



# HERMANN SONS LIFE

## Life Insurance Buyer's Guide

This Buyer's Guide is intended to help guide you when shopping for life insurance. It explains the importance of the following:

- Examining your needs (Why are you purchasing life insurance?)
- Making sure you understand life insurance and the different plans available
- Determining which plan(s) meet your needs
- Other important information

### EXAMINE YOUR NEEDS

When you buy life insurance, you want coverage that fits your needs. **Review your own insurance needs and circumstances.** Choose the kind of policy(s) and benefits that most closely fit your needs. A comprehensive **Needs Analysis** is a dependable way to calculate the financial needs of surviving family members. Individuals and families using this form privately, or with the aid of a Hermann Sons Life agent, can closely determine current needs and anticipated future needs. Examining needs will help ascertain the amount of death benefit and the type(s) of life insurance plans to purchase.

### UNDERSTANDING LIFE INSURANCE

All life insurance plans are not the same. Certain plans give coverage for your lifetime and others cover you for a specific number of years. Some build cash value and others do not. Various plans may offer other benefits while you are still living. Your choice should be based on your needs and what you can afford. There are two basic types of life insurance: **term life and whole life**. Term insurance usually has lower premiums in the early years, but does not build up cash value like whole life insurance.

**Term Life** plans provide coverage for a stated period of time. At the end of that term the contract ends or, depending on the certificate, may be renewed with premium rates based on the attained age. In a level term plan the coverage ends at a stated time and is not renewable. Generally in a level term plan, the premium payment and death benefit also are level. A renewable term plan may be renewed, without proof of medical insurability, at designated times until a specific age. Premiums at renewal will be based on attained age and therefore will be higher. Premium costs, after age 45, rise rapidly and may become unaffordable in senior years. Term Life does not have cash value or provisions for automatic premium loans. Premiums unpaid 30 days after the payment due date will lapse the contract.

Many term plans have the option to **convert to a Whole Life** plan without evidence of medical insurability but with certain face value limits. In some Term Life plans a conversion credit is available to offset the initial premiums on the Whole Life plan.

**Whole Life** plans are designed to provide coverage for the lifetime of the insured. Whole Life payments are typically level, but are initially more expensive than a Term Life plan for the younger and middle-aged insured. A limited pay Whole Life plan may provide for payments to end after a specific number of years and the plan is then paid in full. Hermann Sons Life also offers an Annual Premium Flex Life plan which is a Whole Life certificate with an interest sensitive accumulation account. It has a level guaranteed death benefit with adjustable cash values.

Whole Life plans develop cash value which may be utilized to pay past due premiums by an automatic premium loan (APL) provision. This loan must be repaid. If not paid, the interest on the loan amount may cause the contract to lapse. At death, any outstanding loan balance will be deducted from the death benefit. Also, the cash value may be used as collateral for a personal loan from the insurance company. The same repayment provisions prevail. The interest rate for any loan is stated in the certificate. Certificates often include other non-forfeiture options such as surrender for cash value or election of a reduced paid-up face value option.

The Hermann Sons Life Flex Life Plan is similar to a **Universal Life** policy with respect to the calculations of the certificate cash value. Universal Life insurance is a flexible plan that allows you to vary your premium payments and adjust the face amount of your coverage. Different plans have different options available. Service charges may apply. An increase in premium payments may be necessary at some point because service charges or low interest rates have depleted the account value. If the increased premiums are not paid the coverage would be forfeited.

**Variable Life** plans depend upon gains or losses in an investment portfolio to determine the death benefit and the cash value. If the investment portfolio increases, the death benefit and cash value increase and if the investment portfolio decreases, so will the death benefit and cash value. In most cases service charges apply. For an additional premium, certain Variable Life plans offer a guaranteed death benefit. Other options may also apply.

### **DETERMINE WHICH PLAN(S) MEET YOUR NEEDS**

Once your needs are examined, you can accurately determine what kind of insurance plan best suits you. Your Hermann Sons Life agent can help you **match life insurance plans to life needs**. Combining two or more plans can usually provide a better fit to financial needs as well as provide a cost advantage. For example, at a younger age a Whole Life plan in conjunction with a Term Life plan may be necessary to meet current needs, whereas in senior years a Whole Life plan alone is utilized because of anticipated lower financial protection needs. A significant savings in premium cost can be expected when buying the Whole Life plan at a younger age.

### **OTHER IMPORTANT INFORMATION**

#### **Make sure an Illustration is provided and explained**

The State of Texas requires an illustration, individualized and specific to the applicant and plan of insurance, be supplied to the buyer during the application process. (In an emergency an application can be written without an illustration, but the illustration must be presented to the applicant as soon as possible.)

The illustration will explain costs and benefits including any changes that will occur in the contract as it ages. The illustration must detail such changes as premium increase or decrease, cash value growth or decline, interest changes, death benefit growth or decline and other contract specifics. Any life insurance contract with a capability of contracting a death benefit of \$15,000 or more and which has non-guaranteed elements must have an illustration. The life insurance contract owner may request an updated illustration as the contract ages.

Each illustration, as required by law, must include a cost index. Each index is calculated using the Texas Department of Insurance formula for all life insurance contracts. The index may be used to compare the cost between life insurance contracts. However, in reality the different elements, options or benefits between contracts may not be easy to compare. The buyer should compare all features to arrive at an appropriate value/cost ratio.

## **Understand the guaranteed and non-guaranteed elements**

Life insurance plans may have guaranteed and non-guaranteed elements. The life insurance illustration provided by your Hermann Sons Life agent will state the guaranteed and non-guaranteed (current) elements such as premium costs and interest rates. The Hermann Sons Life illustration will use the actual current interest rates in the projections. In most cases the current interest rate is not guaranteed and is subject to increase or decrease, affecting the accumulation value and/or the estimated premium-paying period.

## **Consider current and future costs**

Look at insurance needs and then decide if the premium is affordable. Some adjustment to the insurance amount as projected by the Needs Analysis may be required to bring premium payments in line with current and future income. If the premium increases later and you still need insurance, can you still afford it? Be aware that Term Life insurance while inexpensive at a younger age can become costly as one ages. Also consider that Whole Life insurance purchased at an early age and held for the long term may be less expensive.

## **Consider how long you will keep the coverage**

Don't buy life insurance unless you intend to keep it. It may be very costly if you quit making premium payments or change plans. Premium rates will be affected by age and medical condition. The exception is the planned reduction in face value in a Term Life plan due to a reduced need. Buy life insurance with the intention of keeping it in force for a known period of time.

## **Do not cancel one policy to buy another without a thorough study of the new policy and the one you have now**

When considering replacement, do not cancel an existing policy until the new policy has been issued and delivered. Health issues may prevent the issuance of a new policy or affect premium rates. Replacing your insurance may be costly. Make sure you understand the rights and benefits you may be losing. For example, a new policy will start a new contestability period.

## **Reinstatement of lapsed membership**

Hermann Sons Life membership is a requirement for Hermann Sons Life insurance. Membership will lapse when the last of the member's Hermann Sons Life insurance contracts lapse. Reinstatement of Membership after this lapse is available under certain conditions. Reinstatement requires a statement of fact that medical insurability has not changed since the lapse, and payment of all past due premiums and dues is made. The two-year contestability period starts anew. If the insured's premium was rated up for medical reasons, the rating remains in place. The insured is also subject to an additional rating if medical conditions warrant. Reinstatement is subject to decline if the medical condition indicates. For Hermann Sons Life, membership reinstatement must be applied for within three years of the lapse date. A new life insurance application cannot be written during that three-year period.

## **Taxes**

Death benefit proceeds from a life insurance policy do not cause an income taxable event to either the insured or the beneficiary. The death proceeds are not subject to claims by creditors unless the beneficiary is the estate of the insured or the proceeds are assigned to protect a creditor. The face value, even though paid to a beneficiary, may be counted in the estate valuation for estate tax purposes of the insured. Advice from a qualified tax professional should be sought if there appears to be an estate tax liability.

### **30-Day Free Look**

Hermann Sons Life grants a 30-day free look beginning when the certificate is delivered. During this time, a certificate may be rejected by the purchaser for any reason for a full refund of premiums. Once the 30-day free look period expires, this option is unavailable. Read your contract carefully. Contact your agent or call the Hermann Sons Life Home Office about anything that is unclear to you.

### **Review your needs and your coverage frequently**

Review your life insurance program with your agent or Hermann Sons Life Home Office or Marketing Department every few years to keep up with changes in your income, lifestyle and needs. Also, make changes to name, address and beneficiaries to keep your certificate current.

### **NOTICE**

*Hermann Sons Life is a fraternal benefit life insurance society chartered by the State of Texas, organized under 501(c)(8) of the Internal Revenue Code and regulated by the Texas Department of Insurance. Membership is conferred by a local lodge with the approval by the Home Office of a life insurance certificate or annuity contract. Hermann Sons Life is a nonprofit corporation. Certain benefits are available to members but these benefits are not intended as an inducement to buy life insurance. Life insurance always should be purchased on its own merit for the needs and goals of the individual buyer. Licensed to sell life insurance and annuities in the State of Texas as Hermann Sons Life.*

*Membership is available to any person who is a citizen of the United States or has expressed the intent to become a citizen.*

*Life insurance certificates are issued pursuant to normal and standard underwriting procedures and to the laws of the State of Texas.*

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