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Return of Premium Rider adds value to Lifefirst

One of the greatest advantages of term insurance is its lower initial cost when compared to permanent insurance. Term insurance is often a good choice for people in their family-formation years, especially if they're on a tight budget, because it allows them to buy greater levels of coverage when the need for protection is often the highest.

Term insurance is also a good option for covering temporary needs – those that may be significant now but will recede over time. For instance, a client's major financial concern may be paying for her children's college education. However, the client is confident that she won't need life insurance coverage after the children graduate. It makes good sense to recommend that the client buy a term policy that'll get the family through the college years.

"Paying" for term insurance

In situations like the one described above, clients may object to buying term life insurance because they see themselves outliving the specified insurance term and consider the premiums they paid for the coverage as 'wasted money.' Adding a Return of Premium Rider (ROP)[1] to a term product is one of the easiest ways to counter this objection. With an optional ROP Rider added to their Lifefirst[2] plan, clients can ensure they are fully protected, and receive a return of all eligible premiums at the end of their initial 20- or 30-year term[3].

How does it work?

For example[4], David, a 30 year-old non-smoker, purchases a $180,000 Lifefirst 30-year term life insurance certificate with an optional Return of Premium Rider. His total annual premium is $548.24 ($498.40 for the standard base coverage and $49.84 for the ROP). David keeps the ROP Rider in effect for the full initial term by paying the annual premiums as they become due.

At the end of the 30th year, David receives a check for $16,447[5] from Foresters™ – a tax-free return of all eligible premiums paid. It's as simple as that!

Who is the Return of Premium Rider right for?

The Return of Premium Rider may benefit clients who:

- Have a specific term insurance need
- Believe they will outlive the initial insurance term and want to get more value for their term insurance premiums paid
- Are fairly conservative and unlikely to risk their savings on market investments
- Are not likely to invest the equivalent of the ROP Rider premium annually in an outside investment, and will want to minimize the tax impact of any investment earnings
- Are in a higher tax bracket and have no desire to pay more taxes on investment earnings, or want to avoid being pushed into an even higher tax bracket due to any taxable earnings on an outside investment.

Frequently Asked Questions

Q: Since all of the eligible premiums are returned at the end of the term, how much will David pay for the term insurance he purchased?

A: The cost of David's term life coverage is equal to what he could have earned in an outside investment (in interest and capital appreciation) if he had invested the total premium equivalent annually for the duration of the insurance term. Because the ROP Rider will return only the eligible premiums he paid – not the potential interest and capital appreciation – those potential earnings will be used to pay for David's level term life coverage.

Q: If David had invested his money instead of purchasing the ROP Rider, what investment return would he need to earn to yield the same after-tax value as the ROP Rider proceeds?

A: To answer this question, let's assume that David is in a 32% combined tax bracket. We know that the annual premium for his Lifefirst certificate, without ROP, is $498.40. In the example above, if David invests the equivalent to the cost of the ROP Rider ($49.84 annually) in an outside investment, he will need to earn **an annual rate of return of 19.09% for 30 years** to yield the same $16,447 value at the end of 30 years.

Q: Will David need to report the ROP amount as part of his taxable earnings?

A: Under current tax law, the payment is considered his **adjusted cost base** in the insurance contract and, as such, there are no tax consequences.

Q: What if David also adds an Accidental Death Rider or a Waiver of Premium Rider to his coverage? If he completes the contract term, will his ROP refund include the premiums he paid for these two riders?

A: Yes. Assuming all other requirements are met, the ROP Rider will return all the premiums David pays for both the Accidental Death Rider and for the Waiver of Premium Rider.

Q: What if David needs access to the premiums paid prior to the end of the initial term, is there a way he can access the premium dollars paid?

A: Possibly. While the ROP Rider is in effect, David may be able to obtain a loan from Foresters. David must sign a loan agreement with Foresters. The maximum amount of a loan that can be obtained under the ROP Rider will be the amount of the Return of Premium Rider benefit on the date of the loan. The outstanding loan amount plus accrued interest will be a debt deducted from the death proceeds payable. Interest accrues daily on the loan, and is due at the end of each certificate year. If the interest is not paid when due, it will bear interest at the same rate as the loan. (See contract for complete and full details.)

A low-risk high-value investment

While term life products can be a cost-effective way to purchase insurance protection, some of your clients may still hesitate if they believe they will outlive the insurance term and have nothing to show for the premiums they've paid. By adding an ROP Rider, a Lifefirst certificate can become a reasonable way to address your clients' hesitation. Your clients will be fully protected during the insurance term – and can enjoy a tax-free return of every eligible premium dollar paid, (less any outstanding loans, critical illness benefits, plus accrued interest[5]) at the end of the initial insurance term once the insurance protection is no longer required.

Add an ROP Rider to all your Lifefirst presentations and give your clients the value they expect!

www.foresters.com
Foresters Sales Desk
800 543 0611 (press 2)

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[1] This optional rider is filed under form number ROP-US01-2007, ROP-XX01-2007, where XX corresponds with your state's postal abbreviation. State variations may apply.

[2] This certificate is filed under form number LFEN-US01-2007, LFEN-XX01-2007, where XX corresponds with your state's postal abbreviation. State variations may apply.

[3] Subject to the conditions, limitations and deductions described in the rider. This rider does not provide any additional death benefit. If the insured dies before the end of the term period, only the death proceeds are paid.

[4] Any examples are hypothetical and are used only to help you understand the ideas. They may not reflect your client(s)' particular circumstances. Clients should carefully read their certificate, rider(s) and prospectus(es), when applicable. Foresters, their life insurance representatives (producers) and employees do not give legal, tax, or estate planning advice. The information given here reflects our understanding of current laws and regulations. These strategies may not be appropriate for all. Prospective clients should always consult their legal, tax, or estate planning advisor(s) on their specific situation.

[5] This benefit is subject to David living to the end of the insurance term, and the payment of premiums to keep the coverage in effect to the end of that term, and providing there are no outstanding loans or critical illness benefits paid.

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