Universal Life Insurance

Understanding universal life; a flexible and versatile life insurance solution

Foresters Financial™ provides life insurance solutions that can help meet the often changing needs of your clients. One such product is our accumulation universal life product: SMART UL[1]. Here are some of the basics when it comes to understanding universal life insurance.

Coverage for when it matters most

Families work hard to build financial stability by procuring assets such as a home, savings account, and investment and retirement portfolios. However, families often discount the importance of securing proper life insurance protection.

Consider universal life insurance as part of your overall financial strategy

Why might universal life insurance be the right solution? It's a versatile financial tool that can provide:

- flexible premium payments
- cash value growth on a generally tax favored basis[2]
- a death benefit amount which can help provide financial security after the loss of the insured.

Product features and riders can also help while the insured is still alive. Life insurance may help address other financial objectives such as accessing cash value (through loans or withdrawals) for emergencies or helping the insured to leave a financial legacy.

Understanding the death benefit

Universal life typically has two death benefit options:

- **A level death benefit** where the death benefit is a set amount of insurance coverage that remains the same throughout the life of the certificate.
- **An increasing death benefit** which includes the base death benefit and also includes the cash value at the time of death.

The death benefit option is normally selected at the time of application. Premiums are typically higher for an increasing death benefit.

Foresters Financial

Understanding premiums

Universal life insurance is designed to provide lifetime coverage, assuming sufficient premiums are paid to build enough cash value to cover the costs associated with the certificate. Universal life premiums are typically higher than term life insurance as the duration of term life insurance is limited. Also, as the risk of death increases as you age, so does the cost of life insurance associated with universal life insurance.

With universal life insurance, a portion of each premium is typically applied to the upfront administrative fee (called a premium expense charge) and the remainder is applied to the cash value. The cash value earns interest and is where other certificate expenses are taken from (e.g. cost of insurance and rider charges). Splitting the premium between the upfront administration charge and the cash value typically provides the flexibility to select a premium payment amount within the required minimum and maximum amounts allowed on the certificate.

Understanding expense charges

Understanding the expenses associated with the certificate are also important, as they impact both the premium and cash value. There are two types of expense charges:

Fixed expenses:

Premium expense charges are usually the first fixed expense taken from each premium payment. These expenses:

- Are usually a percentage of each premium payment made into the certificate
- Last a specific number of years.

Other universal life expenses range from a fixed monthly administration charge, to a specific expense tied to the face amount, to expenses associated with any riders included with the certificate.

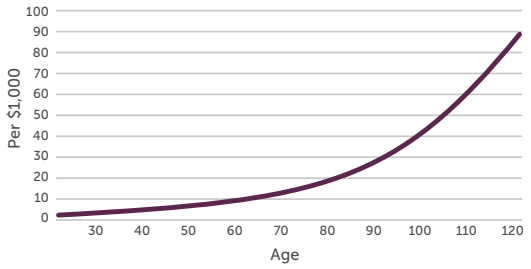
Changing expenses:

The main expense with universal life insurance is the Cost of Insurance (COI). These expenses:

- Are deducted from the cash value each month
- Increase each year with the age of the insured.

The COI expense is typically lower in the initial years, but increases steadily each year as the risk of death occurring increases.

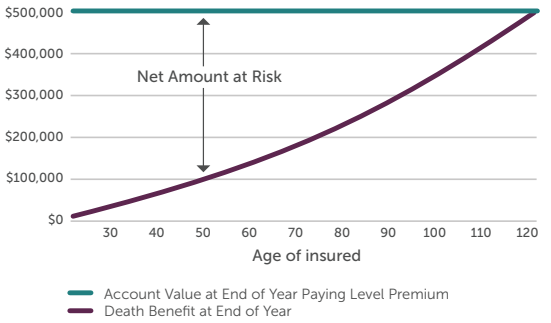
How cost-of-insurance charges increase with age (COI rate/1000)



The death benefit amount used to calculate the actual COI expense will be based on your Net Amount at Risk (NAR) within the certificate. The NAR for a level death benefit option is calculated by taking the face amount and subtracting the cash value. The difference is the amount at risk in the certificate.

The NAR for an increasing death benefit option will always be the full death benefit amount, which includes the cash value.

Account value vs level death benefit

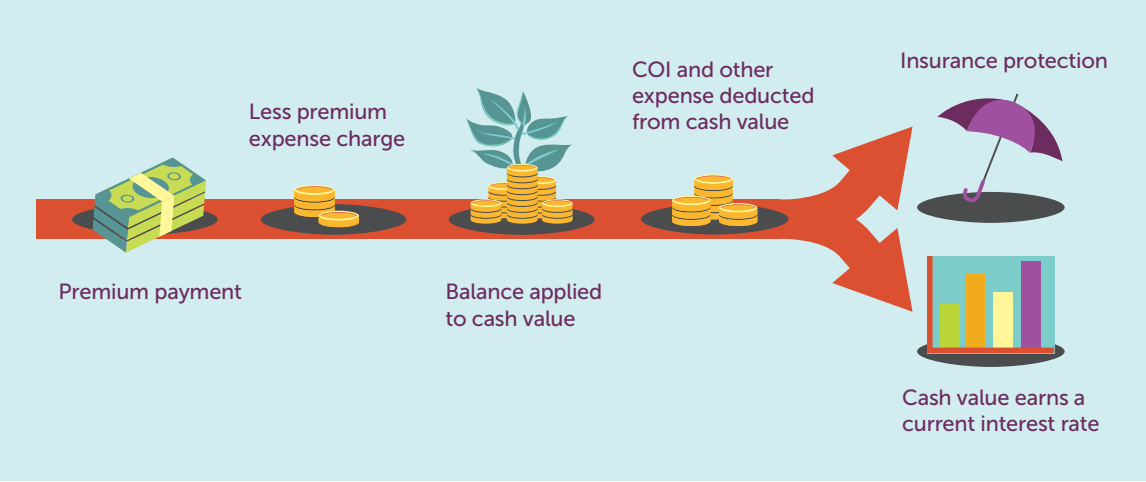


Lastly there is a Surrender Charge, which is applied for a specific period of time and decreases each year until it reaches zero. However, the surrender charge only impacts the certificate if a loan or partial withdrawals are made, or if the certificate is surrendered during this period of time.

Understanding cash value growth

With universal life, cash values are usually not guaranteed in the contract. Instead, the insurance company invests the net premium and sets a non-guaranteed interest rate that gets applied to the cash value. Depending on the amount and duration of premiums, the cash values are usually lower in the early years, but build over time. The growth potential will be impacted by the current interest rate applied and the expenses associated with the certificate.

Cash value is an important feature of universal life insurance. However, it is not an ideal solution for families looking to accumulate cash value to meet short-term or immediate obligations. Cash value growth can potentially serve as an effective long-term tool for other reasons, such as supplementing a family's overall savings strategy. The certificate owner has generally tax-favorable access to the cash value by taking loans[3] or withdrawals[3] for such situations as emergency expenses, children's college, or supplemental retirement income.



Leveraging universal life insurance tax advantages[2]

Universal life insurance can offer families potential tax-favorable advantages, including:

- Income tax-free death benefit: death benefit is generally received income tax-free by the beneficiary.
- Tax-deferred cash value growth: cash value can generally grow on a tax-deferred basis.
- Tax-favorable distributions: taking loans[3] from the certificate will generally not be taxable income, as long as the loan is repaid with outside premiums while the certificate is in-force, or it is repaid from the death benefit at death. However, if the certificate were to lapse, the growth in the certificate will be taxable at that point.

Universal life as a retirement asset

Couples typically rely on their social security, pension plans, 401k plans and other saving vehicles to live a comfortable lifestyle during retirement. However, people often overlook the impact a sudden death of a spouse may have on their overall retirement income stream.

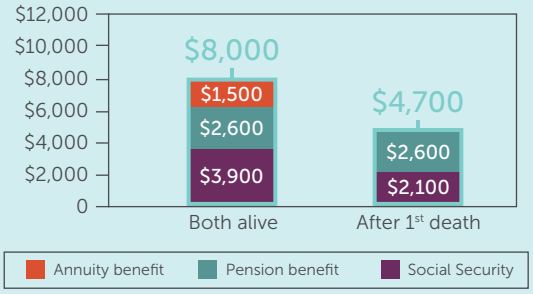
For example, one of their social security streams will disappear upon the spouse's death. Can the surviving spouse handle the financial strain of losing one income stream?

To potentially provide an additional income stream in retirement, couples can consider universal life insurance. Here are some ways Universal Life can help provide assistance during retirement:

- **Replacing lost retirement income:** The generally tax-free death benefit amount may be used to replace some of the lost retirement income from the death of a spouse.
- **Final expense costs:** The generally tax-free death benefit amount may be used to cover the cost of final expenses that may arise as a result of the spouse's death.
- **Vehicle for supplemental retirement income:** The potential for cash value growth, tax-deferred growth and tax-favorable distributions may make universal life an effective vehicle in accumulating assets to be used for supplemental retirement income.

Hypothetical example of how a couple's retirement benefits could be reduced at death

Hypothetical changes in monthly retirement benefits



Assumptions
- Monthly Social Security benefit of $2,100 for Spouse 1 and $1,800 for Spouse 2
- Pension of $2,600 from Spouse 1, which is a joint and survivor benefit
- Annuity income of $1,500 a month from Spouse 1, which is a life only annuity
- Assumes death of Spouse 1

Universal life as a wealth transfer vehicle

Families who have built financial wealth may be in a position to leave a legacy. It is important to take time to create a sound strategy to transfer that wealth according to the individual's wishes. The strategy should aim to limit reductions in the value of the assets due to taxes or expenses incurred at death, and delays due to assets that may be tied up in probate.

When creating a legacy strategy, it is important to understand how different assets will impact the transfer objectives being set within the plan. For example, certain assets like 401k retirement accounts, which grow tax-deferred, pass to heirs with income tax liabilities, reducing the value of these assets.

The death benefit amount provided by life insurance can be an effective transfer vehicle as the benefit is generally tax-free and paid directly to the beneficiary. In addition, the life insurance proceeds can help:

- Provide amounts that may be loaned or used to purchase assets from the estate to help cover estate taxes.
- Avoid probate and associated costs.
- Easily divide values between heirs named as beneficiaries.
- Avoid inclusion in the insured's estate at death, if structured correctly

Riders available for SMART UL

SMART UL offers additional benefits to provide more value by automatically including up to three riders with the base coverage:

- Accelerated Death Benefit Rider[4]
- Common Carrier Accidental Death Rider
- Family Health Benefit Rider

Customizable coverage to add additional security

For an additional monthly deduction, adding a rider can provide living benefits and enhance your base coverage:

- Waiver of Monthly Deductions Rider
- Guaranteed Purchase Option Rider
- Accidental Death Rider
- Children's Term Rider

Plus Charity Benefit provision

Pays[5] (up to a maximum of $100,000) an additional 1% of the face amount to a designated registered charitable organization, so the owner can support their favorite cause. Automatically included in the contract with no additional deductions.

---

[1] Foresters SMART UL and its riders may not be available or approved in all states and are subject to underwriting approval, limitations, contract terms and conditions, and state variations. Refer to the SMART UL Product Guide and the Foresters SMART UL Life Insurance contract for your state for these terms and conditions. Underwritten by The Independent Order of Foresters.

[2] Foresters, their employees and life insurance representatives, do not provide, on Foresters behalf, legal or tax advice. The information given here is merely a summary of our understanding of current laws and regulations. For questions around any tax or legal matter, individuals should consult their tax or legal advisors.

[3] Access to tax-advantaged loans assumes the certificate stays in-force until death. If the certificate lapses, there may be tax consequences on any cash value above the cost basis. A life insurance contract can become a Modified Endowment Contract (MEC) when premiums paid exceed certain limits as outlined in the tax code. Withdrawals or loans will reduce death benefit and cash values and may affect how long the insurance contract is in effect. For SMART UL, loans can be taken if the certificate is in effect and has a positive cash surrender value. Withdrawals or loans will reduce the death benefit and cash values and may affect how long the insurance contract is in effect. If the loan amount exceeds the account value (minus the applicable surrender charge), the certificate will terminate. For loans, interest is charged daily on the loan at 4% annually, 2% after the 7th certificate year. Surrender charges may apply to withdrawals. Income and growth on accumulated cash values are generally taxable only upon withdrawal: IRC section 72. Ask your tax advisor for details on your specific situation.

[4] (if applicable) **This product is a life insurance policy that accelerates the death benefit on account of chronic illness and is not a health insurance certificate providing long term care insurance subject to the minimum requirements of New York Law, does not qualify for the New York State Long Term Care Partnership Program and is not a Medicare supplement certificate. Receipt of the accelerated death benefits may affect eligibility for public assistance programs. Receipt of the accelerated death benefits may be taxable.** Not available in CA.

[5] Foresters will pay the eligible designated charitable organization in the name of the insured. The designated charitable organization must be an accredited 501(c)(3) organization under the Internal Revenue Code and eligible to receive charitable contributions as defined in section 170(c) of that code.

Foresters Financial

504568 US (09/18)