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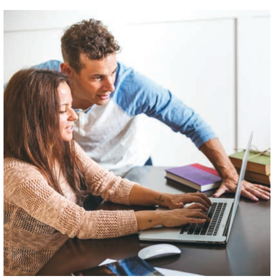
Protect what matters most

Your guide to life insurance

Table of contents



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 also can be set up to 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, these key terms help you see what you get for your money.

The basics

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

Insured
The person's life who is covered under the policy.

Policy owner
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 is 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, this is the amount of money available if the policy is cancelled/surrendered before it becomes payable upon death or maturity.

Reasons why people who need life insurance put it off (and why now is the time to act)

It can be hard to imagine a future without you in it. Talking about life insurance can be very emotional. It's heavy stuff, but you can channel those emotions into ensuring the best possible future for those you care about — no matter what happens to you.

These are the reasons most often cited for avoiding purchasing life insurance and some food for thought that may make you think differently.

Reason 1 I have enough life insurance coverage.[1]	Do you know how long your family's money would last if you weren't there? According to a recent study, half of the households in America report they would feel the financial impact from such a loss in a year or less. Over 40 percent of respondents said they would feel the impact within 6 months, and that 40 percent was the same even for households with an annual income of $100,000 or more. It never hurts to review your needs on an annual basis to make sure your family is protected.
Reason 2 I'm covered at work.	Coverage provided by your employer is called group insurance and is typically a variety that only provides protection up to a certain age. That's what we call term insurance. This type usually provides a death benefit of only one to three times base salary, which may not be enough to cover your family's future expenses. Also, the amount of coverage does not include incentive compensation or bonuses. If you leave your job, the group term insurance may be convertible only to a specific type of cash value policy that may or may not be right for you.
Reason 3 My spouse doesn't work, so we don't need any life insurance on him or her.	While a non-working spouse does not bring home an income, he or she maintains a household by providing essential services that are expensive to hire out. Think about what it would cost to pay someone for child/elder care, cleaning, cooking, etc., particularly, if you live in an area with a high cost of living.
Reason 4 It costs too much. I can always buy it later.[2]	Life insurance may not be as expensive as you think. A healthy 35-year old man may be able to buy a 20-year term life insurance policy providing $250,000 of coverage for less than $17 a month. The fact is, when it comes to life insurance, it's cheaper when you're younger. Unfortunately, that's also when people are more inclined to think they don't need it. Each year you get older, the cost goes up. And your health matters, too. Try as we might, it gets tougher to stay in shape the older you get. Buying life insurance when you're as young and healthy as possible is going to make it as affordable as possible.
Reason 5 Everything I read or hear on TV says that term insurance is always the best deal.[2]	It's true that the premium for a term life policy - as we noted before, this is the type of insurance that only pays out up to a certain age - 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 term policies offer a conversion provision, guaranteeing your right to convert that term coverage into a permanent policy - one where the coverage lasts for life - at the same insurability rating within a certain time. So, again, the earlier you buy, the better off you may be.

[1] 2015 Insurance Barometer Study, LIMRA and Life Happens
[2] Hypothetical example only. For a complete quote, contact your Principal® financial representative

Types of life insurance

The life insurance industry gives sometimes complicated names to its products. To keep things simple, there are two major types:

Term[3]
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[3]
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 life[4]: 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 which 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. Compared to traditional universal life policies in which the insurance company declares a fixed rate of interest, 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] 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.

[4] 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 the 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.

Duration of need

Less than 15 years

Term insurance

15 years or more

	High risk tolerance	Medium risk tolerance	Low risk tolerance
High cost	Variable universal life insurance	Variable universal life insurance	Whole life
Medium cost	Indexed universal life insurance	Indexed universal life insurance or universal life insurance	Universal life insurance with additional guarantees as to death benefit
Low cost			Universal life insurance or term insurance

Replacing existing life insurance coverage

Whether it was a policy your parents bought for you when you were a child or old term coverage that's no longer enough to meet 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	Cautions or reasons not 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.	• 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 to its cash-value products, which are competitive. • Typically, for the first two years of a policy, to protect insurers from fraud, clauses are in place 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, it's important to him to have that behind him. • Ben has riders and features in his current policy that he wants to keep, but they are not 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	Cautions or reasons not 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.	• 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 that these are but a few of the many variables that should be examined prior to replacing existing life insurance policies. Principal financial representatives 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.

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