A. Name each type and describe its characteristics. You must include 4 different types.

Term Life Insurance: It is a basic type of insurance. It is economical because you only pay for a period you desire, a specific period. For example, you buy insurance for a father to cover the family as they are growing up. You can cancel the policy when you want after the family has grown. The cost of this type of insurance gets more expensive as you get older. This type of policy is best used when you because the policy will become much more expensive as you get older. Once you stop paying on this account, you will receive nothing.

Whole Life Insurance: This type of insurance is used to cover someone for their entire life. The payments are constant until the insured dies or at extreme old age. You build up a reserve cash surrender which can be used as collateral for a loan. Thus, you take a loan against your accumulated amount in your policy. The owner can receive a lump sum if the owner decides not to pay on the premium any longer. Generally, this type of policy is not desirable because you overpay when you are young and the return on the rate of reserve is not competitive.

Universal Life Insurance: This type of insurance is similar to the Whole Life Insurance with one important difference. This policy will get a better and more competitive rate of return. With some of these accounts, depended on how they are written, you can alter the account the payment structure and make other decisions in other areas such as how the cash is invested.

Split Dollar Life Insurance: This type of insurance policy is contributed to by both the employee and employer. If the employee dies, the employer will receive back the amount of money they contributed to the policy. The rest of the money will go to the designated individual on the account.

Endowment Life Insurance: This type of insurance is very similar to the Whole Life Insurance and Universal Life Insurance with the main difference is you only usually pay on this account until retirement age, typically in the early to mid-sixties. Normally, the payments are high for this insurance. Depending on when the insured dies, the amount of this policy could be quite substantial because the money will have more time to earn interest.

B. Which kind or kinds of life insurance do you think is best for each situation identified below. Why would you choose the kind(s) you suggest? Include details about each family's situation that you take into consideration to make your choice.

1. David is a stay-at-home father. He maintains a part-time business working from home as a Web page designer. His income is very limited. His wife Diane is a corporate attorney with a high income. David and Diane have 2 young children, ages 2 and 4.

I suggest Term Life Insurance for both the parents. This way, if the husband dies, the wife has money to pay for childcare expensive which can be very expensive, and the husband can have money to pay the bills until additional employment can be found. Without knowing more details it is hard to really answer this question fully. For example, how old is the dad.

2. Rita is not married, has no children. She has a fairly good income and owns her home with no mortgage. When she retires, Rita will receive a pension from her employer's retirement plan, but she has no other retirement savings. Rita wants to purchase a life insurance policy to make sure there is sufficient money to pay for her funeral costs after she dies, but she wants her investment in insurance to have value during her lifetime if she decides to cancel the insurance in the future or needs to borrow a small sum from it.

I suggest Rita buy either Universal Life Insurance or Endowment Life Insurance. Things I would take into consideration is her job and how old she is. If she is in a field that is more volatile and she is younger, generally I would go with Universal Life Insurance so she can change her payments if needed. If she had a more stable job and she is older, I would most likely go for the Endowment Life Insurance policy because she could pay up and then receive her money at the typical retirement age without worrying how she is going to pay her premiums.

3. Big Dreams partnership has 3 member partners. The partnership wants to insure the lives of each of the partners in a sum sufficient to pay the value of a partner's interest in the business when he or she dies.

I would generally suggest the Split Dollar Life Insurance Policy. With this policy, the company does not have to pay for all the insurance and the company can recoup money they put in the policy if an employee dies. Big Dream can also use a company of their choosing.