



LIGHTBULB  
PRESS®

# VETERANS HANDBOOK

## TACTICS FOR CIVILIAN LIFE

- Employment



- Planning for Transition



- Education



- Housing



- Financial Security



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# VETERANS HANDBOOK

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# Life Insurance

If you have dependents, you need to insure your life for their security.

Many people would rather not think about life insurance. That's understandable, but it's also a mistake. Life insurance lets you provide for the people you care about if you're no longer around to provide for them yourself.

At its most basic, life insurance will cover funeral arrangements, outstanding bills, and settling your estate after your death. But, more important, this insurance can replace the income you would have earned had you lived longer, pay off the mortgage if you have one, and provide money for your children's education.

## LIFE INSURANCE OVERVIEW

There are two basic types of life insurance—term and permanent. Term insurance covers you for a specific period of time, such as five years, and can normally be renewed when the time period ends. Permanent insurance, on the other hand, covers you for your lifetime, or in some cases, until you turn 100 or 120. There are several varieties of permanent insurance, the most common being whole life—also known as straight life or ordinary life. Overall, permanent insurance tends to be more expensive than term for the same level of coverage, at least initially.

You pay an annual premium for either term or permanent insurance and must stay up-to-date with your payments for the policy to remain in effect. When you die, your beneficiary, whom you name in the insurance contract, receives the

## LIFE INSURANCE WHILE IN SERVICE



face value. This is a cash amount, also known as the death benefit, that you select when you purchase the policy. For example, you might name your spouse as the beneficiary of a \$400,000 term policy.

With a permanent policy—though not with a term policy—part of the premium you pay accumulates in a tax-deferred cash value account. You may be able to borrow against this account, but any amount you borrow reduces the death benefit dollar for dollar until the loan is repaid. If you stop paying your premiums or surrender the policy for any reason, you get back the cash surrender value, which is the balance of your cash value account minus loan balances, interest due, and fees.

## BUILDING ON WHAT YOU HAVE

When you leave the military, the life insurance coverage you had on active duty through service-members' group life insurance (SGLI) is automatically extended for 120 days without charge. This continuing SGLI coverage is a term policy with a death benefit of up to \$400,000, plus \$100,000 for traumatic injury. The amount is the same as the death benefit of your existing SGLI policy.

## LIFE INSURANCE AS A VETERAN

### TERM LIFE INSURANCE vs. PERMANENT LIFE INSURANCE

Term insurance covers you for a specific period of time, and can normally be renewed when the time period ends.

Permanent insurance covers you for your lifetime.

Part of the premium you pay accumulates in a tax-deferred cash value account.

Convert to  
**VGLI**

Convert to a permanent policy offered by an affiliated commercial insurance company

Compare and choose your own term policy

## CHOOSING A POLICY

The key to buying life insurance is finding the right coverage at the best price. In some situations, VGLI may be your best choice, despite the fact that it is more costly than SGLI. A policy from a VA-affiliated insurer may better suit your needs, provided you want permanent insurance rather than term. Or, if your health is good, you may want to look into a different term policy. What you don't want to do is put off making a decision.

One approach is to consult a fee-only life insurance adviser who doesn't sell policies and will provide unbiased advice. Another is to read widely to understand your alternatives. In addition to the VA, resources like *Consumer Reports* can be a good place to begin.

Among the things to consider are the reputation of the insurer based on the assessments of independent ratings agencies, the comparative cost of term and permanent policies, how your life insurance needs are likely to change as you age, and whether there is an accelerated benefits option should you become terminally ill.

Before the extension period ends, it's up to you to arrange for new insurance. You can convert your SGLI policy to a veterans' group life policy (VGLI), administered by the same company. If you do so within 240 days, you automatically qualify for the insurance without a health examination, and your death benefit remains the same as it was with SGLI. You have an additional year to apply for coverage after the extension ends, but during that period you'll need to take a physical exam, and you could be turned down.

VGLI is structured as a five-year renewable term policy. Your premium is determined by your age at the time you renew and the amount of the death benefit. If your current coverage is less than \$400,000, you can increase it in increments of \$25,000 at each renewal, up to that cap.

Alternately, you can convert your SGLI to a permanent policy offered by one of the commercial insurance companies affiliated with the VA program. Again, if you act before your SGLI ends, no health examination is required.

You can find the details of both types of coverage, including the cost, and compare the two by exploring the *VA Life Insurance Handbook* at [www.insurance.va.gov](http://www.insurance.va.gov).

## HOW MUCH INSURANCE?

One rule of thumb says you need life insurance equal to eight to ten times your annual income, especially if you have young children. It's probably wise to use a life insurance calculator like the one you can find at [www.benefits.va.gov/INSURANCE/introCalc.asp](http://www.benefits.va.gov/INSURANCE/introCalc.asp).

