Principal

Help protect what matters most

Your guide to life insurance



For most people, life insurance is an essential component of a sound financial plan. You may already know it provides a tax-free way to help ensure your family is taken care of financially after you're gone. But life insurance is a versatile tool that can do more than pay off debt and help your family maintain their lifestyle. It can also help fund your kids' college education, round out your retirement plan, and more.



Table of contents

3 | The language of life insurance

4 | Five life insurance myths

5 | Types of life insurance

6 | Determining the right type for your unique needs

7 | Replacing existing life insurance coverage

The language of life insurance

Whether you're learning about life insurance for the first time or just need a refresher, here are definitions to some key terms.

THE BASICS

Life insurance	Policy owner	Insured	Beneficiary
A legal contract that pays a benefit upon death of the insured.	Person or entity that owns an insurance policy and has the right to exercise all privileges under the contract of insurance. A policy owner may or may not be the insured or the beneficiary of the policy.	The person whose life is covered under the policy.	The person or financial entity (for instance, a trust) named in a life insurance policy as the recipient of policy proceeds in the event of the insured's death.

HOW IT WORKS

Underwriting	In force
Guidelines used to determine the insured's eligibility for coverage, how much coverage is available, and what it will cost. Underwriters review financials, medical history, and occupational duties.	Indicates that a life insurance policy is in effect. It means the application process is over and your policy would now pay the death benefit if something were to happen to you.

POLICY DESIGN

Rider	Accelerated death benefit rider	Waiver of premium	Conversion privilege
An amendment that expands or restricts a policy's benefits. Selecting or forgoing riders will affect the cost of the policy.	Enables the insured to receive a specific percentage of the death benefit prior to death, should they be diagnosed with a chronic or terminal illness. The death benefit is reduced when this rider is applied.	Rider or provision included in most life insurance policies that allows the insured to stop paying premiums after they've been disabled for a specified period of time, usually six months.	A plan guaranteeing the insured's right to convert the policy to a permanent policy at the same insurability rating within a specified time limit.

COST/BENEFITS

Premium	Death benefit	Cash value
The periodic payment required to keep an insurance policy in force.	The amount of money payable to the beneficiary as a result of the death of the insured.	Also known as cash surrender value, this is the amount of money available if the policy is canceled before it becomes payable upon death or maturity.

Five life insurance myths

Many people have misconceptions about life insurance that prevent them from getting enough (or any) coverage. Here are some of the most common life insurance myths—and the facts.

Myth 1

You only need life insurance if you have kids.

Life insurance isn't just for people with children. Even those without kids may leave behind joint debts, funeral expenses, and other bills that need to be paid.

Life insurance can also give a spouse income replacement during a difficult time, and can complement an investment portfolio.

Myth 2

Life insurance is just for "older" people.

Younger individuals are usually less likely to die, right? But they're also much more likely to leave behind a younger family that may struggle financially in the event of a loss.

The younger you are, the more likely you are to be healthy, and you may qualify for better rates. If you purchase a policy now, you guarantee the existing coverage if something happens to you.[1]

Myth 3

I have enough life insurance through work.

You may not have sufficient life insurance through your employer—especially if you have dependents or major debts.

What if something unexpected happens and you lose your job? This could leave you without coverage. Taking a little time to plan now can make all the difference when life throws a curveball.

Myth 4

Life insurance is expensive.

Life insurance can be more affordable than you might think.

An industry study found most people overestimate the cost of life insurance by more than three times the actual cost.[2] Life insurance comes in many shapes and sizes to match your needs and budget.

Myth 5

Buying term insurance is always best.

It's true that a term life policy can be less expensive in the short term. However, the cost of coverage with other types of policies that provide a cash value may end up being less over time.

Many policies allow you to convert a term policy to a permanent policy at the same insurability rating within a specified time limit. So the earlier you buy, the better off you may be.

Types of life insurance

There are two primary types:

Permanent

Coverage you can't outlive as long as you pay your premiums. It allows you to build cash value you can use while you're alive in whatever way you see fit. There are a wide variety of permanent insurance options that can be paired with term coverage or used alone to fit your unique needs.

Term

Coverage that lasts until a certain age or for a certain time period. Your policy might provide coverage for anywhere from one to 30 years. After that time, you would have the choice to renew the policy or let the coverage end. Term insurance tends to be less expensive.

Permanent life insurance options

Whole life[3]	Universal life	Indexed universal life	Variable universal life
• The oldest form of permanent life insurance • Offers a fixed, level premium and a fixed, level death benefit for life • Provides a guaranteed cash value that typically grows enough to equal the death benefit at age 100	• Delivers flexible premiums and death benefits • Usually includes a cash value account that accumulates at a floating rate of interest declared by the insurance company with a minimum rate guarantee • Focuses on providing guaranteed death benefits or accumulating cash values, depending on policy owner's needs	• Offers the same benefits as traditional universal life insurance but uses a different method for crediting the policy's cash value • Credits interest to the cash value based on the movement of a specific stock market index or indexes over a specific period of time • Allows the possibility of higher cash value accumulation in the long term	• Combines the flexibility of universal life with the performance of investment accounts, and has the ability to outperform or underperform other policy types depending on account performance • Offers flexible premium and death benefit • Directs net premium to investment sub-accounts, with potential growth in cash value and death benefits tied to the accounts' performance

Determining the right type for your unique needs

So now that you have a better feel for your life insurance options, how do you choose?

Take action: If you've come this far, it may be a good time to get in touch with your financial professional to analyze your unique needs and help you come up with a tailored solution.

Which type is most appropriate for you to buy?

While there are many factors involved in this decision, for most people it comes down to three key issues:

1. **Duration of your need**
2. **Personal risk tolerance**
3. **Cost that may fit your budget**

Life insurance decision tree

Use the chart below to see what type of life insurance may be the right fit for you.

Less than 15 years
Term insurance

15 years or more			
	High risk tolerance	Medium risk tolerance	Low risk tolerance
Higher cost	Variable universal life insurance	Variable universal life insurance	Whole life
Medium cost	Indexed universal life insurance	Indexed universal life insurance or universal life insurance	Universal life insurance with additional guarantees as to death benefit
Lower cost			Universal life insurance or term insurance

Replacing existing life insurance coverage

Whether it was a policy your parents bought when you were a child or old term coverage that no longer meets your needs, you may have existing life insurance to factor into your decision-making. Some policies may still be perfectly appropriate and complement your financial professional's recommendations. Others may not be worth keeping if there's a more affordable way to meet your current and future needs.

See two real-life examples



MATEO, 45, owns a $500,000, five-year term life policy issued eight years ago at non-smoker preferred rates by an A-rated[4] company. The policy has renewed for a slightly higher premium for the second five years.

Possible reasons to replace	Cautions or reasons not to replace
• New coverage has everything old coverage has, but is considerably less expensive. • Mateo would like to purchase some or all of his coverage with cash-value insurance. • Mateo wants to add to his coverage, and it makes sense to keep it in one policy to save on fees. • Mateo wants to take advantage of some new riders and features available in the new policy that aren't included in his current one.	• If Mateo's health has changed, he may no longer be insurable at favorable rates, if at all. • Mateo's current insurance company offers significant incentives to convert his term policy to its cash-value products, which are competitive. • To protect insurers from fraud, clauses are typically in place for the first two years of a policy that can invalidate the coverage. Under extreme circumstances, a death benefit might not be paid. Those clauses have expired on Mateo's policy, and while it's rare a payout would be challenged, Mateo values the peace of mind that comes with those clauses no longer being in place. • Mateo has riders and features in his current policy that he wants to keep, but they aren't available in the new policy.



PRIYA, 45, owns a $500,000 variable universal life policy issued eight years ago at non-smoker preferred rates by an A-rated[4] company. Most of the previously outlined issues with replacement of the term insurance apply, plus the following:

Possible reasons to replace	Cautions or reasons not to replace
• Values have significantly decreased, and the policy is in danger of lapsing. • Priya is tired of seeing her cash value go down and wants to get into a more conservative policy. • Priya had to take some large loans against her cash value, and the loan interest plus the policy costs are eating up her remaining values.	• If Priya's health has changed, it may be better to keep her policy in force by paying additional premium. • Paying back the loans, if possible, may be a better solution than purchasing a new policy.

Please note these are just some of the variables that should be examined prior to replacing existing life insurance policies. Principal financial professionals are trained to help you examine these issues as part of the overall planning process.

Let's connect

Contact your financial professional today or go to **principal.com.**

[1] All guarantees and benefits of insurance policies are backed by the claims-paying ability of the issuing insurance company; they are not backed by the broker/dealer.

[2] 2022 Insurance Barometer Study, Life Happens and LIMRA.

[3] Principal® does not offer a whole life insurance product.

[4] Third party ratings relate to Principal Life Insurance Company and Principal National Life Insurance Company only, and do not reflect any ratings actions or notices relating to the US life insurance sector generally. Ratings are not a recommendation to buy, sell or hold a security. Ratings are subject to revision or withdrawal at any time by the assigning agency, and each rating should be evaluated independently of any other rating. Information is current as of the creation of this piece. Keep in mind that portfolio holdings are subject to risk.

Principal®

principal.com

Before investing, carefully consider the investment option objectives, risks, charges, and expenses. Contact a financial professional or visit principal.com for a prospectus or, if available, a summary prospectus containing this and other information. Please read it carefully before investing.

The subject matter in this communication is educational only and provided with the understanding that Principal® is not rendering legal, accounting, investment, or tax advice. You should consult with appropriate counsel, financial professionals, and other advisors on all matters pertaining to legal, tax, investment, or accounting obligations and requirements.

Insurance products issued by Principal National Life Insurance Co. (except in NY), Principal Life Insurance Company®, and the companies available through the Preferred Product Network, Inc. Plan administrative services offered by Principal Life. Securities offered through Principal Securities, Inc., member SIPC, and/or independent broker/dealers. Referenced companies are members of the Principal Financial Group®, Des Moines, IA 50392.

Policy and rider descriptions are not intended to cover all restrictions, conditions, or limitations. Refer to policies and riders for full details. Policies and riders are subject to state availability. Some riders are subject to an additional premium.

Not FDIC or NCUA insured
May lose value • Not a deposit • No bank or credit union guarantee Not insured by any Federal government agency

Principal®, Principal Financial Group®, and Principal and the logomark design are registered trademarks of Principal Financial Services, Inc., a Principal Financial Group company, in the United States and are trademarks and service marks of Principal Financial Services, Inc., in various countries around the world.

BB9135-11 | 07-2022 | 2256467-072022 | ©2022 Principal Financial Services, Inc.