Lincoln Financial Group®

Bring clarity to life

Life Insurance Professional Analysis and Review

A clearer vision of your future

Some time ago, you may have planned ahead by purchasing life insurance. But the way you saw your life then may be very different from the way you see it now. That's why it's important to reflect on your true needs and clarify your life insurance situation. A close look helps ensure that you have the right type and amount of coverage.

Permanent life insurance can provide many benefits:

- Provide survivor income
- Help insure that debts are paid
- Supplement your retirement income
- Help insure your spouse's retirement
- Help protect your estate
- Leave a legacy
- Help protect your business
- Attract or retain a key employee

Get a fresh perspective on your life insurance

When you purchased your policies, you may have made certain assumptions about policy charges, interest rates, planned premiums, and other issues. But in life, there's just one constant: change. The original reason for your purchase may still exist, yet your needs may have changed, requiring more or less coverage. A new family situation, a different career, a shift in financial status—any of these common events plus many others should trigger a reevaluation: Do the life insurance choices you made before still make sense now?

Our Life Insurance Professional Analysis and Review (PAR) is an objective and comprehensive way to help you understand your existing policies, identify your current needs, and gain insight for appropriate adjustments if necessary.

You should consider a Life Insurance Professional Analysis and Review when:

- Your need for life insurance may have increased or decreased.
- Extended periods of low interest rates may have affected policy performance and require more premium dollars to meet policy charges.
- Your health may have improved, qualifying you for a better rating.
- Your family or business situation may have changed.
- Loans, withdrawals, or other policy changes may have affected the policy's performance.
- Premiums may not have been paid as planned.

A good opportunity for you

An objective, consultative analysis brings clarity to your life insurance options and gives you a chance to:

- Review your current situation and need for life insurance.
- Determine if your existing policies still meet your needs, and where applicable, indicate funding adjustments appropriate for your current situation.
- Consider any possible improvement in your underwriting class.
- Review any new riders that might be available.
- Understand the provisions and benefits within your existing policy.
- Consider alternatives that might better meet your needs, such as: policies with secondary guarantees, extended maturity options, better loan provisions, lower policy charges, and better underwriting classes.
- Build a stronger relationship with your financial advisor.

The PAR process

Lincoln Financial Group has built a simple yet thorough needs analysis process that brings transparency and confidence to life insurance choices. Designed for clarity, our Professional Analysis and Review (PAR) provides an objective perspective on your life insurance requirements, performance, and options. Here's how it works:

1 Review

Review your current needs and purpose for life insurance.

Does the existing amount and type of insurance meet your current requirements?

2 Analyze

Discuss your needs and objectives with your financial advisor and complete the Policy Evaluation Guide Data Form.

3 Evaluate

Review and evaluate current policies and compare them to alternative solutions.

A Policy performing

If existing policy is performing as expected or better, and if needs have not changed, no further analysis is needed.

Continue to review periodically to be sure policy is on course.

B Policy not performing

If existing policy is not performing as expected, or if needs have changed, determine action required to reach goal within existing policy.

If funding needs to be increased to reach goal, or if the goal has changed, work with your financial advisor to correct the situation within the existing policy.

C Consider alternatives

If appropriate, consider other policies.

Work with your financial advisor to determine which new policy would suit your needs.

Clarify your options

If you are considering making changes to your existing life insurance plan, it's important to weigh the implications of your decisions. There is no "right" answer, only the need to determine what is most important to you. Your financial advisor can help you understand the pros and cons of your choices. Following are some possible reasons to keep your existing coverage as well as reasons to consider a replacement policy.

Possible reasons you might keep a policy

New contestable period
Any time a new policy is purchased a new contestable period begins. Policies can be contested within the first two years after issue to discover if any material information was not revealed on the application that would have affected the insurer's decision to issue the policy. For replacements with the same insurer, some companies apply a new contestable period only on an increase in the amount of insurance.

New suicide period
A new two-year suicide period begins with a new policy. It's important that you're fully aware of this provision. For replacements with the same insurer, some companies apply a new suicide period only on any increase in the amount of insurance.

Existing loans
Some policies offer favorable loan interest rates or "wash loans" after a policy has been in-force for a period of time, often 10 years. In some situations, loans are not transferable from one policy to another. Additionally, some insurers do not recognize the transfer of a loan as a tax-free exchange, even if the receiving company can accept a loan.

New acquisition costs
New life insurance contracts contain sales charges and acquisitions costs that must be recouped via the payment stream. Older policies may have already accounted for these charges.

Guaranteed crediting rates
There may be a higher guaranteed minimum interest crediting rate on an older policy.

Surrender period is less
Beginning a new life insurance policy also means a new period for surrender charges. It could be that your existing policy is almost out of the surrender period.

Special internal exchange rules

Some policies have a special internal exchange feature. This might include favorable underwriting, or waiving surrender charges if you were to make a transfer.

Change in underwriting status—for the worse

If you have experienced an adverse change in your health, a new policy might mean a higher rating. It might be best to consider paying additional premium in the existing policy to keep it in-force.

Legislative benefits—pre-TAMRA, Cash Rich Testing

Tax laws can change the definition of a life insurance policy, as well as how it is taxed. If a contract was issued before June 21, 1988, it may have some tax benefits that are not available with a new policy. These plans are not governed under the rules for Modified Endowment Contracts (MEC). This rule severely reduces the amount of money that can be deposited in a life insurance policy in the early years without losing the "first in, first out" provision in life insurance.

If a policy is a MEC, any money withdrawn is considered interest first, and subject to a 10% penalty below age 59½. In addition, the life insurance corridor amounts were much higher on policies issued before June 21, 1988, so there are much higher funding limits than policies issued after that date.

Another date to remember is December 31, 1984, which relates to Cash Rich Testing, also known as the Recapture Ceiling Test. Financial advisors usually call this a force out. This usually occurs when there is a reduction in benefits under the contract (face reduction, PUA surrender, among other issues). On an illustration this will show up as unrequested withdrawals, and is subject to income tax. Policies issued before December 31, 1984, are not subject to this test.

Possible reasons you might exchange a policy

Secondary guarantees

One of the newer policy design features for universal life includes the ability to guarantee the death benefit based on a fixed premium structure. This guarantee applies even if there is a sustained drop in interest rates or if the current cash value declines or disappears. The real benefit to this type of policy is that you can be assured that the death benefit will be guaranteed, as long as the premium is paid according to schedule. Guarantees are based on the claims-paying ability of the issuing company.

Better mortality

Along with dramatic improvements in medical science comes a corresponding increase in life expectancy. Because of this, many new policies have lower mortality expenses than existing policies, sometimes significantly lower.

Loan treatment

Having a significant loan on a policy may seem insurmountable, but this doesn't have to be the case. Under the 1035 exchange rules the IRS allows for the transfer of a loan along with the cash value from an existing life insurance policy to another life insurance policy, so long as you are the owner of the policy. Some insurance policies offer attractive loan interest rates that might not be available on the existing policy. There may even be an option of a "wash loan," meaning that interest credited on the loan amount is the same that is charged for the loan. This could be important if you do not plan to pay back the loan. Another potential benefit is the ability to use a cash withdrawal to completely or partially pay back the loan. However, you may not receive favorable tax treatment on the transfer if the purpose is to pay back the loan. If you wish to pay back the loan via a cash withdrawal, you may want to consider paying back the policy loan in a different policy year. Remember, loans and withdrawals will reduce cash values and death benefits. Surrender charges and taxes may also apply.

More competitive plans

In any market, improvements are inevitable and prices tend to decrease because of new innovations. Over time, insurers are cutting expenses and distribution costs. When this is combined with other pricing improvements, it can lead to a much more competitive product, with lower costs and/or features and benefits not available on earlier plans.

Preferred and plus underwriting

When universal life was introduced 25 years ago, only two classes of standard underwriting were available, smoker and nonsmoker. Since that time, these classes have been subdivided into Preferred, Preferred Plus, and in some instances even a Preferred Select Plus. This occurred first for the nonsmoker class and later for the smoker class. If you fall into one of the preferred classes, you might benefit from the lower mortality charges in an exchange. Even if you fall into the standard class, it is possible that the mortality charges on your current policy might be lower than if you exchanged it for the same underwriting class on a new policy.

Understanding 1035 Exchanges

A 1035 exchange is the process of directly transferring accumulated funds in a life insurance policy or annuity policy to another life insurance policy or annuity policy without creating a taxable event. A 1035 exchange allows you to exchange outdated contracts for more current and efficient contracts, while preserving the original policy's tax basis and deferring recognition of gain for federal income tax purposes.

Special underwriting programs

If you are currently rated, and the existing company won't remove the rating, it is possible that you could qualify under a special underwriting program. If your health has improved from a previous rating, or if your health is currently viewed more favorably, you might benefit from a program like this.

Extended maturity

Many existing policies have an age 85, 90, or 95 maturity date. When a policy matures, the policy cash values will become payable to the owner of the policy, and taxes will be due on any gain. The insurance contract will be completed, so the face amount will not be paid.

If you live to the maturity of your policy, another issue could arise related to loans. One of the real benefits to universal life is the ability to withdraw cash value up to basis tax-deferred, then switch to loans, again tax-deferred. If a policy matures with an outstanding loan or lapses, any gain that has been received is taxable. Paying income tax at that time can be devastating to a policyowner, as the taxes are due but there is usually not enough net cash value in the policy to pay the tax.

This problem may be avoided with some new policies which have no maturity date. They are designed to continue the death benefit as long as you live. At age 100, most charges are discontinued and any cash value continues to accumulate at the current interest rate. If loans exist, as long as there is a positive cash value, no tax will be due. At your death, the net death benefit is paid (face amount minus loans and withdrawals).

Company strength

One of the most important factors you should consider is the strength and stability of the issuing life insurance company. The higher the ratings of a company, the more likely this company is to keep its promises to its policyowners. Ratings are reviewed annually by third parties and vary by criteria.

Legislative benefits—pre-TAMRA

Previously we mentioned that if a contract was issued before June 21, 1988, it may have some tax benefits that are not available with a new policy. If one of these plans is 1035 exchanged to a newer plan, it's very possible that the new plan won't be a MEC. When cash value is transferred from one policy and qualifies under the 1035 exchange provision, the cash value is not considered a single premium, but spread over several years.

Special considerations for trust-owned life insurance

PAR is valuable for all life insurance policyowners, but it is especially critical for trust-owned life insurance.

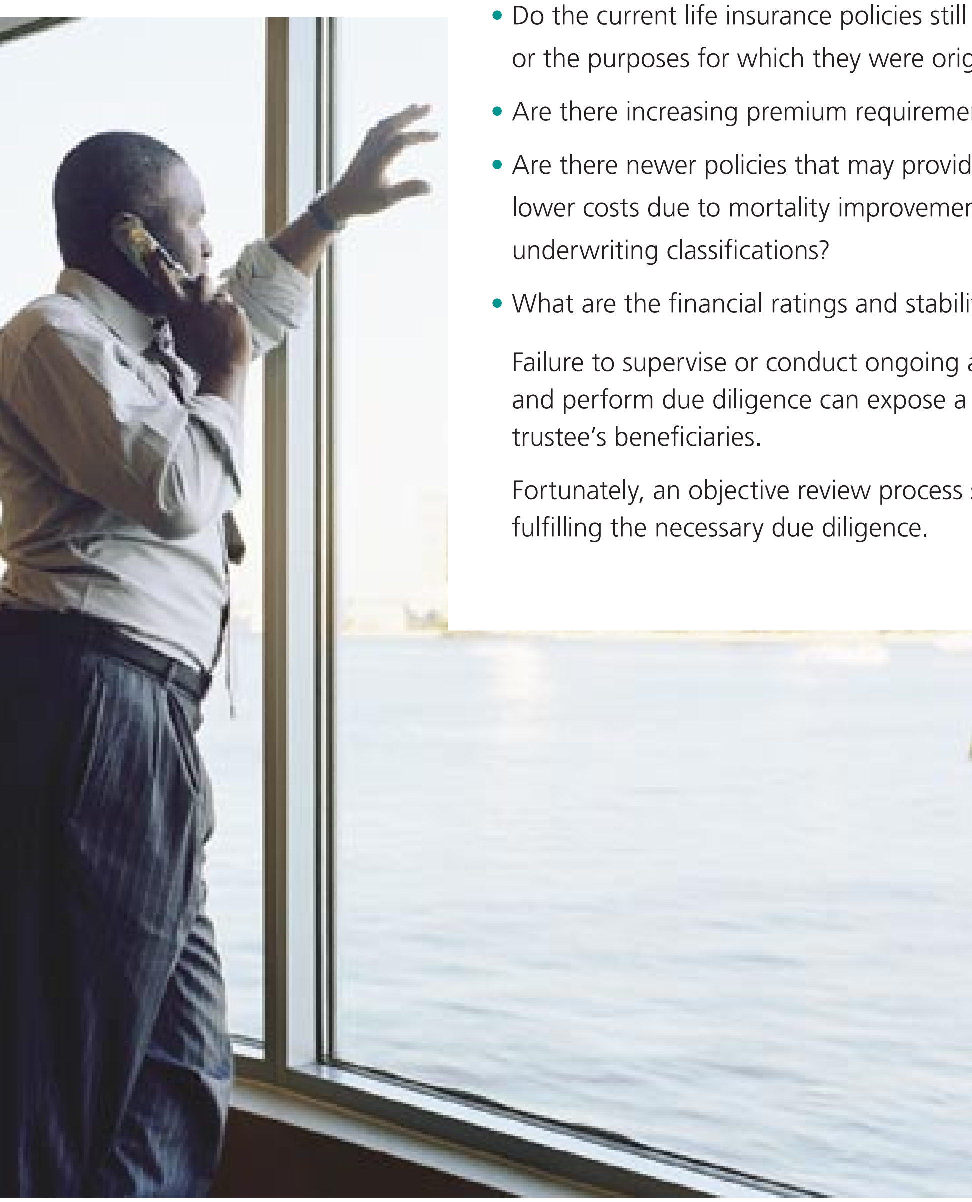
In recent years several events, such as the adoption of the Uniform Prudent Investors Act and newly enacted state regulations, have heightened the fiduciary responsibilities and care standards for trustees. For banks designated as trustees, the Office of the Comptroller of the Currency has set standards that specifically outline the responsibilities regarding the purchase of and ongoing review/monitoring of life insurance policies. The message is clear: trustees need to provide ongoing due diligence on the life insurance owned by the trust.

That due diligence should address the following key questions:

- Do the current life insurance policies still meet the trust beneficiaries' needs or the purposes for which they were originally purchased?
- Are there increasing premium requirements?
- Are there newer policies that may provide secondary death benefit guarantees, lower costs due to mortality improvements, additional rider options, or improved underwriting classifications?
- What are the financial ratings and stability of the life insurance carrier?

Failure to supervise or conduct ongoing asset reviews, including life insurance, and perform due diligence can expose a trustee to possible litigation from the trustee's beneficiaries.

Fortunately, an objective review process such as PAR can be an integral part of fulfilling the necessary due diligence.



PAR can bring insight to your life

- It's always a good idea to review your situation every few years, and a Life Insurance Professional Analysis and Review offers an objective way to make sure that your insurance coverage is appropriate for your needs.

Your financial advisor will talk with you about your life insurance position in relation to your original and current goals. This professional will gather information about your policies and request several illustrations from the issuing companies to see if your life insurance policy is on track, and if not, what is necessary to bring it up-to-date. After all information is received, your financial advisor will review the findings with you. If changes need to be made, the financial advisor will offer suggestions to adjust your current policy or suggest alternatives to help you reach your goals.

Life changes. And your life insurance situation changes as well. Be confident that the insurance you have truly reflects your life and your goals. Get a clear picture by requesting a free Life Insurance Professional Analysis and Review from your financial advisor today.

A tradition of integrity

At Lincoln Financial Group, we have a 100-year heritage of helping people find solutions to their financial challenges—with the same honesty, integrity, and responsibility that you'd expect from our namesake. It's a legacy that we proudly and respectfully continue each day. We believe our continued commitment to strength and stability is indispensable to who we are and critical to your confidence in us. We are a proven industry leader in identifying and delivering sophisticated financial strategies and product solutions for the creation, protection, and enjoyment of wealth. We are committed to helping clients redefine their retirement because we don't believe retirement is an end—it's an opportunity for everyone to start doing what they were meant for all along.

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