

FN241: Session 4

Life Insurance Types of Life Insurance

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Reading

George, E. Rejda, and Michael McNamara,
“Principals of Risk Management and Insurance”,
Pearson; 12th Edition (2013).

Chapter: 11 and 19



Types of Life Insurance

- (1) Term Life Insurance policy
- (2) Ordinary life insurance
- (3) Variable life insurance
- (4) Universal Life Insurance
- (5) Variable universal life
- (6) Current assumption whole life insurance

Types of Life Insurance

- Life insurance policies can be classified in two general categories:
 - Term insurance provide **temporary protection**
 - Cash-value life insurance has **a savings component and builds cash values**
- There are many variations of both types available today

Example



Extra Care Plus Campaign (insurable age is 18 - 70 years old.)



Inpatient Coverage

Room, board, physician, operating room and equipment, medication fees and etc



Deductible

Cheaper premium than general health insurance



Affordable Premium

Starting from 285 Baht per month⁽³⁾



Coverage Period

Until attaining the age of 81; however, it must not exceed coverage period of the life insurance policy that this rider is attached to.



Tax Deductible Benefit



Premium Payment Mode

Annual, semiannual, quarterly and monthly

Remark

(1) For coverage plan 6 only

(2) For coverage plans 5 or 6 only (Deductible is 40,000 Baht.)

(3) Healthy insured aged 18 - 20 years old

Example



Smart Return 10/5

View 



Muang Thai Perfect Saving
11/3 Campaign
Short-term premium
payment with annual cash

bonus 



Muang Thai Happy Benefit
15/10

View 



Muang Thai Super Saver
25/16

View 

(1) Term Life Insurance Policy

(1) Term Life Insurance policy = protection is temporary

- Protection expires at the end of the policy period, unless renewed
- Most term policies are renewable for additional periods
 - Premiums increase at each renewal
- Most term policies are convertible, which means the policy can be exchanged for a cash-value policy without evidence of insurability
 - Under the attained-age method, the premium charged for the new policy is based on the insured's attained age at the time of conversion
 - Under the original-age method, the premium charged for the new policy is based on the insured's original age when the term insurance was first purchased

Examples: \$500,000 Term Life Insurance Premiums

Male Annual Premiums					
Age	10 Year	15 Year	20 Year	25 Year	30 Year
30	\$ 140	\$ 195	\$ 230	\$ 320	\$ 415
35	\$ 145	\$ 195	\$ 255	\$ 375	\$ 465
40	\$ 200	\$ 260	\$ 340	\$ 560	\$ 680
45	\$ 295	\$ 455	\$ 585	\$ 855	\$ 1,110
50	\$ 450	\$ 690	\$ 955	\$ 1,390	\$ 1,990
55	\$ 685	\$1,025	\$1,470	\$ 2,765	\$ 4,705
60	\$1,110	\$1,710	\$2,535	\$ 5,735	\$ 7,645
65	\$1,920	\$3,360	\$4,970	\$10,045	\$10,045
70	\$4,440	\$5,555	\$9,540	\$13,140	\$13,140

Female Annual Premiums					
Age	10 Year	15 Year	20 Year	25 Year	30 Year
30	\$ 140	\$ 190	\$ 225	\$ 320	\$ 365
35	\$ 145	\$ 195	\$ 230	\$ 375	\$ 415
40	\$ 195	\$ 260	\$ 315	\$ 505	\$ 525
45	\$ 295	\$ 375	\$ 480	\$ 785	\$ 825
50	\$ 435	\$ 520	\$ 665	\$ 1,055	\$ 1,095
55	\$ 645	\$ 730	\$1,070	\$ 1,670	\$ 2,700
60	\$ 950	\$1,255	\$1,745	\$ 2,845	\$ 6,170
65	\$1,550	\$2,030	\$3,130	\$ 7,740	\$ 7,950
70	\$2,425	\$3,885	\$5,845	\$10,990	\$10,990

(1) Term Life Insurance Policy: Uses and Limitations

Uses and Limitations of Term Life Insurance

- Term insurance is appropriate when:
 - The amount of income that can be spent on life insurance is limited
 - The need for protection is temporary
 - The insured wants to guarantee **future insurability**
- However,
 - Term insurance premiums increase with age at an increasing rate and eventually reach prohibitive levels
 - Term insurance is inappropriate if you wish to save money for a specific need

Note: Whole life insurance

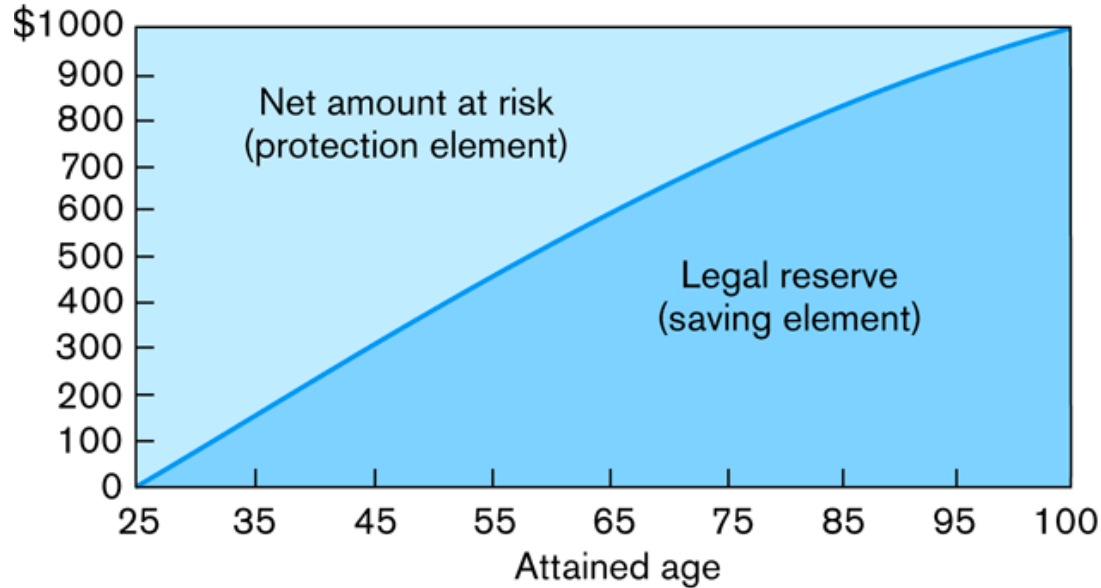
- Whole life insurance is a cash value policy that provides lifetime protection
 - A stated amount is paid to a designated beneficiary when the insured dies, regardless of when the death occurs
 - Types include:
 - Ordinary life insurance
 - Variable life insurance
 - Universal Life Insurance
 - Variable universal life
 - Current assumption whole life insurance

(2) Ordinary life insurance

Ordinary life insurance is a level-premium policy that provides lifetime protection

- **Premiums are level** throughout the premium paying:
SAME Price, while the amount of coverage offered increases
- The **excess premiums** paid during the early years are used to supplement the inadequate premiums paid during the later years of the policy. It is referred to as a **legal reserve**
- The insurer's legal reserve is a liability that must be offset by sufficient financial assets
- The **net amount at risk** is the difference between the legal reserve and the face amount of coverage

Relationship Between the Net Amount at Risk and Legal Reserve (1980 CSO Mortality Table)



- Another characteristic of ordinary life insurance policies is the accumulation of cash surrender values
- An ordinary life policy is appropriate when lifetime protection is needed

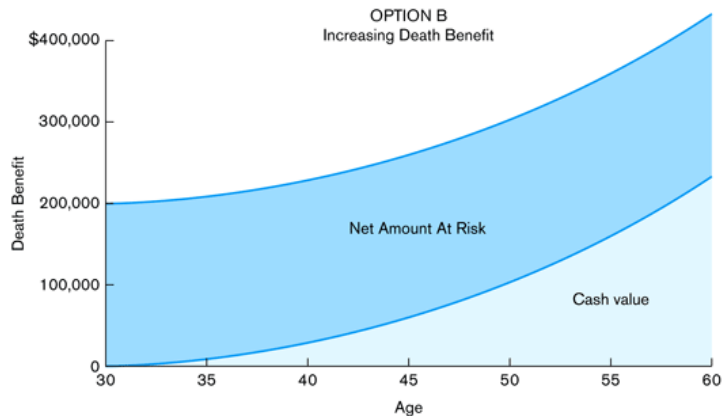
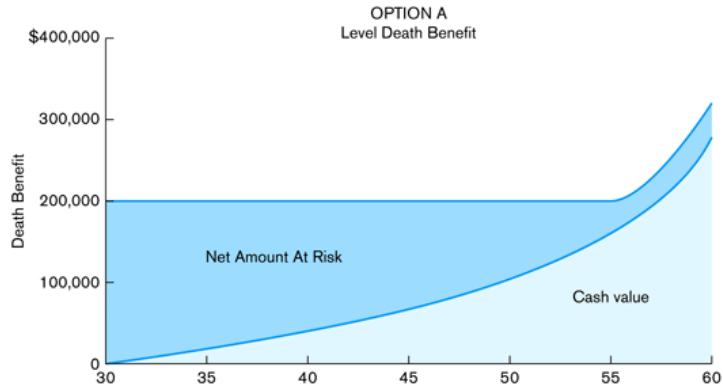
(3) Variable life insurance and (4) Universal Life Insurance

(3) Variable life insurance is a fixed-premium policy in which the death benefit and cash values *vary* according to the investment experience of a separate account maintained by the insurer

(4) Universal Life Insurance is a flexible premium policy that provides lifetime protection

- After the first premium, the policyholder decides the amount and frequency of payments
 - Most policies have a target premium, but the policyowner is *not obligated* to pay it
- The protection and savings components are unbundled
 - the policyholder's statement shows the premiums paid, death benefit, and value of the cash value account
 - It also shows the mortality charge and the interest credited to the cash value account

Exhibit: Universal life insurance



- There are two forms of universal life insurance:
 - Option A pays a level death benefit during the early years
 - The death benefit increases in later years to meet the corridor test required by the Internal Revenue Code
 - Option B provides for an increasing death benefit
 - The death benefit is equal to a constant net amount at risk plus the accumulated cash value

Example: Whole Life Insurance

Example: Assume that Jason, age 25, buys a universal life policy with a level death benefit of \$100,000. The annual planned premium is \$445.

Each premium is subject to a 5 percent premium expense charge. The policy has a monthly administrative charge of \$6. The policy provides for a maximum mortality charge, but the current mortality charge is only about two-thirds of the maximum rate. The policy has a guaranteed interest rate of 4.5 percent and a current interest rate of 5.5 percent that is not guaranteed.

Annual premium	\$445
Less:	
Premium expense charges	-22
Administrative charges	-72
Mortality cost	-113
	<u>\$238</u>
Interest at 5.5 percent	+13
Cash value account end of year	<u>\$251</u>

BLA PRESTIGE LIFE

Insurable Age

1 Month to
65
Years Old

Coverage up to

99
Years Old

Premium Payment

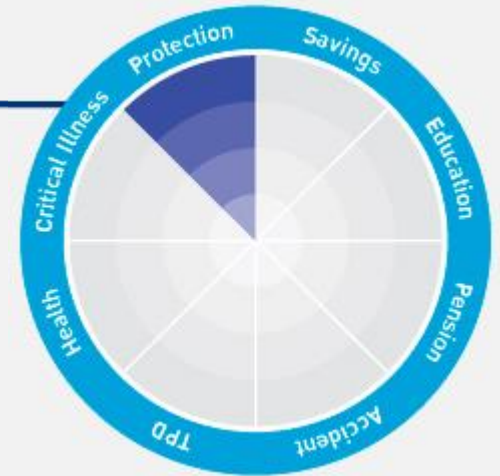
5, 10, 15
Years

Sum Assured Start from

10 Million Baht

Receive payment on Policy Maturity Date

100%
of Sum Assured



Life Coverage

100% of sum assured or cash surrender value or paid premiums, whichever is higher

Policy Year

1 2 3 4 5 ... 9 10 11 ... 15 16 ... Age 99

Premium Payment Period

5 Years

10 Years

15 Years

On Policy Maturity Date

Receive **100%**
of sum assured

(4) Universal Life Insurance

- Universal life provides considerable **flexibility**
 - Cash withdrawals are permitted with and policies receive favorable federal income tax treatment
- Limitations of universal life policies include:
 - Insurers advertise **misleading rates of return** – Gross Rate vs. Net Rate
 - Cash-value and premium-payment projections based on **higher interest rates** are misleading and invalid
 - Insurers can **increase the current mortality charge** to recoup expenses
 - A policy may lapse because some policyowners do not have **a firm commitment** to pay premiums

(5) Variable universal life

Variable universal life is an important variation of whole life insurance

- Most are sold as investments
- Similar to universal life except that:
 - The policy owner decides how the premiums are invested
 - The policy does not guarantee a minimum interest rate or minimum cash value
- These policies have relatively high expense charges, including front-end loads for sales commissions, back-end surrender charges, and investment management fees

mDesign



Financial Planning

One policy can make various financial plans



High Flexibility*

Choose the desired premium amount, change sum insured, reallocate investment portion as needed in each life stage



Higher Yield Opportunity

By investing in mutual funds of top asset management companies



Insurable Age

1 month - 70 years old



Coverage Period

Upon attaining the age of 99, as long as investment value is sufficient for cost of insurance, policy maintenance fee and other policy fees



Premium Payment Period

Upon attaining the age of 99



Minimum Premium

- Annual 20,000 Bath
- Semiannual 10,000 Bath
- Quarterly 6,000 Bath
- Monthly 2,000 Bath



Money Market Fund



Fixed Income Fund



Balance Fund



Equity Fund




Foreign Equity fund



Alternative Investment Fund



Fund Type	Management Company	Historical Performance (%)				
		3months	6months	1year	3years	Year to Date
Money Market Fund		0.34	0.67	1.27	1.25	0.24
Fixed Income Fund		0.59	0.98	1.23	1.46	0.31
Balance Fund	 	0.85	-0.24	-0.53	3.63	2.25
Equity Fund	   	0.60	-3.54	-7.73	9.57	5.54
Foreign Equity fund	  	1.10	-4.28	-1.09	10.24	8.57
Alternative Investment Fund	 	5.64	5.73	6.87	5.66	4.96

Source: www.muangthai.co.th/en/product/main/investment-linked/unit-linked-list/funds-fact

(6) Current assumption whole life insurance

Current assumption whole life insurance is a *nonparticipating whole life policy* in which the cash values are based on the insurer's current mortality, investment, and expense experience

- An accumulation account reflects the cash value under the policy
- If the policy is surrendered, a surrender charge is deducted from the accumulation account
- A guaranteed interest rate and current interest rate are used to determine cash values
- A fixed death benefit and maximum premium level at the time of issue are stated in the policy
- Two forms of current assumption whole life products:
 - Low-premium products, with a low initial premium
 - High-premium products, with a vanishing premium provision

MUANG THAI UL 1 SIN TAWEE KON BEYOND PLUS



Guarantee
Minimum
Maturity
Benefit

Not lower than
105%*



Single
Premium
Payment

Long Coverage for
10 years



Tax deduction
Benefit**

เมืองไทย
ประกันชีวิต
MUANG THAI LIFE ASSURANCE



Product Features

- Single premium payment
- Long coverage till 10 years
- Insurable age 1 month - 55 years



Investment Portfolio

- Fixed income securities (main allocation)
- Deposits
- Stocks



Coverage

- Receive 130%*** in case of death



Minimum Premium

- 75,000 Baht (Age 5-50 years)
- 100,000 บาท (Age 51-55 years)

premium

rg to the Notification of the Director-General of the Revenue Department on Income
'2 announced on 30 December 2008

le premium or investment value at that time (whichever is higher)

Fund Performance Universal Life



Beyond Savings

Muang Thai Universal Life 1

Ruang Khao UL 1 / Muang Thai UL 1

Historical Returns of Ruang Khao UL 1 / Muang Thai UL 1

Period	Sin Yung Yuen	Sin Perm Sup	Sin Tawee Koon / Beyond Plus
Jan 2019	0.42%	0.76%	1.02%
3 Months	2.21%	2.02%	1.85%
6 Months	2.05%	1.76%	1.56%
1 Year	1.82%	1.23%	0.75%
3 Year	6.61%	8.54%	10.09%
5 Year	21.65%	24.01%	25.61%
Since Launched*	72.85%	84.79%	96.40%

Source: www.muangthai.co.th/en/service/NAV/NAV_Universal_life

Comparison of Major Life Insurance Contracts

	<i>Term Insurance</i>	<i>Ordinary Life Insurance</i>	<i>Variable Life Insurance</i>	<i>Universal Life Insurance</i>	<i>Variable Universal Life Insurance</i>	<i>Current Assumption Whole Life Insurance</i>
Death benefit paid	Level or decreasing death benefit	Level death benefit	Guaranteed minimum death benefit plus increased amount from favorable investment returns	Either level or an increasing death benefit	Either level (option A) or variable based on investment returns (option B)	Level death benefit
Cash value	No cash value	Guaranteed cash values	Cash value depends on investment performance (not guaranteed)	Guaranteed minimum interest rate plus excess interest credited to the account	Cash value depends on investment performance (not guaranteed)	Guaranteed minimum cash value plus excess interest credited
Premiums paid	Premiums increase at each renewal	Level premiums	Fixed-level premiums	Flexible premiums	Flexible premiums	Premiums paid may vary based on insurer experience; guaranteed maximum premium
Policy loans	No	Yes	Yes	Yes	Yes	Yes
Partial withdrawal of cash value	No	No	Permitted in some policies	Yes	Yes	Yes
Surrender charge	No	No explicit charge stated (reflected in cash values)	Yes	Yes	Yes	Yes

Question?