



## FOR YOUR INFORMATION

# Overview of Various Financial Products

Financial products are quite different from one another. Each has its own unique strengths and purposes. Which ones are best for you? It depends on your needs and objectives. For example, what is your need for liquidity? How much risk are you comfortable taking? Are your financial goals short-term or long-term?

Permanent life insurance provides death benefit protection and can also provide cash value you can access while living -- "living benefits." Based on your financial goals, permanent life insurance may be an appropriate complement to your financial portfolio.

Below is an overview of various financial products. This overview can help determine which financial products may be best suited to your needs, and will help you maximize the success of your financial portfolio.

### Bank Money Market

>> What is it?

A money market account is a savings account offered by banks and credit unions that usually pays higher interest rates than a typical savings account.

>> Why would you want a money market account?

A money market account might be right for you if you want to earn interest above that of a standard savings account, but still want to have access to your cash.

Advantages

- FDIC insured up to \$100,000 per depositor
- Ability to access money without penalties
- Check writing capability is generally offered

Disadvantages

- Need to maintain a minimum balance to receive a higher interest rate
- The bank may restrict the number of transactions that can be made within a month (otherwise subject to fees)

### Bank CD

>> What is it?

A Certificate of Deposit is a savings certificate generally issued by commercial banks that entitles the bearer to receive a specified fixed interest rate over a designated time period. The term of a CD generally ranges from one month to five years.

>> Why would you want a CD?

A CD might be right for you if you are looking for a short-term investment with a guaranteed return.

Advantages

- Guaranteed rate of return for a specified period of time
- FDIC insured up to \$100,000 per depositor

Disadvantages

- Although CD's are available in various maturity lengths, withdrawals of funds prior to maturity are generally subject to penalties

#### Quick Fact

Life insurance's primary purpose is to provide death benefit protection. However, permanent life insurance is more than just protection for your heirs; its "living benefits" can also be used to help you achieve your financial objectives.

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## Bond Fund

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>> What is it?

A bond fund is a mutual fund that invests in an assortment of bonds and other debt securities, typically with the objective of providing stable income with minimal capital risk.

>> Why would you want a bond fund?

A bond fund might be right for you if you are willing to take on more risk with the potential for higher returns than those on a CD or money market account, but you are still looking for a relatively conservative investment.

Advantages

- Receives monthly dividends from the fund that include interest payments and capital appreciation of the underlying securities
- Usually pays dividends more frequently than individual bonds
- More liquid than individual bonds
- Typically less risky than individual bonds due to diversification

Disadvantages

- Subject to credit risk, as well as interest rate risk and prepayment risk

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## Tax-Free Municipal Bond

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>> What is it?

A municipal bond is a debt security issued by state, city and local governments, and used to pay for local public projects, such as bridges, highways and schools.

>> Why would you want a municipal bond?

A tax-free municipal bond might be right for you if you are in a high tax bracket and are looking for a relatively conservative investment.

Advantages

- Interest is generally exempt from federal income taxes, and in most cases, state and/or local income taxes, so long as the investor resides in the state that issued the bond

Disadvantages

- Municipal bonds are more risky than U.S. government bonds, since they are backed by the financial strength of the issuing municipality
- If the bond is sold prior to maturity, the current market price may be less than the original price

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## Deferred Fixed Annuity

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>> What is it?

A deferred fixed annuity is purchased from an insurance company and earns a fixed rate of interest to accumulate money for retirement or other expenses later in life.

>> Why would you want a deferred fixed annuity?

A deferred fixed annuity might be right for you if you are looking for a long-term conservative investment to provide an income after age 59½ during your lifetime or for a specified period of time.

#### Advantages

- Initial interest rate is guaranteed for a specified initial period, after which rates will typically renew at declared new rates at specific time intervals
- Minimum interest rate is guaranteed for life of annuity
- Option to choose different periods for locking in initial interest rate
- Earnings accumulate on a tax-deferred basis
- Bypasses probate (unless the estate is the named beneficiary of the policy)

#### Disadvantages

- Withdrawals may be taxable and if made prior to age 59½ may be subject to a 10% IRS penalty. Surrender charges may also apply
- At the death of the owner, beneficiaries must pay tax at ordinary income tax rates on any earnings received from the policy

## Permanent Life Insurance

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#### >> What is it?

Permanent life insurance is purchased from an insurance company. Life insurance policies are generally long-term contracts providing death benefit protection and tax-deferred cash value accumulation.

#### >> Why would you want permanent life insurance?

Permanent life insurance might be right for you if you want to leave money for loved ones to replace lost income when you die. Life insurance proceeds can also provide money at your death for a number of reasons: for a charity, or for liquidity in your estate to provide for a more orderly transfer of wealth. Permanent life insurance can also provide cash value you can access while living — “living benefits.”

#### Advantages

- Death benefit to beneficiaries is generally income tax-free
- Tax-deferred cash value accumulation
- Cash value can be accessed income tax-free and penalty free via loans and withdrawals (unless the policy is a modified endowment contract)
- If you become disabled, the policy will be kept in force provided that you purchased the disability rider for an additional fee and policy conditions are met
- Creditor protection may apply depending on state law
- Bypasses probate (unless the estate is the named beneficiary of the policy)

#### Disadvantages

- Loans and withdrawals reduce the death benefit and may be taxable if the policy is a modified endowment contract (“MEC”). Taxable distributions from a MEC may also be subject to a 10% IRS penalty tax if the policy owner is under age 59½. Loans also accrue interest
- Initial premiums are generally higher than term insurance
- Underwriting is usually required; the premiums you pay are based on your health, gender, age, amount of coverage and type of policy
- Available cash value may not be equal to or greater than total amount of premiums paid

Compare life insurance with traditional methods for accumulating assets and savings:

| Feature                                   | Permanent Insurance                                  | Bank Money Market | Bank CD                                 | Bond Fund                                             | Tax-Free Municipal Bond                               | Deferred Fixed Annuities                                       |
|-------------------------------------------|------------------------------------------------------|-------------------|-----------------------------------------|-------------------------------------------------------|-------------------------------------------------------|----------------------------------------------------------------|
| <b>Uses</b>                               | Death benefit protection and Cash Value Accumulation | Liquid savings    | General savings                         | Designed for income                                   | Tax-free income                                       | Long-term savings for retirement                               |
| <b>Generally a Tax-free Death Benefit</b> | Yes                                                  | N/A               | N/A                                     | N/A                                                   | N/A                                                   | No                                                             |
| <b>Medical Underwriting Required</b>      | Yes                                                  | N/A               | N/A                                     | N/A                                                   | N/A                                                   | N/A                                                            |
| <b>Backed By</b>                          | Insurance Company                                    | FDIC              | FDIC                                    | Issuing Company or Entity                             | Issuing Entity                                        | Insurance Company                                              |
| <b>Possible Loss of Principal</b>         | Variable products only                               | No                | No                                      | Yes                                                   | No, if held to maturity                               | No                                                             |
| <b>Guaranteed Interest Rate</b>           | N/A                                                  | No                | Yes                                     | No                                                    | Yes                                                   | Yes                                                            |
| <b>Liquidity</b>                          | Yes, via loans and withdrawals <sup>1</sup>          | Yes               | Yes, but penalties for early withdrawal | Yes, but market price may be less than original price | Yes, but market price may be less than original price | Limited access during surrender period and penalties may apply |
| <b>Tax Treatment of Gains</b>             | Tax-free if held until death                         | Taxable           | Taxable                                 | Taxable                                               | Tax-exempt, depending on issuing state                | Tax-deferred                                                   |
| <b>Creditor Protection</b>                | Depends on state of issue                            | No                | No                                      | No                                                    | No                                                    | Depends on state of issue                                      |

<sup>1</sup> Available cash value may not be equal to or greater than total amount of premium paid. Withdrawals and loans may be taxable if the policy is a modified endowment contract ("MEC"). Taxable distributions from a MEC may also be subject to a 10% IRS penalty tax if the policy owner is under age 59 ½.



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