Variable Life Brochure

Dear Valued Client:

United Planners Financial Services of America ("United Planners") appreciates your confidence in your registered representative and our organization. We take pride in finding ways to assist our representatives in providing better service to our clients. With this in mind, UPFSA is providing this Variable Life Brochure to assist client's understanding of variable life products. United Planners believes the more informed clients are, the more comfortable they will be in choosing variable life products. This brochure is not intended to replace the prospectus or discussions with your United Planners registered representative, but rather, is provided as an additional guide to making an informed investment decision.

Overview

Variable life insurance is a life insurance policy that also allows the policy owner to deposit money above the required amount needed for the current cost of insurance, investing the excess amount in the market. Variable life insurance provides a death benefit upon the death of the insured, tax-deferred growth, low or no interest loans, and can also be used as an estate-planning tool. Variable life can be purchased with a single payment or by multiple payments.

The insurance portion of variable life products is the death benefit. The death benefit offers peace of mind to the insured that their beneficiaries are financially provided for if they die. Beneficiaries' receive the policy's face amount (minus any outstanding loans) or the face amount plus the accumulated value (minus any outstanding loans) at the time of the insured's death. Beneficiaries may chose between lump sum, payment over a specific amount of time, or a lifetime payment feature. The payout features are discussed in detail later in this brochure.

The investment portion of variable life allows a client to move investment dollars between the internal investment choices without incurring a sales charge. Investment choices are called "Sub-Accounts" that invest in stocks, bonds, money market instruments, or some combination of the three. Sub-Accounts have many attributes similar to mutual funds but, as explained below, are not traded outside the variable life product. Insurance companies normally select Sub-Accounts that have multiple objectives to appeal to a wide range of clients. Sub-Account values fluctuate with the performance of the underlying investments and are calculated each business day at the market close. When Sub-Accounts are redeemed, they may be worth more or less than the original investment. The variable life prospectus gives detailed information on all the Sub-Account investment choices within the variable life product. Remember when choosing investments inside the variable life product, clients need to consider investments that suit their investment objectives and risk tolerance.

An additional benefit to variable life insurance is tax-deferral. Because the investment portion of variable life insurance does not pay taxes on growth until money is withdrawn, the account may grow faster. When money is taken as a withdrawal from a variable life product, it will be taxed on the earnings at ordinary income tax rates rather than lower capital gains tax rates. Variable life also allows you to take loans from the value of your policy that is not taxable at the time of the loan in most cases. Loan options are discussed in more detail later in this brochure.

Variable Life vs. Mutual Fund

Although variable life insurance has Sub-Accounts with attributes similar to mutual funds, variable life differs from mutual funds in several important ways:

- Variable life has a death benefit that allows clients to receive a lump-sum payout or periodic payments program as mentioned in the death benefit portion.

- Variable life insurance is tax-deferred. This means that no taxable event will occur until money is withdrawn from the policy. Money can be transferred from one investment option to another within a variable life product without paying tax at the time of transfer. Variable life withdrawals, however, will be taxed on the earnings at ordinary income tax rates rather than lower capital gains rates. In general, variable life also has a loan provision that allows clients to borrow from their policy without paying taxes at the time of the withdrawal.

- Charges. Because variable life has a death benefits feature that is not available with mutual funds, variable life has higher charges than mutual funds do because of the cost of the insurance features. The Charges section below indicates typical charges of variable life. Mutual funds do not charge for insurance features such as Cost of Insurance, Mortality & Expense Risk, or other insurance features. Both variable life and mutual funds charge management fees.

Insurance

Death Benefits

As mentioned in the overview, a main feature of variable life insurance is the death benefit. Variable life products usually have 2 types of death benefit options. Option 1 is the face amount or level death benefit. Option 2 is the face amount plus accumulation or increasing death benefit. If the insured dies, the beneficiary will receive the payout of the option they have chosen minus any outstanding loans taken on the policy. See **Net Amount of Risk** section that describes the difference between Option 1 and Option 2.

Example 1: Policy A has an accumulation value of $45,000 and a face amount of $150,000. If the insured dies and the owner of the policy chose option 1, the beneficiary would receive $150,000. If the owner would have chose option 2, the beneficiary would have received $195,000.

Example 2: Policy B has an accumulation value of $45,000, a loan of $20,000, and a face amount of $150,000. If the insured dies and the owner of the policy chose option 1, the beneficiary would receive $130,000 (the face amount of $150,000 minus the $20,000 loan). If the owner would have chose option 2, the beneficiary would have received $175,000 (the face amount of $150,000 plus the accumulation value of $45,000 minus the loan of $20,000).

Settlement Options

Death benefits are normally taken as lump-sum distributions; however other settlement options are available. Common options are payment of interest only, payments for a stated time, payments for life, payments for a stated amount, life annuity, joint and two thirds annuity, and 50% survivor annuity. Clients need to review the options outlined in the prospectus and determine what options are best for them.

Net Amount of Risk

The death benefits in Option 1 and Option 2 are different because the net amount of risk to the insurance company. In Option 1, the insurance company only needs to provide insurance for the difference between the accumulation value and the face amount of the policy. In Option 2, the insurance company is at risk for the total face amount of the policy. Because Option 2 requires the insurance company to pay a higher death benefit, Option 2 is more expensive than Option 1 with everything else equal.

Insurance Policy vs. Modified Endowment Contract

Variable life insurance receives tax–favored treatment under federal income tax law. To qualify for tax-favored status, variable life must meet certain funding requirements. Policies that are over funded are called modified endowment contracts. Pre-death distributions and loans of modified endowment contracts are treated as distributions of taxable income. Rules determining if a policy qualifies as modified endowment contracts are very complicated and questions should be referred to your agent or the insurance company.

Riders

Riders are additional benefits that can be added to your variable life policy to fit additional needs that may exist. Riders increase the monthly cost of insurance to provide the added benefits to your policy. Below are some common riders that may or may not be available on your variable life policy.

Waiver of Monthly Deductions

Waives monthly deductions against the policy if the insured becomes disabled. This waiver helps keeps policies active during the income producing years of the insured.

Accidental Death Benefit

Provides a higher death benefit when the insured dies in an accident.

Guaranteed Insurability Option

Allows insured to increase their face amount (death benefit) without requiring additional proof of insurability.

Guaranteed Death Benefits
Guarantees that the policy will not lapse within a set amount of time the policy has been enforced or prior to the insured attaining a particular age.
Accelerated Benefit
Allows a reduced benefit to be paid prior to the death of an insured in certain circumstances where a terminal or chronic illness creates a need for access to the death benefit.

Clients should consider the financial strength of the insurance company that provides the variable life product they consider buying. The insurance company must have the ability to pay any death benefit or rider provided.

Qualified vs. Non-Qualified
As mentioned above, variable life products are tax-deferred; however other investment vehicles, such as IRAs and employer-sponsored 401(k) plans, also provide tax-deferred growth and other tax advantages. It may be advantageous to investors to maximize contributions to IRAs and 401(k) plans before investing in a variable life product. When investing a tax-advantaged retirement account (such as a 401(k) plan or IRA) in a variable life product, there is no additional tax advantage. Qualified funds should only be invested in variable life products when a client is looking for features other than tax deferment, such as a death benefit.

Long-term vs. Short-term
Variable life insurance is both a long-term investment and life insurance product. Variable life products are not suitable as short-term investments due to insurance company surrender charges and possible tax penalties that may apply if money is withdrawal early.

Withdrawals vs. Loans
Withdrawals from variable life products may be subject to a withdrawal charge, (see Charges) minimum amounts and surrender charges. Variable life products also offer clients the ability to access their money by taking a loan from their policy. Loans can be taken tax-free and gives the client to option to repay, or not repay, the money back into the policy. Loans from policies classified as modified endowment contracts are normally subject to the same tax liabilities as withdrawals. Clients who take withdrawals from policies prior to age 59 ½ may be subject to a 10% federal tax penalty. Insurance companies usually require policies to be enforce for one year before allowing loans. Loan amounts also vary, but are typically between 80 to 90 percent of the surrender value of the policy. Outstanding loans will reduce the death benefit and the cash value of a policy.

Exchanges
Clients can typically transfer money from one sub-account to another without paying taxes on the growth of the account. Some insurance companies may charge a nominal fee when exchanging between Sub-Accounts, however most either do not charge a fee or allow a set amount of free trades annually before assessing a charge.

Charges
Administrative fees – The insurance company may deduct a fee to cover record-keeping and other administrative expenses. This charge is usually a flat fee (normally $7-10 per month).

Cost of Insurance – The cost of insurance is calculated monthly. The calculation to determine the cost of insurance includes: the insured's age, sex, rate class, policy duration, and policy size.

Premium Tax Charge – For each premium payment the insurance company will deduct a percentage, approximately 3.25%, to pay for state premium tax and DAC Tax. DAC Tax is a tax attributable to specified policy acquisition expenses under Internal Revenue Code Section 848.

Mortality & Expense Risk Charge – This charge is equal to a certain percentage of the account value, typically in the range of 1% per year. This charge is used to compensate the insurance company for insurance risks it assumes under the life contract.

Underlying Sub-Account Expenses – Each fund has an investment team that charges a management fee. This is the same type of fee that is charged within mutual funds outside of variable life products.

Fees and Charges for Other Features – Special options and riders offered by some variable life products mentioned in the Rider section usually are associated with monthly charges which are described in the prospectus.

Withdrawal Fee – Variable life products may have a withdrawal charge that is accessed to offset some of the expense in processing the request.

Surrender Charges – Variable life products typically calculate the policy surrender charge based on the policy face amount, the age, and the percentage of the premiums paid into the policy. To recuperate the cost of underwriting and compensate the financial professional for selling the variable life product, it is typical for variable life products to not reduce the surrender charge until after 5-7 years after the policy is enforced and then reduce the surrender charge gradually until it is eliminated altogether (usually 10-15 years).

Tax-Free "1035" Exchanges
Section 1035 of the U.S. Tax Code allows non-qualified variable life owners to exchange an existing variable life policy for a new variable life policy without paying any tax on the income and investment gains. It is very important for the 1035 exchange to be transferred directly from insurance company to insurance company to preserve the favorable tax status. 1035 exchanges can benefit the client when a newer product has features that are preferred, however due to surrender charges and proof of insurability, it may be more beneficial to maintain the original policy. When considering a 1035 exchange, the client should compare both policies carefully to determine if there are benefits to the transfer.

Qualifying for Insurance
Insurance companies require medical information when rating clients. Typically, the more coverage that is requested will cause the insurance company to require more information and tests. Riders are available to allow insurers to increase the face amount of their policy without additional qualifying.

Free-look Provision
Client's are allotted time to review their policy and cancel it within a certain time frame. Normally, free-looks are allowed up to 45 days after signing the application or 10 days after receipt of the policy, whichever is longer. If the client elects to cancel the policy within the allotted time frame, (know as the "free-look period"), typically all premiums paid into the policy are refunded to the client at no charge.

Ask Questions before Investing
Financial professionals have a duty to make suitable recommendations and answer client questions regarding the insurance policy. We encourage you to ask your financial professional questions regarding the investments, insurance, and features of your policy. Before deciding to buy a variable life product, you should consider the following questions:

- Do you understand the features of the variable life product?

- Do you understand the fees and expenses of the variable life product?

- If you are exchanging one variable life policy for another one, do the benefits of the exchange outweigh the costs, such as any surrender charges and the cost of insurance for the same amount of coverage that you currently have?

- We suggest clients document the answers to minimize confusion later.

This is a general description of variable life products – what they are, how they work, and the respective charges and fees/expenses. Before buying any variable life product read the prospectus carefully. The prospectus contains important information about the variable life policy, including fees and charges, investment options, loans, death benefits, and payout options.