

## Permanent 'Plus' vs. Variable Life Insurance

### WHY PERMANENT 'PLUS' IS USUALLY A SAFER CHOICE

#### Q&A with Tim Eddy, Vice President of Risk Management for Navy Mutual

##### What is the difference between Navy Mutual's Permanent 'Plus' plan and a variable universal life insurance plan?

The main and most important difference between Permanent 'Plus' and variable life insurance is that with the Permanent 'Plus' plan, Navy Mutual determines the crediting rate and takes the investment risk. With a variable universal life insurance plan the policy owner chooses where excess premium dollars are invested, so they are taking the investment risk because market volatility is driving the crediting rate.

##### How do you know which plan is best for you?

Typically, if you want to actively manage how your premiums are being invested, then variable universal life insurance may be a good choice for you. If your primary purpose is to buy life insurance but want a good, solid return with no investment risk on your part, then Navy Mutual's Permanent 'Plus' plan is probably a better choice.

##### What determines the cash value of the variable universal life and Permanent 'Plus'?

Development of the cash value is similar between the two plans, but earnings on excess premium dollars will be different. With Navy Mutual's Permanent 'Plus' plan, our current crediting rate is at an outstanding 7.4%. With variable universal life, the earnings are based on how the policy owner has chosen to invest. If you purchase variable universal life, depending on the volatility of the market, some months you will see your earnings go down, and some months you will see them go up.

##### Are there any additional expenses in a variable universal life insurance plan that are not in Permanent 'Plus'?

In a variable universal life insurance plan there may be expenses associated with each investment. On some there are management fees attached to the plan of which you may be unaware. There are also usually transfer expenses when you transfer from one fund to another. With variable policies, because of the fluctuating cash value, you may have to pay more premiums to keep the policy in force. With our Permanent 'Plus' plan, we have no sales or commission fees, your premiums are guaranteed, and if you pay your premiums as scheduled, your plan will stay in force no matter what happens in the stock market or with other investments.

##### Why choose Navy Mutual's Permanent 'Plus'?

Navy Mutual works solely for you. Since we do not have agents working on commission, you do not have to worry about being pressured to buy a plan that does not meet your needs. We offer a high crediting rate of 7.4% and, given recent interest rate performance, that's outstanding. Plus, we take the investment risk for you, leaving you free to focus on other areas of your portfolio.

**For questions or more information please contact one of our Navy Mutual representatives at 800-628-6011.**



## A Message from Navy Mutual's President

Dear Member:

As we enter the last quarter of the year, it's a good time for our Members to take stock and reevaluate their needs and financial situation. 2009 has been a tough year for the economy, but I'm pleased to inform you that Navy Mutual remains strong, and stands ready to protect your loved ones. Recently, the Fitch Rating agency completed a mid-year review of Navy Mutual that puts us in an extremely favorable light compared to the commercial insurance industry. Here are some highlights:

- Fitch continued its negative outlook on the commercial insurance industry into 2010, downgrading 34 of the 69 insurers it had reviewed so far this year.
- Navy Mutual was one of only nine companies that received an affirmed rating with a stable outlook. Navy Mutual now enjoys a higher rating than several large commercial insurers.
- The financial performance of the commercial insurance industry has materially deteriorated, due in large part to significant investment losses. By contrast, Navy Mutual's conservative investment policy provides significant protection against corporate bond defaults and stock investment risks.
- Even though the commercial insurance industry reported its first statutory net operating loss in twenty years, Navy Mutual had an operating gain with extremely strong growth in premium income.

While no one can completely guarantee the future, we are confident that Navy Mutual is, and will continue to be, a strong and reliable choice to meet your life insurance and annuity needs.

This issue of our newsletter includes several articles that we hope you will find both enjoyable and informative. From time-to-time, we get questions from our Members about borrowing against their Navy Mutual life insurance plans, so we have provided articles that explain what you should know about your policy loan, and options for ways to use the cash value you may have accumulated in a Permanent 'Plus' plan. Our Members have also been asking for more educational material on retirement planning and, in particular, trusts. In response, you'll find an article that explains the basics of trusts, to help you make informed choices about whether setting up a trust makes sense for you and your family.

It remains my honor to serve as your President. We at Navy Mutual are proud of the trust you have placed in us to protect you and your loved ones.

Sincerely,

A handwritten signature in black ink that reads "Bruce B. Engelhardt". The signature is written in a cursive, flowing style.

Bruce B. Engelhardt  
President

## UNINSURED AMERICA

LIFE (Life and Health Insurance Foundation for Education) estimates that **68 million adult Americans have no life insurance at all, and most with coverage have far less than experts recommend!** Don't be a statistic! Review your life insurance annually and make sure you are adequately covered. A longstanding rule of thumb is that your total life insurance benefits should equal 5-7 times your annual gross income. This may work for some, but to be more specific use our online life insurance needs calculator at [www.navymutual.org](http://www.navymutual.org) or talk with a membership representative at 800-628-6011.

# Options for Your Cash Value

Have you ever wondered what the options for using your cash value are? Though it is advisable to consult your tax advisor, we have put together a list of pros and cons for the most popular options for using the cash value in your Permanent 'Plus' plan.

**Let it ride.** You can continue to retain your cash value and watch it grow, leaving behind a tax- free death benefit for your family.

**Terminate your plan.** You can surrender your life insurance plan for the cash value. The problem with this choice is that you will no longer have the life insurance plan, and you will be required to pay taxes on the cash value that exceeds the premiums paid into the plan.

**Take a loan.** This option is best used when there is a need for fast, short term cash. Remember that when taking a loan from the cash value, you reduce your benefits to your beneficiaries from your life insurance plan. Also, keep in mind the loan interest that will accrue if you do not pay yourself back in a timely manner.

**Convert your plan to an annuity.** With this option you can convert your cash value to a Navy Mutual deferred or immediate annuity. The advantage to this choice is that any taxable gains are immediately transferred to the annuity, thus retaining the tax-deferred growth benefit, saving you from an immediate taxable event. With an annuity you will be able to create a stream of income when you retire. However, you will lose the death benefit of the life insurance plan.

**Elect a paid up amount of insurance.** You might choose this option when you no longer want to make premium payments on your policy. The advantage is that you eliminate making premium payments, but you do reduce the amount of the death benefit you leave for you beneficiaries.

**Giving your cash value as a gift.** With this option you transfer ownership of the plan to the person you are giving it to as a "gift." For example, grandparents choose to 'gift' their plan to a 25-year-old grandchild. This 'gift' may require payment of a gift tax by the giver, depending on the amount of the cash value. The recipient of the 'gift' now owns the plan, and can change the beneficiary, terminate the plan, etc. The person giving the cash value as a 'gift' gives up all ownership rights once the transfer is completed.

As always, please consult your financial, or tax advisor, because not all cases are the same. Especially in the case of gifts, there are many variations to the federal tax code.



# Is a Trust Right for You?

In a recent survey, many of our Members told us that they'd like more information from Navy Mutual about retirement planning. We are providing this article to help you decide whether setting up a trust makes good legal and financial sense for you and your family. In particular, we were asked to educate you about the basics of trusts:

- what they are
- how they work
- how they can contribute to a successful retirement plan

Trusts, like many other legal matters, are a complex topic where one size definitely doesn't fit all. Before you establish a trust (or enter into any other legally-binding arrangement), it's important to get personalized advice from an attorney or financial planner who's familiar with your particular situation. This article is not a substitute for such personalized advice, but it will provide basic educational information that you may find useful.

## WHAT IS A TRUST

A *trust* is a legal entity created to hold assets for the benefit of one or more individuals. These individuals are usually referred to as the *beneficiaries* of the trust. Most trusts are established by the people (usually referred to as either *settlers*, *donors*, or *trustors*) who will provide the assets that fund the trust (these are called the *corpus*). The terms and conditions governing the trust are normally set out in a written legal agreement officially called a *declaration of trust*. This names the individual responsible (the *trustee*) for managing the trust on behalf of the beneficiaries, and may also identify one or more *successor trustees* who will be responsible for administering the trust if the original trustee dies or becomes unable to serve.

Trusts can be established for almost any lawful purpose. For example, a parent might appoint a bank to hold a sum of money in trust for a child, with instructions to pay interest to the child, but to not release the original sum to the child, until they reach age 21. An individual might put money in a *charitable trust* so that a favorite charity could continue to receive interest income after the individual's death. Or, a person might choose to establish a trust as part of her estate planning, to make things easier for her family after her death.

## HOW TRUSTS WORK

One way to reduce the value of your estate is to put some or all of your assets in a trust. Once the trust has been set up and the funds transferred, the money no longer belongs to you and, therefore, is not part of your estate when you pass away. Your loved ones can succeed you as the beneficiaries of the trust without the worry of paying hefty estate taxes on the trust property. Please note, though, that you can also set up a trust with yourself as the primary beneficiary during your lifetime.

## HOW A TRUST CAN HELP YOU

Some people believe that only very wealthy individuals need trusts, or that having a will is enough. Unfortunately, it's not always that simple. If you die without a will, the probate court in the state where you live will divide your property among your surviving relatives - so much to a surviving spouse, so much to children and grandchildren, and so forth - based on established formulas that may or may not be consistent with the best interests of your family. But even if you have a will, your estate will still need to go through probate as the court reviews the will to ensure it is legal, and that your requests are carried out. Depending on where you live and how large or complex your estate is, probate can be expensive and take many months to complete. During that time it may be difficult for your loved ones to get access to the money they need to survive, and they may resent the lack of privacy inherent in the probate process.

# Is a Trust Right for You? continued

Depending on the size of your estate, your heirs may be faced with a hefty estate tax if you put all of your assets through probate. Under current law, in 2009 you can leave \$3,500,000 to your heirs tax-free, and the estate tax will be repealed in 2010. By 2011, however, the estate tax exemption will be set at only \$1,000,000 with an estate tax rate of 55%. It's impossible to predict how Congress will adjust the estate taxes in the coming years, so it may well increase over time. As a result, if you have a significant amount of money to leave to your loved ones, you may want to explore ways of shielding some, or all, of that money from federal estate taxes.

## GETTING STARTED

Setting up a trust may sound like a simple way to save your heirs some money, but creating a trust is not without cost and aggravation. Hiring an attorney to prepare a declaration of trust and related documents can cost hundreds of dollars, and professional trustees usually charge fees to manage the trust's assets and oversee the distribution of funds to the beneficiaries. It may be tempting to rely on a family member or friend to serve as trustee, but realize that choice also comes with its own risks. A trustee has a fiduciary responsibility to manage the trust and its assets, but amateur trustees may not have the necessary skills to properly fulfill that responsibility.

Once the trust is established, it needs to be funded, which means that the trustor must transfer assets from banks, stock accounts, etc. If the trust will own the trustor's home or other real estate, the deeds to those properties need to be changed and recorded. Also, trust administration is not a one-time event. Marriage, divorce, birth, death, illness, job loss and other life events can change the trustor's wishes, and make it necessary for trust documents to be changed and assets reallocated. Again, properly making these changes usually takes professional legal advice and can be fairly expensive.

Only you can decide if establishing a trust makes good sense for you. Factors such as your age, marital status, family circumstances, income level, desire for privacy, willingness to surrender control over some, or all, of your money, complexity of your estate, and interest in minimizing estate taxes can all come into play. Every individual's situation is different, and needs to be considered on its own merits. Generally, however, an unmarried person under the age of 55 or 60 who's in good health and of moderate means might decide not to establish a trust, or at least not to do so for now. An older individual with greater wealth, minor children or grandchildren and health issues might conclude that setting up a trust makes good financial sense.

State laws govern the establishment and administration of trusts, and many varieties of trusts exist, each with its own advantages, disadvantages, and tax consequences. While you don't need a law degree to understand trusts, it's definitely a good idea to have a qualified estates attorney prepare the declaration of trust and any other relevant documents. In future articles we'll define some of the different kinds of trusts that exist, and discuss how each type of trust works to protect the financial interests of the parties involved.

## Recommend to a Friend

Navy Mutual is an organization which was established to provide financial protection to the sea service personnel and their families at the lowest possible cost. To date we have fulfilled that mission with flying colors by providing life insurance and annuity products which are second to none. But Navy Mutual doesn't stop at just providing great life insurance products; we continue to fulfill our obligation to the family by assisting the survivors in receiving other financial benefits after the passing of a loved one.

Introducing Navy Mutual to a friend only takes a couple of minutes, and those couple of minutes could make a huge difference in their life and the lives of their family. Take a moment and think of someone you know who would also benefit from membership in Navy Mutual. Use our website to refer a friend by visiting [www.navymutual.org](http://www.navymutual.org) and clicking on the Contact Us link or by calling 800-628-6011.



INSURANCE

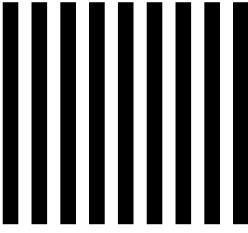
# Understanding Your Plan Loan

In tough economic times, one way to make ends meet may be to take a loan against the cash value of your life insurance plan. This is certainly an option that is open to you. However, before you borrow against your Permanent 'Plus' plan, there are a few things to keep in mind:

- **If you borrow from the cash value of your policy and die before the loan is repaid, the outstanding loan balance, including interest, will be deducted from the payment your beneficiaries receive.** This means your loved ones will not receive the full benefit you intended for them when you first bought the policy. So, if you want to make sure that your beneficiary receives the full benefit under the plan, you'll need to repay the loan during your lifetime.
- **A loan against your Navy Mutual plan will incur interest charges.** If you do not pay the interest it will be added to your outstanding loan balance each year, reducing your cash surrender value, which is common insurance industry practice. This will further reduce the benefit your loved ones receive if you pass away before the loan is repaid.
- **Although your plan will continue to grow, if you leave the loan and interest unpaid for an extended period of time the interest on your loan may eat up the entire remaining cash value of your plan.** If that happens, the plan will lapse and you will be required to pay income taxes on the loan and interest accrued, typically in excess of the premiums you paid. Again, this is standard industry practice, but can come as a surprise if you are not aware that failure to pay off at least the interest on your loan from year-to-year can cause you to incur a substantial tax obligation when the plan finally lapses. Navy Mutual notifies Members before their policies lapse, but making the necessary payments to avoid lapse (and associated income taxes) is ultimately your responsibility.
- **If you allow your plan to lapse, your beneficiaries will not receive any of the death benefit that you originally intended for them.** Depending on your age and health, you may not be able to purchase additional life insurance, or you may have to pay a substantially higher cost to do so. It's important not to allow your plan to lapse accidentally so your loved ones remain protected.

**Here is an example of how this works:** Chris Jones has a Permanent 'Plus' plan with a death benefit of \$35,000 that has been completely paid-up. He has accumulated a cash value of \$15,200 and decides to take a loan of \$11,500 for personal reasons. Assuming that Chris chooses not to repay the loan or make any interest payments, over the following ten years his loan balance will grow to \$22,000 and his cash value to \$24,500. Unless he pays some, or all of the interest, his plan will lapse in five more years when the loan balance becomes greater than the cash value. When this happens, Chris will owe taxes on the full cash value of \$30,500 that exceeds the \$4,000 in premiums he paid. Only you can decide whether a loan against your Navy Mutual plan is the best way to meet your financial needs. Talk with your financial advisor before taking a policy loan. For more information about borrowing from the cash value of your Navy Mutual plan contact us at [counselor@navymutual.org](mailto:counselor@navymutual.org).

NO POSTAGE  
NECESSARY  
IF MAILED  
IN THE  
UNITED STATES



**BUSINESS REPLY MAIL**  
FIRST-CLASS MAIL PERMIT NO. 9289 ARLINGTON, VA

POSTAGE WILL BE PAID BY ADDRESSEE

NAVY MUTUAL AID ASSOCIATION  
HENDERSON HALL  
29 CARPENTER RD  
ARLINGTON VA 22204-9921



**OUR FOCUS IS YOU!**



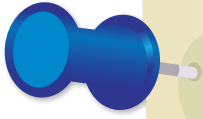
## Happy Birthday Navy Mutual!

**ON JULY 28TH YOUR ASSOCIATION CELEBRATED ITS 130TH BIRTHDAY!**

One hundred and thirty years ago, on July 28th 1879, Military officers banded together to found the Navy Mutual Aid Association after the widely publicized plight of widows and orphans left stranded in the West after the Battle of Little Big Horn on June 25, 1876 came to light. On a hot, suffocating evening in the nation's capital, naval officers met in the old Navy Department building to organize a more formal and efficient way to "pass the hat."

They named it the Navy Mutual Aid Association.

Since 1879 when your association was founded, we have strived to provide the quality life insurance and customer service to those who sacrifice themselves for the country that our founders envisioned. Our history makes us who we are; our future is you.



# FDIC coverage extends to 2013

Depositors can remain confident that the money they have on deposit in FDIC-insured banks is safe, even during this time of economic uncertainty. On May 20, 2009, President Barack Obama signed the Helping Families Save Their Homes Act, which extends the temporary increase in the standard maximum deposit insurance amount to \$250,000 per depositor through December 31, 2013. This legislation provides for the deposit insurance to return to the original level of \$100,000 per depositor on January 1, 2014. You can find more information about this Act online at [www.FDIC.gov](http://www.FDIC.gov).

**INSIDE:** Message from the President | Uninsured America | Options for Your Cash Value | Is a Trust Right for You? | Understanding Your Plan Loan | Happy Birthday Navy Mutual

[www.navy mutual.org](http://www.navy mutual.org)

1-800-628-6011



Henderson Hall 29 Carpenter Road  
Arlington, VA 22212

PRESORTED  
STANDARD  
U.S. POSTAGE  
PAID  
AMI  
22304

### PLEASE SEND ME MORE INFORMATION:

- Myself      Birth date: \_\_\_\_\_      Coverage Amt: \$ \_\_\_\_\_      Tobacco use:  yes  no
- Spouse      Birth date: \_\_\_\_\_      Coverage Amt: \$ \_\_\_\_\_      Tobacco use:  yes  no
- Child/grandchild      Birth date: \_\_\_\_\_      Coverage Amt: \$ \_\_\_\_\_
- Term Insurance      Investment Sum: \$ \_\_\_\_\_      Birth date: \_\_\_\_\_      Spouse birth date \_\_\_\_\_
- Deferred Annuity      Investment Sum: \$ \_\_\_\_\_      Birth date: \_\_\_\_\_      Spouse birth date \_\_\_\_\_
- Immediate Annuity      Investment Sum: \$ \_\_\_\_\_      Birth date: \_\_\_\_\_
- Email me at: \_\_\_\_\_       Call me at: \_\_\_\_\_

NEWS-509