TERM OR PERMANENT LIFE INSURANCE

WHICH OPTION IS RIGHT FOR YOU?

It's the age-old life insurance question: Should you buy term or permanent life insurance? Some personal finance experts would have you believe the choice is clear. They believe term insurance is always the right solution; others say permanent is, but is it really that simple? Common sense dictates few issues are ever that black and white.

The first thing you need to understand is that there is no one-size-fits-all solution. The kind of life insurance that's right for you depends on your unique financial goals and circumstances. It's also important to realize term and permanent life insurance are very different products and are intended to meet different needs. To determine what the best solution is for you, begin by making sure you understand the key differences between term and permanent life insurance.

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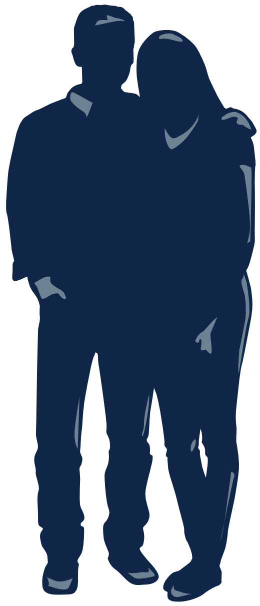


Northwestern Mutual®

YOU KNOW YOU NEED LIFE INSURANCE.

But what kind should you buy? Term? Permanent? A combination of the two?

TERM LIFE INSURANCE

As the name suggests, term life insurance provides your loved ones with financial protection for a specific "term," or period of time (e.g., 10, 20 or 30 years). Term insurance is the most affordable type of insurance. It allows you to get the greatest amount of coverage for the lowest initial premium. You can view term life insurance in the same fashion as car or homeowners insurance – an expense you pay, hoping you never need to use the insurance policy. Most people purchase term insurance with the plan of covering needs that are anticipated to disappear over time, such as a mortgage, business debt or the cost of raising children through their college years.

Most term policies have level premiums, meaning your premiums will remain the same for the life of your contract (e.g., 20 years). The other type of term insurance is called "annual renewable term." With these policies, you are essentially renewing your policy on an annual basis. Annual renewable policies will start at a lower premium; however, the premium will gradually increase each year. Term policies pay a benefit only if you die during the term. If you outlive your policy, it will expire and your coverage will end.

PERMANENT INSURANCE

Where term insurance covers a certain period of time, permanent life insurance provides protection for your entire lifetime. No matter when you die, as long as your premiums are paid, your beneficiaries will receive the proceeds. Permanent policies also build equity called "cash value" that accumulates on a tax-deferred basis – similar to assets in most retirement and tuition savings accounts.

RENT OR BUY

Term insurance is sort of like renting a house. Let's say that you purchase a 20-year, $1 million level-term policy. If you die during the 20 years, your loved ones will receive the $1 million death benefit. If you outlive your policy, it will expire and your coverage will end. You essentially "rented" your policy for 20 years and were left with no "equity" when it expired.

Permanent insurance provides you with lifelong coverage and is more like owning your home. You build equity and can access that equity via a loan (your home is the collateral) or by selling your house. Permanent life insurance is very similar. The equity (collateral) in your policy is the cash value. You can access the cash value by taking a loan (paying interest like a home loan) or by selling (cashing in) your policy.

READY, SET … NOT SO FAST.

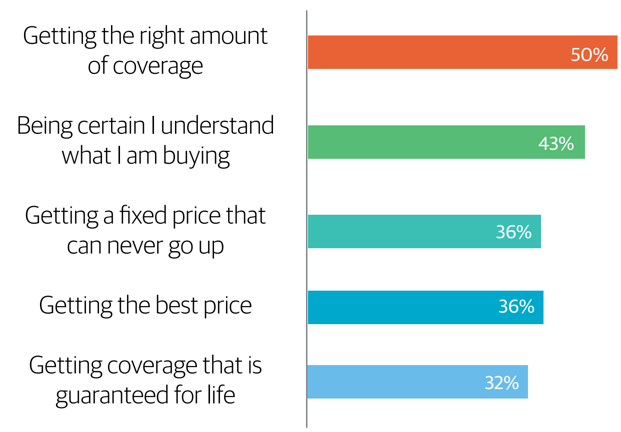
"What kind should I buy?" is an important question, but it's not the first question you need to ask yourself when considering a life insurance purchase. In fact, there are four other questions you first need to consider. Once they have been asked and answered, you'll be ready to make an informed decision about what type of insurance you should buy.

QUESTION 1: WHY DO YOU NEED LIFE INSURANCE?

The main reason to own life insurance is to provide your loved ones financial protection in the event of your premature death. And as time goes by, the needs of what the insurance will provide typically evolve as well. In their early 20s and 30s, most individuals purchase life insurance to cover items such as housing, raising children and future income potential. As people move into their 40s, 50s and 60s, their focus also includes supplementing retirement, estate planning and leaving a legacy.

IMPORTANT FACTORS WHEN BUYING LIFE INSURANCE

Percent rating factors as first or second in importance



Source: 2013 Insurance Barometer Study, LIMRA and LIFE Foundation

QUESTION 2: HOW MUCH COVERAGE DO YOU NEED?

This is the most important life insurance question of all. When you die, your loved ones won't be asking, "What type of insurance did Dad have – term or permanent?" There's only one thing they'll want to know: "Is it enough?"

There are numerous online calculators designed to help you determine your insurance needs. However, many of them do not take into account lifestyle impacts and your needs in the future. The best way to figure out how much life insurance you need is to sit down with a financial advisor, who will assess your needs based on your specific financial goals and circumstances. Your advisor will first help you estimate how much money your loved ones would need if you were suddenly gone and could no longer provide for them. The difference between your family's financial needs and the resources in place to meet those needs is your need for life insurance.

Life insurance (term and perm) is one of the few insurance products that require a qualifying health examination. A health scare or the diagnosis of a chronic medical condition could make it difficult for you to afford or qualify for the coverage you need. That is why it's best to purchase life insurance with a forward-looking view – not just what you need today, but what you'll need 5, 10 or 20 years from now.

QUESTION 3: WHAT IS YOUR BUDGET?

The primary reason to purchase life insurance is to protect against the financial risk of premature death. If you have budgetary restrictions and the amount of coverage you require can only be attained today by purchasing term insurance, you should buy term insurance. The worst-case scenario would be buying insurance that is too expensive and determining shortly thereafter you cannot afford it and let your policy lapse.

If term insurance is being purchased, make sure you ask if your policy can be converted to a permanent policy. Many term policies have the option to convert some or all of it to permanent insurance for a certain period of time without having to provide additional proof of insurability. If you're beginning the buying process with budget flexibility, you can consider the full range of options – from lower-cost term insurance to permanent policies that offer more benefits. As your income grows and your needs evolve, purchasing a term policy with conversion privileges is key to making sure your insurance has the flexibility needed to grow with you.

QUESTION 4: WHAT ARE YOUR OTHER FINANCIAL PRIORITIES AT THE MOMENT?

The decision to buy life insurance should never be made in isolation. You need to look at your overall financial needs if you would die and determine how much you can spend on life insurance relative to other financial commitments.

BUY TERM AND INVEST THE DIFFERENCE: GOOD ADVICE?

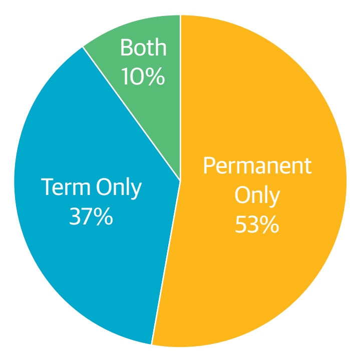
In the popular press, you may have heard the advice, "Buy term and invest the difference." Proponents of this advice believe term insurance is the right choice for just about everyone. They argue that if the savings component of permanent life insurance is something that appeals to you, you should "buy term and invest the difference" rather than buying a permanent policy. With a term policy, you will certainly get the life insurance coverage you need at the most affordable price and, if you're a disciplined investor, you could achieve much better returns investing on your own than you would if you were to buy a whole life policy. Sounds good, but is it smart advice?

Let's take the scenario above. If you, in consultation with your financial advisor, determine you need life insurance for only a set number of years, then buying term and investing the difference might be a good solution. If you have a short-term need for coverage, then it makes sense to address that need with a product that is designed and priced for the short term.

But, if you have a longer-term need for coverage (e.g., longer than 20 years), the "buy term and invest the difference" approach may not be right for you.

WHAT AMERICANS OWN

When it comes to individually owned life insurance, Americans see value in both permanent and term policies.



Source: Person-Level Trends in U.S. Life Insurance Ownership, LIMRA, 2011

HERE ARE SOME REASONS WHY:

Most people don't "invest the difference"– Despite their best intentions, many Americans aren't great at saving and investing. They lack the discipline needed to set aside money on a consistent basis. A permanent life insurance policy has the cash-value accumulation built in.

Buying additional term coverage can be expensive – Many people buy term insurance and later realize they need coverage for a longer period of time than their policy covers. If you find yourself in that situation, you'll need to apply for a new policy, and you may find coverage has become too expensive or unavailable due to your age and health status. When you buy a permanent policy, you never have to reapply for coverage and premiums are often level for life.

Life Insurance is just one piece of your plan – The first thing to remember is that you shouldn't view a permanent life insurance policy as an investment. It's a protection product with a savings-like component (the cash value). Also, it's not an all-or-nothing approach. Life insurance is an important part of your overall financial plan, but it is only one piece. Your financial advisor should be working with you to ensure the other elements of your plan (income protection, long-term care planning, retirement planning, etc.) are also being addressed appropriately.

THE IMPORTANCE OF INSURABILITY

When you buy a term policy, you're locking in your insurability for the term of your policy (e.g., 20 years). If you feel you still need coverage after your policy expires, you can apply for a new policy. However, the cost will likely be much higher because you'll be 20 years older.

A better option might be to convert some or all of your term insurance into a permanent policy. Most term policies come with conversion privileges, allowing you to convert to a permanent contract without having to complete a health questionnaire or take a medical exam. Some term policies allow you to convert at any time during the life of your contract, while others allow it for a set number of years (e.g., the first 10 years of a 20-year term).

When you purchase a permanent policy, insurability is less of a concern since the policy will remain in force regardless of your insurability as long as you continue to pay your premiums. In addition, some permanent policies include guaranteed purchase options, allowing you to buy additional coverage without having to show additional proof of insurability.

THE MANY REASONS TO OWN LIFE INSURANCE

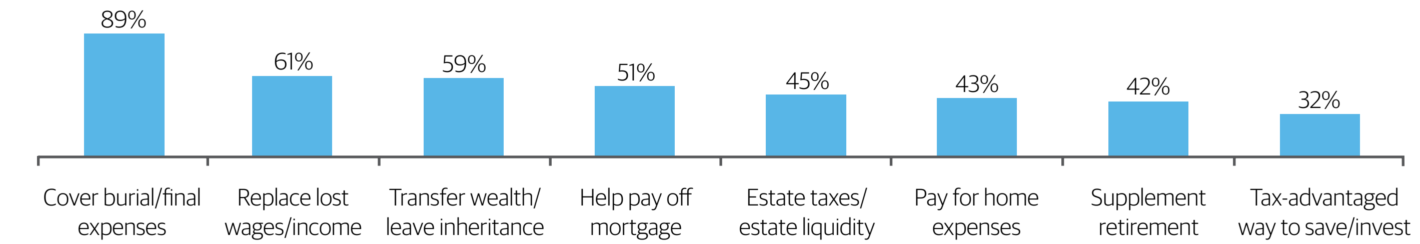
A key consideration in determining what type of life insurance to buy is knowing what you want the life insurance to do for you and your loved ones. In a recent study, consumers indicated "covering burial expenses" and "replacing lost wages" were the top reasons for owning life insurance (see chart next page). Both term and permanent life insurance can provide for these needs.

However, the needs for insurance typically evolve as you move through certain life stages. Consumers also see value in owning life insurance to transfer wealth, pay estate taxes and supplement their retirement income. If these are important or will be important reasons to own life insurance, you'll want to make sure the policy you purchase can address those needs.

Beyond burial expenses and lost wages, here are some additional reasons why people include life insurance in their financial plans.

TOP REASONS FOR OWNING LIFE INSURANCE

Percent major or minor reason



Source: Insurance Barometer Study, 2013 LIMRA

1. **Leave a legacy.** Life insurance is a great way to leave a financial legacy for your loved ones or for causes you care about (e.g., a charitable organization). You can accomplish this with term insurance only if you die during the term of your policy; with a permanent policy, you know the coverage will be in force whenever you die.

2. **Pay estate taxes.** Life insurance can help you meet estate tax obligations, especially if money is tied up in assets that may be difficult to liquidate on short notice – such as real estate, family businesses or leveraged investments. Both term and permanent policies can provide this liquidity; however, term insurance will accomplish this only if you die during the term of your policy. With a permanent policy, the coverage will be in force as long as you live.

3. **Transition ownership of a business.** If you're a business owner, you want to make sure your family gets fairly compensated for your share of your business when you die. To accomplish this, many business owners set up buy-sell agreements and fund them with permanent policies purchased on the lives of each of the owners. When an owner dies, life insurance proceeds are used to buy out the interests of the deceased owner at a previously agreed-upon price. The remaining business owners don't have to scramble to come up with the money to buy out the share of the deceased owner, and surviving family members get compensated fairly and promptly.

THE TAX BENEFITS OF LIFE INSURANCE

1. **Tax-free death benefit** – Whether you own a term or permanent policy, the money your family receives when you die will generally be tax-free.

2. **Tax-deferred growth** – With a permanent policy, cash values accumulate on a tax-deferred basis.

3. **Tax-favored access to cash values** – With a permanent policy, withdrawals of your cash values are tax-free up to the amount you've paid in premiums.

4. **Bolster your retirement security.** For many people, the money in their 401(k)s or IRAs is the mainstay of their retirement savings strategy. When you retire, you may need more income than your pension plan, 401(k) or Social Security can provide. You can use the cash value in a permanent life insurance policy to help supplement your retirement income.

5. **Fund education.** If you have a child and plan to send him/her to college, you may have a 529 plan. The money you put into a 529 plan grows tax-free, and withdrawals are tax-free, too, as long as the funds are used for qualified education expenses. Though not a substitute for a 529 plan, a permanent life policy can be another vehicle to help fund a child's education. Like a 529 plan, the cash value in a permanent policy grows tax-free, and withdrawals can be tax-free, too, provided they don't exceed the amount you have paid in premiums. Additionally, the cash value in a life insurance policy is not included in federal college financial aid calculations – an important consideration given that roughly two-thirds of all undergraduate students receive some form of financial aid.[1]

SUMMARY

Determining how much and what type of life insurance to buy may be one of the most important financial decisions you'll ever make. As you contemplate your options, be wary of experts who offer one-size-fits-all advice. Just as permanent insurance isn't the right solution for every circumstance, neither is term life insurance. Few financial issues are ever that cut-and-dried. At the end of the day, what's most important is making sure you've taken the necessary steps to ensure your family's long-term financial security. The policy you purchase today should have the flexibility necessary to accommodate your needs tomorrow.

When choosing a life insurance policy, another consideration should be the strength of the company. If the company is unable to pay the benefits promised in the life insurance policy, then every other consideration is unimportant. You can review the strength of a company by checking its financial ratings. All life insurance companies are ranked by independent rating services who base their evaluations on a company's financial strength, overall operation, and their claims-paying ability.

A FINAL WORD: DON'T DELAY

If you're reading these words, then you've taken an important first step. You recognize the need to protect your loved ones and you're arming yourself with the knowledge to make an informed decision. Now, it's time to take the next step. Ask yourself, "Are my financial plans, including my life insurance, where they need to be?" If the answer is "no" or "I don't know," a financial advisor can help analyze your situation and provide you with recommendations to help get your financial plans on track.

[1] Education Department's National Center for Education Statistics as reported in the Chronicle of Higher Education (4/15/2009).

Accessing the cash values through policy loans, surrenders of dividend values, or cash withdrawals will or could: reduce the death benefit; necessitate greater outlay than anticipated; or result in an unexpected taxable event.

Please consult with your legal or tax advisor for specific legal or tax questions.

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