

Protect what matters most

Your guide to life insurance



Table of contents

The language of life insurance	3
5 life insurance myths	4
Types of life insurance	5
Determining the right type for your unique needs	6
Replacing existing life insurance coverage	7



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 ensure your family is taken care of 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.

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

A legal contract that pays a benefit upon death of the insured.

Insured

The person whose life is covered under the policy.

Policy owner

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.

Beneficiary

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

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.

In force

It's the same as saying your life insurance 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

Amendments that expand or restrict a policy's benefits. Selecting or foregoing riders will affect the cost of the policy.

Accelerated death benefit rider

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 exercised.

Waiver of premium

Rider or provision included in most life insurance policies exempting the insured from paying premiums after insured has been disabled for a specified period of time, usually six months.

Conversion privilege

A provision 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

The periodic payment required to keep an insurance policy in force.

Death benefit

The amount of money payable to the beneficiary as a result of the death of the insured.

Cash value

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.

5 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 only 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 provide a spouse with income replacement during a difficult time and can complement an investment portfolio.

Myth 2

Life insurance is just for "older" people.

Younger individuals are often less likely to die. But they're 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 for when life throws a curveball.

Myth 4

Life insurance is expensive.

Life insurance costs less 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.

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 2018 Insurance Barometer Study, LIMRA and Life Happens

Types of life insurance

There are two primary types:

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

Coverage that you can't outlive as long as you pay your premiums. Allows you to build cash value that 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 meet your unique needs.

Whole life³: The oldest form of permanent life insurance. It provides a fixed, level premium and a fixed, level death benefit for life. The policy's guaranteed cash value typically grows at a rate that will enable it to equal the death benefit at age 100.

Universal life: Delivers flexible premiums and death benefits. Usually, it includes a cash value account that accumulates at a floating rate of interest with a minimum rate guarantee. While some universal life policies focus on providing guaranteed death benefits, some other policies also focus on accumulating cash values.

Indexed universal life: Offers many of the same benefits as traditional universal life insurance, with one primary difference — the way interest is credited to the cash value of the policy. With traditional universal life policies, the insurance company declares a fixed rate of interest. But with an indexed policy, interest is credited to the cash value based on the movement (up and down) of a specific stock market index or indexes over a specific period of time. Over the long term, an indexed policy could mean more cash value.

Variable universal life: Combines the flexibility of universal life with the performance of investment accounts. Since variable policies are performance-based, they may outperform or underperform a traditional whole life or universal life policy. Both the premium and the death benefit are flexible. The net premium is directed to investment sub-accounts, with potential growth in cash value and death benefits tied to the accounts' performance.

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

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:

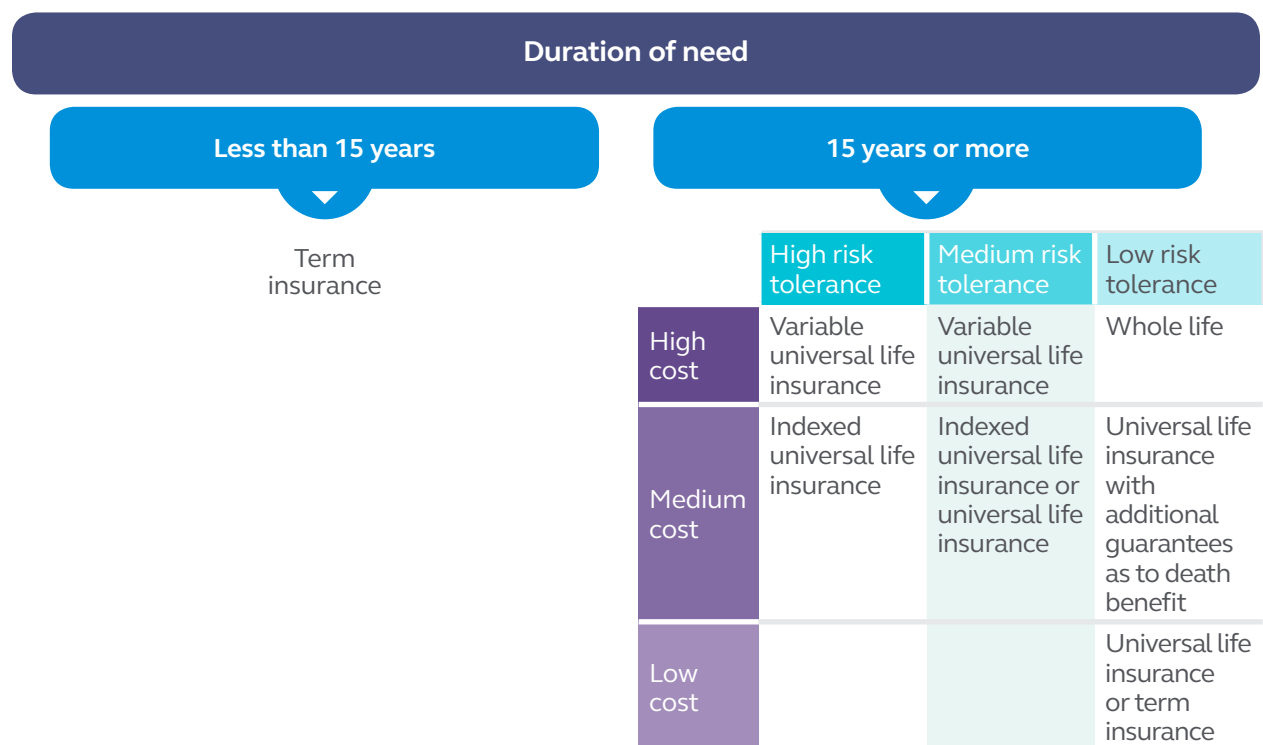
Duration of
your need

Cost that
fits your
budget

Personal
risk
tolerance

Life insurance decision tree

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



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

1

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

Possible reasons to replace

- New coverage has everything old coverage has, but is considerably less expensive.
- Ben would like to purchase some or all of his coverage with cash-value insurance.
- Ben wants to add to his coverage, and it makes sense to keep it in one policy in order to save on fees.
- Ben wants to take advantage of some new riders and features available in the new policy that are not included in his current one.

Cautions or reasons not to replace

- If Ben's health has changed, he may no longer be insurable at favorable rates, if at all.
- Ben'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 Ben's policy, and while it's rare a payout would be challenged, Ben values the peace of mind that comes with those clauses no longer being in place.
- Ben has riders and features in his current policy that he wants to keep, but they aren't available in the new policy.

2

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

Possible reasons to replace

- Values have significantly decreased, and the policy is in danger of lapsing.
- Katie is tired of seeing her cash value go down and wants to get into a more conservative policy.
- Katie had to take some large loans against her cash value, and the loan interest plus the policy costs are eating up her remaining values.

Cautions or reasons not to replace

- If Katie'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 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 a part of the overall planning process.



Ask your financial professional how to help you protect your future and pick the life insurance policy that's right for you.



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 provided with the understanding that Principal® is not rendering legal, accounting, or tax advice. You should consult with appropriate counsel or other advisors on all matters pertaining to legal, tax, or accounting obligations and requirements.

Insurance issued by Principal National Life Insurance Co. (except NY) and Principal Life Insurance Co. Securities offered through Principal Securities, Inc., 800/247-1737, Member SIPC. Principal National, Principal Life and Principal Securities 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 and symbol design and Principal Financial Group are trademarks and service marks of Principal Financial Services, Inc, a member of the Principal Financial Group.