

The Role of Life Insurance

Life insurance can be one of the most important purchases you make. It can provide protection for family members in the event of a death, replace income, cover education costs and much more. Life insurance can help make sure the people you care about will be provided for financially, even if you're not there to care for them yourself.

Who Needs it?

Most people need life insurance, but may be unsure of when is the best time to purchase it. Here are a few life events that can trigger the need to purchase or review your existing life insurance.

- **Married or Getting Married:** Many families may rely on two incomes and if a spouse passes away would there be enough money to cover funeral expenses, outstanding loans and daily living expenses?
- **New Parents:** Having children can be a big expense; and if a spouse passes away will there be sufficient funds available to provide for the children? Even parents who do not work outside the home need life insurance because they provide services such as childcare and household chores, which would be expensive to replace.
- **A homeowner:** Life insurance can give loved ones a way to pay down the mortgage, sparing them from potentially having to move to a less expensive home or area.
- **Changing Jobs:** If you have changed jobs or have been recently promoted, that would be a good time to re-evaluate your life insurance policy. Many times when income rises, spending tends to rise as well and you want to make sure your coverage allows your family to maintain their current lifestyle in the event something were to happen to the breadwinner.
- **Retired or Planning for Retirement:** Even if your children are no longer dependent on your income, if you pass away will your spouse have adequate coverage? Your spouse could outlive you by a significant number of years and having the proper insurance can help widows avoid financial struggles in retirement.
- **Single:** Most single people do not have a pressing need for life insurance, but there are some exceptions. If you are providing support to parents/sibling or have significant debt that you would not want to pass onto family members, you should consider life insurance.

Replace the
income of a
deceased bread
winner

Pay off a
mortgage or
other debts

Provide funds
for education of
surviving spouse
or children

Fulfill obligations
for divorce
decree or child
support

Benefit a
charitable
organization

What Type of Life Insurance Should you Purchase?

The type of insurance you purchase will depend on several factors. There are many different types of life insurance policies but they generally fall into two categories, term insurance and permanent insurance. Term insurance is designed to meet temporary needs and can be more affordable, while permanent insurance provides lifetime coverage.

| | Term | Permanent |
|--------------------|--|---|
| Length of Coverage | A specified term | Until age 100 or later, as long as premiums are paid |
| Premiums | Considerably lower than permanent insurance when initially purchased | Initially higher than term premiums, but often level for life |
| Cash Value | None | Accumulates on a tax-deferred basis |
| Key Advantage | Typically offers the highest death benefit for the lowest cost | Offers lifelong protection and tax-deferred savings |

Types of Permanent Life Insurance Policies

Whole Life

It provides a fixed, level premium and a fixed, level death benefit for life and accumulates a cash value. The cash value grows tax deferred at a guaranteed rate until the contract is surrendered. Whole life policies tend to have a higher premium but the cash accumulation can be used toward premium payments or taken as loans.

Universal Life

These policies offer flexible premiums and death benefits. They generally include a cash value account that accumulates at a floating rate of interest with a minimum rate guarantee. The accumulation can be used to reduce later premiums or build up cash value.

Indexed Universal Life

Provides the same benefits as traditional universal life insurance with one primary difference; the way the interest is credited to the cash value of the policy. The interest is credited to the cash value based on the movement of a specific stock market index or indexes over a specific period of time.

Variable Universal Life

Combines the flexibility of universal life with the performance of investment accounts. This type of policy has variable sub-accounts similar to a mutual fund, that allow for the investment of the cash value. Variable universal life insurance offers increased flexibility and growth potential over a traditional whole life policy, but also a higher risk since the death benefit is tied to the sub-accounts performance.

The importance of Policy Review

Your life insurance coverage, like all of your other investments, should be reviewed periodically to make certain they are in line with your financial goals for the future. There are many factors that may affect the usefulness of your current insurance policy.

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