defined

Insurance, in law and economics, is a form of risk management primarily used to hedge against the risk of potential financial loss.

Ideally, insurance is defined as the equitable transfer of the risk of a potential loss, from one entity to another, in exchange for a reasonable fee.



So, Ask yourselves this...

What steps have you considered to hedge against the risk of potential financial loss?

Have you transferred the risk of a potential loss, from yourself to another, in exchange for a reasonable fee.



Primary Risk Planning

Health Insurance
Disability Insurance
Long term care Insurance
Life Insurance
Auto/Home Liability
General Liability



So, Ask yourselves this...

If you die tomorrow, how would your family manage financially?

Would they have the money to pay for final expenses (e.g., funeral cost, medical bills, taxes, debt etc.)?

What would replace your income - would they be able to meet ongoing living expenses like the rent or mortgage, food, clothing, education, transportation, healthcare, etc.?

What about long-range financial goals – children's education, retirement goals?



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Insurance, who needs it?



**IF SOMEONE DEPENDS ON YOU FINANCIALLY,
CHANCES ARE YOU NEED LIFE INSURANCE.**



Insurance, who needs it?

CONFUCIUS SAID

Needing insurance is like needing a parachute. If it isn't there the first time, chances are you won't be needing it again



Did you know that...

- 50% of U.S. Households own some form of life insurance.
- 44% of U.S. Households believe they need more life insurance.
- 27% of U.S. Households actually intend to buy policies in the next year...29 million people planning to buy life insurance this year!
- 67% of these families believe this amount of coverage is adequate.

Source: LIMRA



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What does LIMRA stand for?

LIMRA

LIFE INSURANCE AND

MARKETING RESEARCH

ASSOCIATION



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Did you know that...

- 75% of households believe having life insurance protection less than their annual income is adequate Prime Needs segment - Working full time, with dependent spouse or children.
- 64% only have any life insurance.
- More than half have less than 3 times household income.
- 22% of 24 million U.S. Households have no life insurance at all.

Source: LIMRA



It is likely that if your clients own life insurance policies, they are



On the verge of lapsing due to under funding



Being credited low interest rates...
or have experienced market loss



Simply over-priced!

Source: LIMRA



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Reasons For Not Buying More Life Insurance....

- 74% -- Cost
- 52% -- Difficulty deciding how much to buy
- 50% -- Lack of Understanding
- 43% -- Worry about making the wrong decision
- 40% -- Preference for other financial products

Source: LIMRA



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Reasons For Not Buying More Life Insurance...

■ 74% -- Cost

Three fourths of Americans needing more insurance think they can't afford the premium despite the fact that many are only in their mid-30's and could buy term insurance for a modest sum.

Source: LIMRA



Insurance policies should be compared based on a variety of criteria...

Price is only one of the things to consider.



Insurance companies price their policies differently based on their specific criteria



Height/Weight Charts



Banded Death Benefit Levels



Cholesterol/Blood Pressure/Etc



Smoking History / Motor Vehicle Records



Term of Coverage

Source: LIMRA



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Rate Class

Some Examples



Preferred Elite Non-Tobacco



Preferred Plus Non-Tobacco



Standard Non-Tobacco



Non-Tobacco

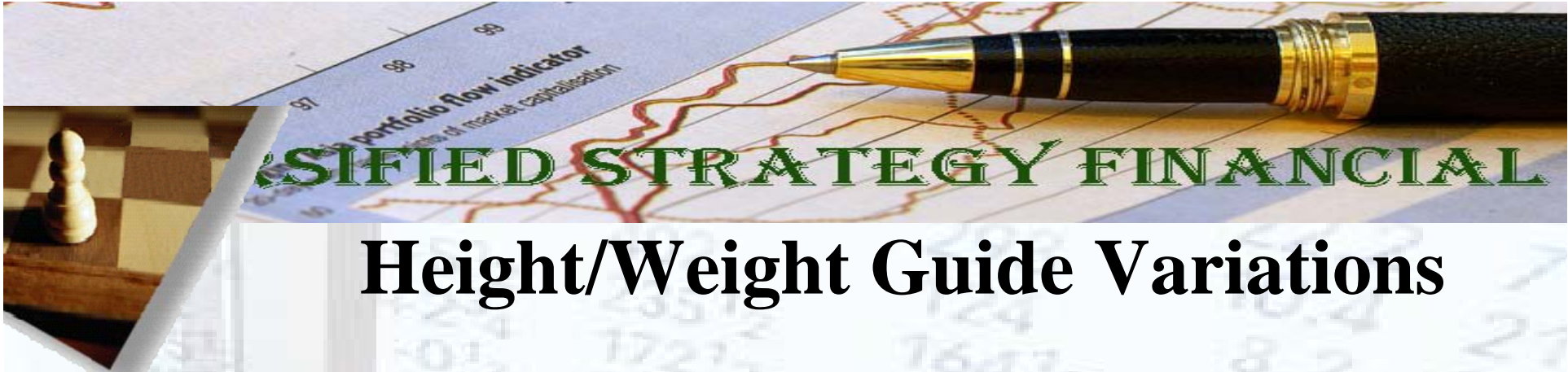


Preferred Tobacco



Tobacco

Source: LIMRA



Height/Weight Guide Variations

| | Allianz Elite Select | Allianz Standard | American General Preferred Plus | American General Standard | Banner Life Preferred Plus | Banner Life Standard |
|----------------|----------------------|------------------|---------------------------------|---------------------------|----------------------------|----------------------|
| 5'4" Female | 139 | 167 | 161 | 183 | 145 | 195 |
| 5'9" Female | 163 | 190 | 185 | 211 | 165 | 228 |
| 5'9" Male | 185 | 222 | 189 | 217 | 190 | 228 |
| 6'1" Male | 205 | 246 | 211 | 241 | 213 | 255 |



OTHER ITEMS REVIEWED

| | Allianz Elite Select | Allianz Standard | American General Preferred Plus | American General Standard | Banner Life Preferred Plus | Banner Life Standard |
|--------------------------------|----------------------------|---------------------|---------------------------------------|---------------------------------|----------------------------------|-------------------------|
| Blood Pressure | 130/80 | 150/ 92 | 140/ 85 | 150/ 92 | 136/ 86 | 156/ 94 |
| Non-Smoker (months) | 120 | 12 | 60 | 12 | 136 | 12 |
| Cholesterol | 200 | 310 | 205 | 250 | 220 | 300 |
| MVR | 1/3 | normal | 1/3 | 3/3 | 2/3 | 4/3 |



Reasons for not buying more life insurance

- 52% - Difficulty deciding how much to buy

D I M E

Determining Insurance Needs



D = Debts

Total of outstanding debt less mortgage



I = Income

Rule of thumb is 10 times income



M = Mortgage

Total balance at time of purchase



E = Final Expense and Education

Cost of Funeral and related expense
College education for children

Determining Insurance Needs



D = Debts: _____ \$30,000

Total of outstanding debt less mortgage



I = Income: _____ \$60,000 X 10 = \$600,000

Rule of thumb is 10 times income



M = Mortgage: _____ \$300,000

Total balance at time of purchase



E = Final Expense and Education: _____ \$150,000

Cost of Funeral and related expense
College education for children

Determining Insurance Needs

■ Debts: _____ \$30,000

■ Income: _____ \$60,000 X 10 = \$600,000

Rule of thumb is 10 times income

■ Mortgage: _____ \$300,000

Total balance at time of purchase

■ Final Expense and Education: \$150,000

INSURANCE NEEDS: 1,080,000



Reasons for not buying more life insurance



A financial chart with a pen resting on it. The chart shows a line graph with a red line and a blue line. The x-axis is labeled with years 97, 98, and 99. The y-axis is labeled 'portfolio flow indicator' and 'index of market capitalisation'.

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Basics of Life Insurance

Face Amount

Cash Value

Age/Time

Protection against Dying too Soon

A financial chart with a pen resting on it. The chart has a grid and a line graph. The text "portfolio flow indicator" is visible on the chart. The background is a light blue and white color.

TERM OR PERMANENT DIVERSIFIED STRATEGY FINANCIAL

Term or Permanent

TERM

PERMANENT

| | | |
|--------------------|--|---|
| Length of coverage | A specified term, typically 20 years. | Until age 100 or later, as premiums are paid. |
| Premiums | Based on your age and health, but typically lower than those of permanent insurance. | Initially higher than term premiums, but often level for life |
| Cash Value | None | Accumulates over time on a tax-deferred basis. |
| Key Advantage | Typically offers the highest death benefit for the lowest cost. | Offers lifelong protection and tax-deferred savings |

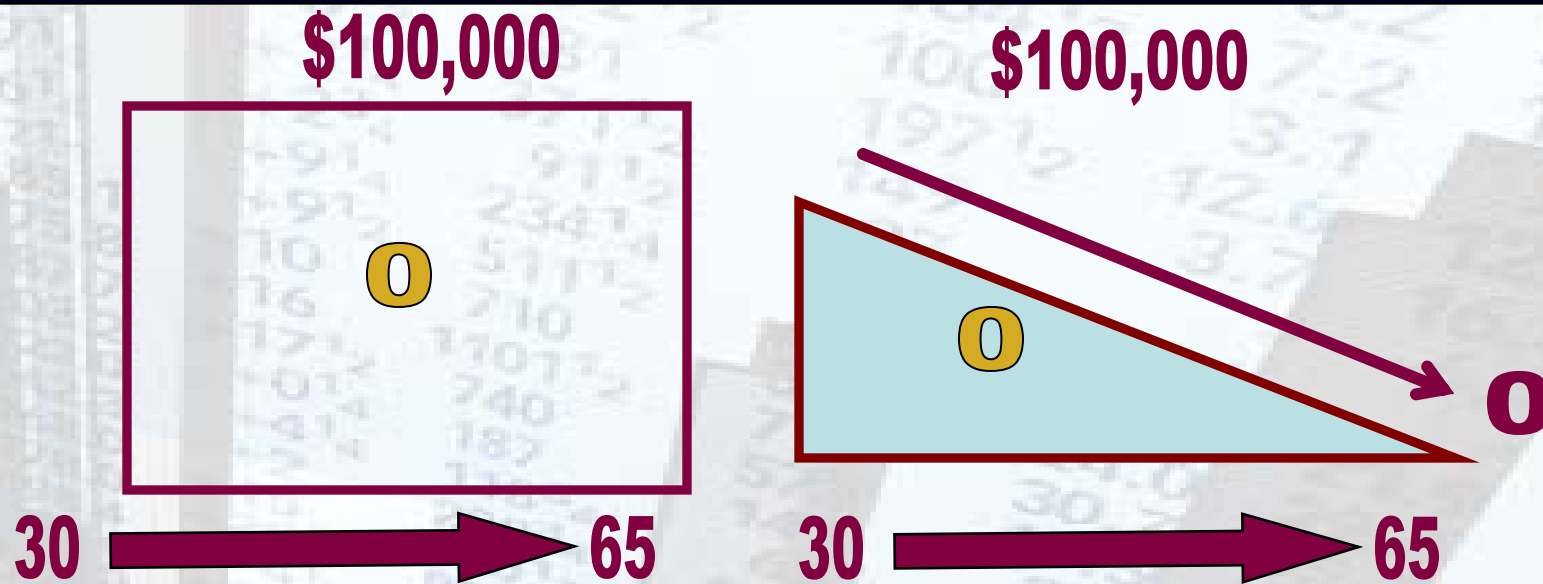


I am concerned about budget

Term Insurance

- Insurance that pays only at death
- Designed for a specific period of time
- The cheapest form of life insurance
- The greatest risk for you the insured
- Is designed for temporary circumstance
- Should be reviewed periodically

Term Life Insurance



Level Term

- Face Amount is always the same
- Premium always increases

Decreasing Term

- Face Amount always decreases
- Premium stays the same



What if I don't use it at the end of the term

■ Term Insurance with Return of Premium

■ You pay more in the short term but you get your money back if you don't die!

■ Equity Indexed Universal Life with Return of Premium

■ With EIUL ROP you have the option of continuing the policy



I want to grow cash value in my life insurance

■ Whole Life or
Universal Life

■ Death Benefit Available to
Beneficiaries

■ Cash Value is available while
Insured is Living

Whole Life Insurance

- Level Premiums
- Increasing Cash Value
- Level Face Amount

\$100,000



30

100

At age 100, cash value = face amount

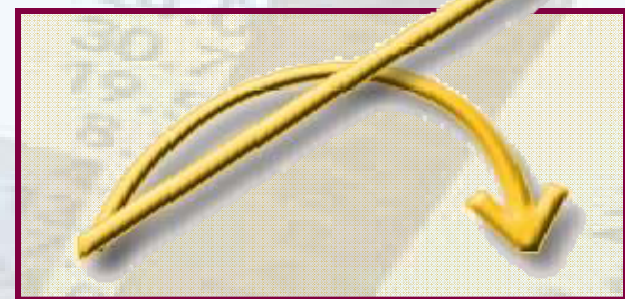


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Universal Life

- Cash Value Policy
- Flexible Premium
- Cash Value is held in a separate account and can fluctuate
- Separate account is controlled by the Board of Directors
- Will always have a print out of projected premium and cash value

\$100,000



30



100

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Indexed or Variable Universal Life

- The only difference is where the cash value account is held
- Performance based account tied to the particular holdings of the separate account

\$100,000



30 → **100**



If premium payment stops, there are three non-forfeiture options



Cash Value



Reduced Paid-Up A lower face amount with no more premiums due



Extended Term Same face amount for a specified period of time



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Features of Insurance Policies

- Provisions in Every Policy
 - Grace Period – Usually 31 days
 - Suicide Clause – 2 Years
 - Incontestability – 2 Years



Features of Insurance Policies

Optional Provisions

- Conversion – Type of insurance may be changed without re-qualifying
- Settlement Options – Proceeds may be paid out in options other than lump sum payments
- Policy Loans – Loans taken against cash value at preset interest rate
- Riders
 - Waiver of Premium
 - Guaranteed Insurability
 - Other Insured (Child, Spouse, Etc.)



Who's who in the policy

- Insured
- Owner
- Premium Payer
- Beneficiary

Primary and/or Contingent – If none is listed, everything goes to the estate

A black and white photograph of a hand wearing a watch, reaching over a chessboard to move a black chess piece. The chessboard is filled with various pieces, and the background is a dark, textured surface.

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A close-up photograph of a black and gold pen pointing to a line graph on a document. The graph shows several fluctuating lines. Text on the document includes 'portfolio flow indicator' and 'of market capitalisation'. The years '97', '98', and '99' are visible on the x-axis.

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