The Fundamentals of Life Insurance

JR | KATZ℠

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Life insurance is an essential component of financial planning. It serves multiple purposes:

- Capital creation to replace loss of earned income
- Business succession planning to protect enterprise value
- Wealth transfer to deliver liquidity and preserve assets
- Tax mitigation to reduce the drag of income-tax
- Amplify charitable giving

This document provides an overview of life insurance and identifies its fundamental components.

JR KATZ provides insurance anchored solutions to specific client planning objectives.

The affluent confront risks to their family or business that can impact liquidity, financial certainty and capital preservation. At JR KATZ, we help our clients understand the unique financial characteristics of insurance and how this distinct asset class enhances other investment and estate planning strategies.

Term Insurance

Provides coverage for a specific period, typically ranging from 10 to 30 years.

It offers a death benefit to the named beneficiaries upon the death of the insured during the policy period.

Permanent Insurance

Provides coverage for any duration, most typically for the insured's lifetime.

Besides offering a death benefit to the named beneficiaries, the policy accumulates cash value, which may be accessed on a non-taxable basis during the insured's lifetime.

How Mortality Impacts Insurance

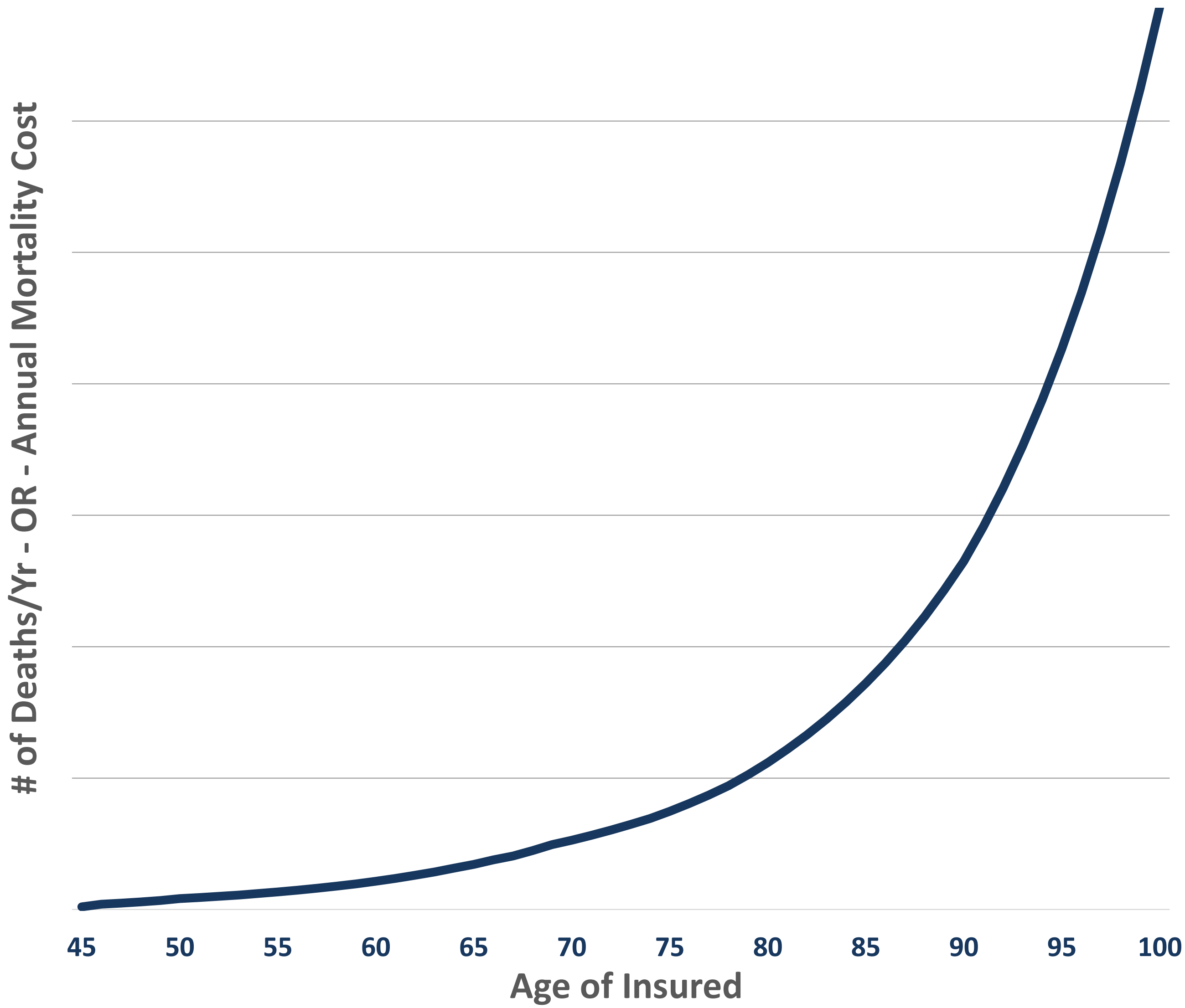
Projected mortality is the basis for Life Insurance pricing

Projected mortality escalates not in an arithmetic or geometric progression, but increases exponentially.

For example, the number of deaths occurring for people in their 40s is drastically less than for people in their 80s.

The cost of insurance emulates the actuarial risk of mortality.

As the insured ages, the risk of death increases, and in parallel, the annual premium increases.



Term Insurance
Immediate Protection for the Short Term

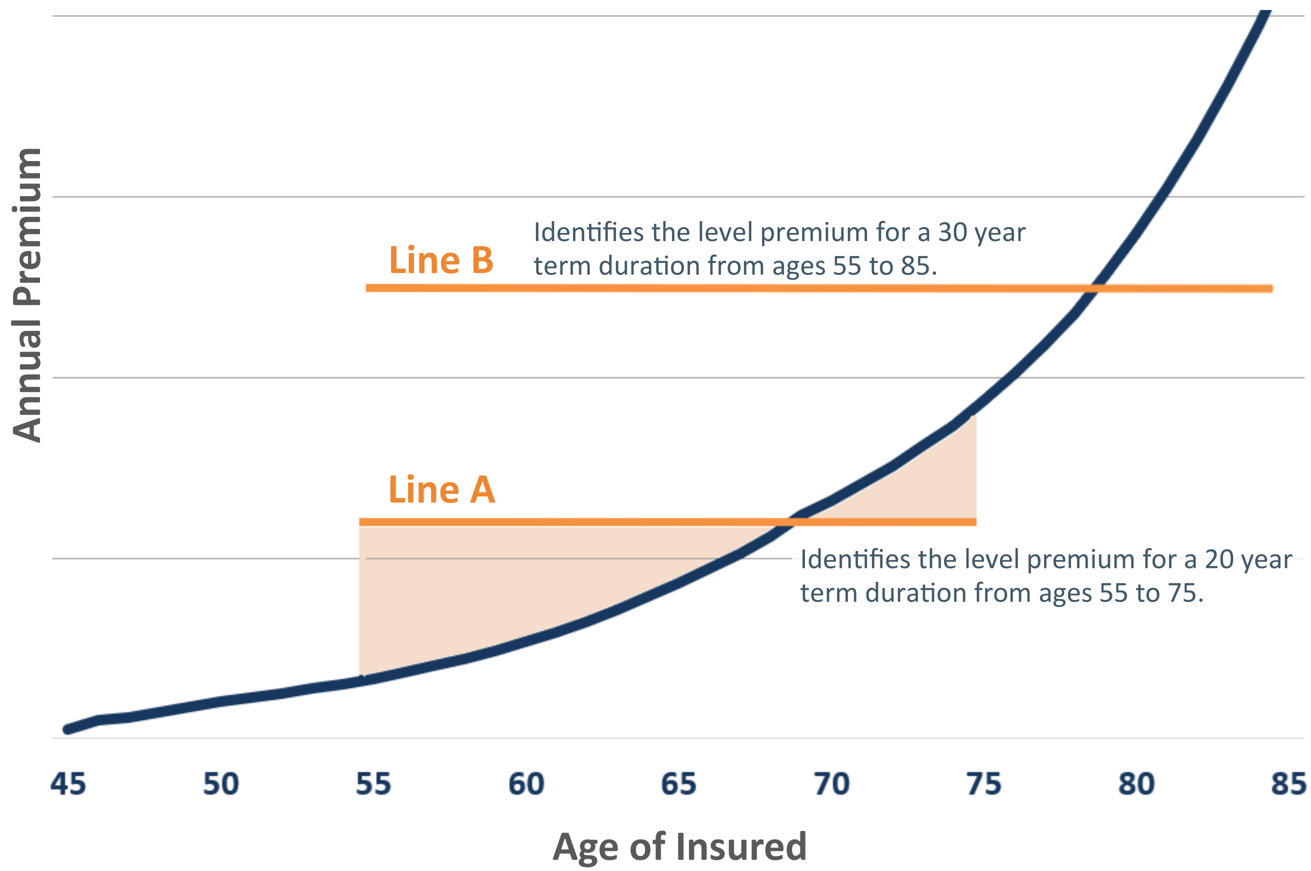
Why Term Insurance?

Term insurance is designed to cover a defined period of need—typically available for 10, 20, or 30 years.

Because the coverage is temporary and contains no cash-value component, the premium is solely for mortality risk during that period.

At the end of the term period, coverage typically expires. If the insured still requires protection, the policy must be renewed (at a higher cost due to age) or converted to a permanent form of coverage (subject to a contractual conversion provision).

Any portion of the curve can be levelized, and the longer the coverage duration, the higher the level term premium. The actual cost of mortality is less in the early years and more in the later years than the leveled premium (see shaded areas below and above line A).



Permanent Insurance Coverage for a Lifetime

Why Permanent Insurance?

Permanent life insurance is built to insure lifetime risk, not a limited period of time.

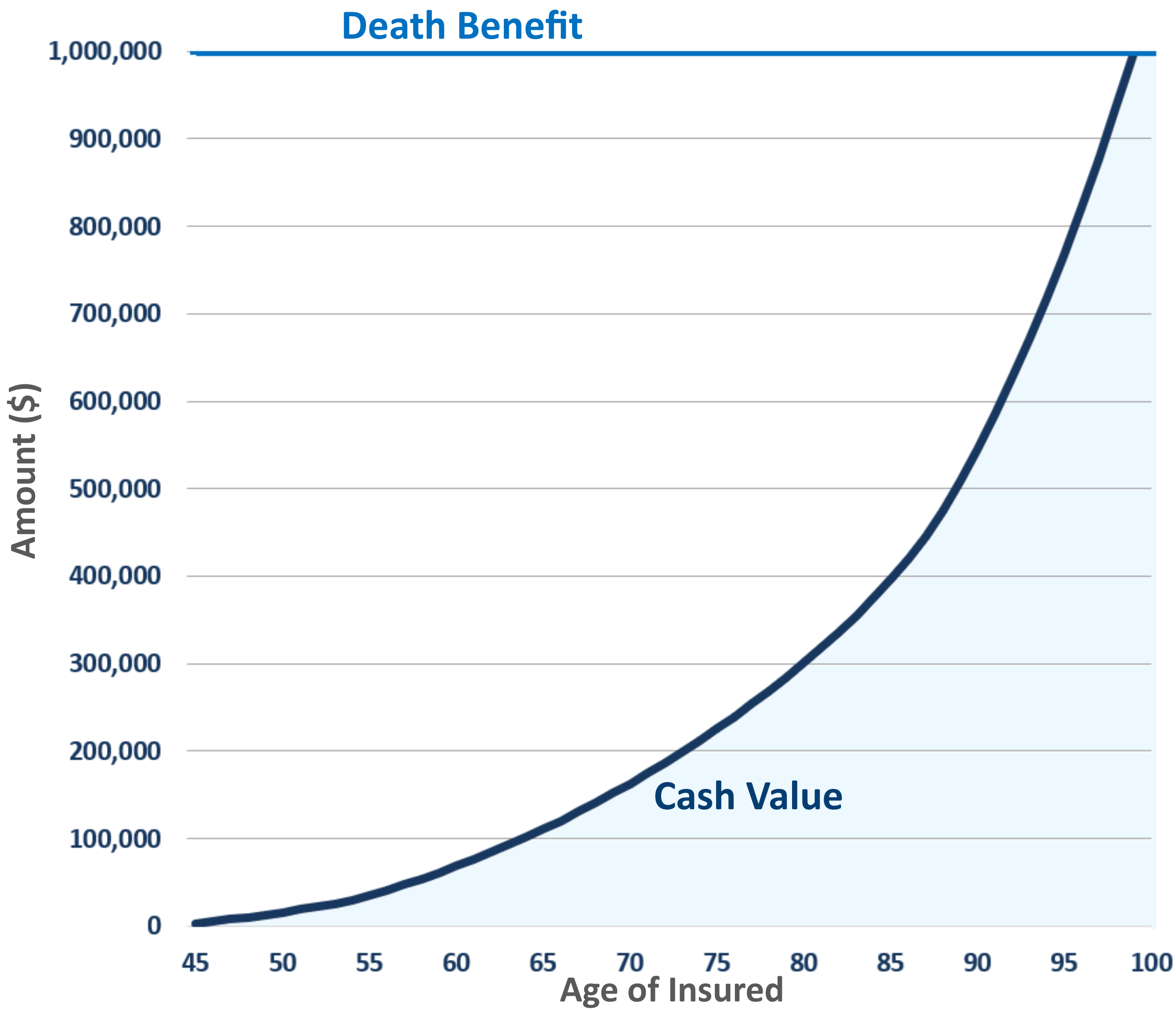
As long as premiums are paid (or policy values can support ongoing charges), the coverage remains in force and pays a death benefit whenever death occurs—creating permanent liquidity for solving planning objectives.

In addition, permanent insurance accumulates cash value, which grows on a tax-deferred basis and may be accessed in the future through non-taxable disbursements.

There are two primary types of permanent life insurance ... Whole Life and Universal Life.

Whole Life typically has fixed level premiums and guaranteed cash value growth with non-guaranteed dividends.

Universal Life offers flexible premiums, death benefit options, and alternative mechanisms for crediting cash value. Therefore, providing flexibility in design and structure.



Net Amount at Risk Impact on Performance

Net Amount At Risk

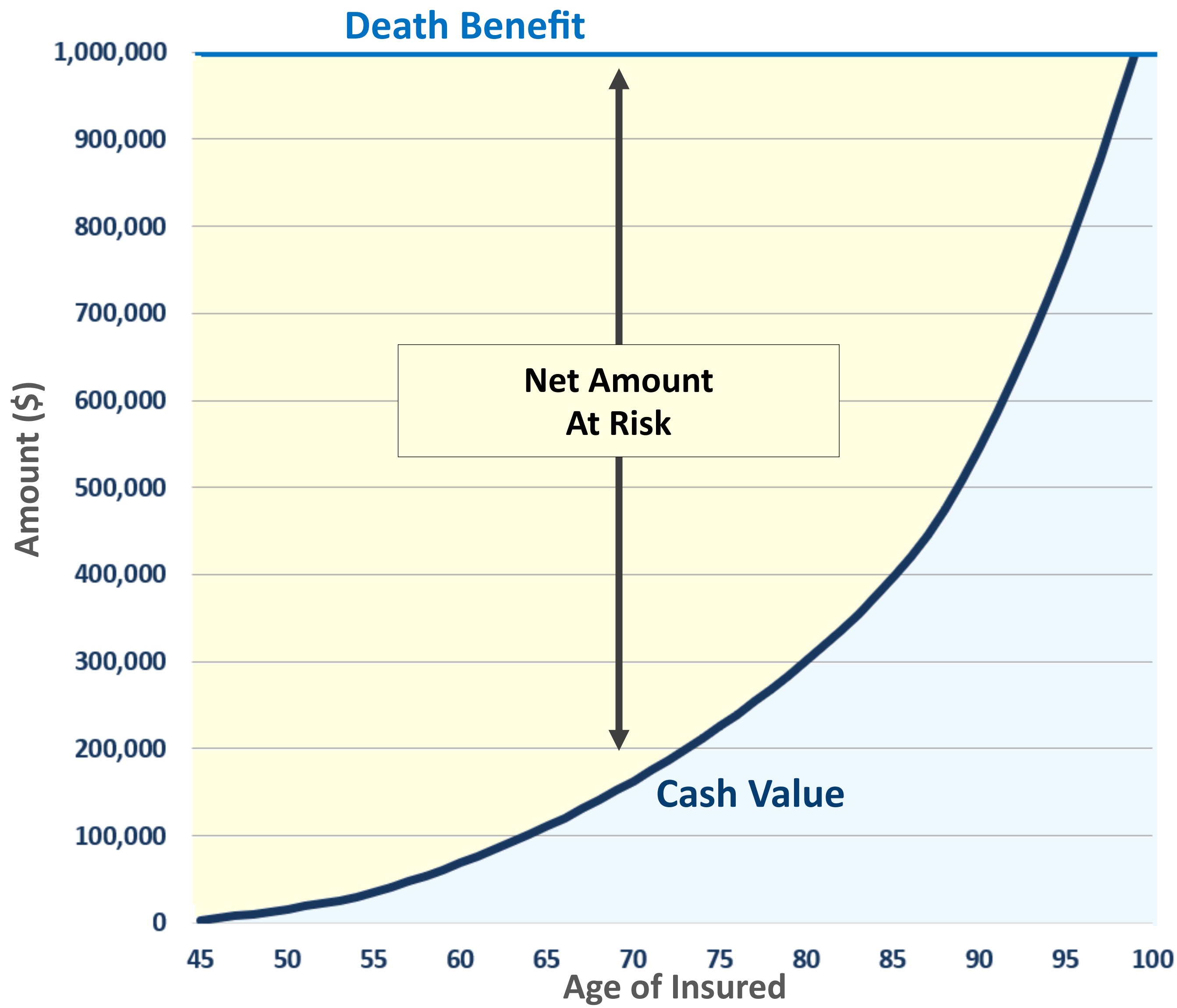
Net Amount at Risk (NAR) is the portion of the death benefit for which the insurance company is at risk.

It is calculated as: Death Benefit – Cash Value.

As cash value increases, the NAR typically declines. In a well-funded policy, the declining NAR can materially reduce the "cost of insurance" component … even while the insured is aging.

This matters because NAR is one of the central drivers of policy charges. Lower NAR generally means less mortality cost, which allows more premium to be allocated to cash value.

From a design standpoint, cash value accumulation focused policies aim to maintain NAR as low as permissible pursuant to tax law.



Maximizing Death Benefit

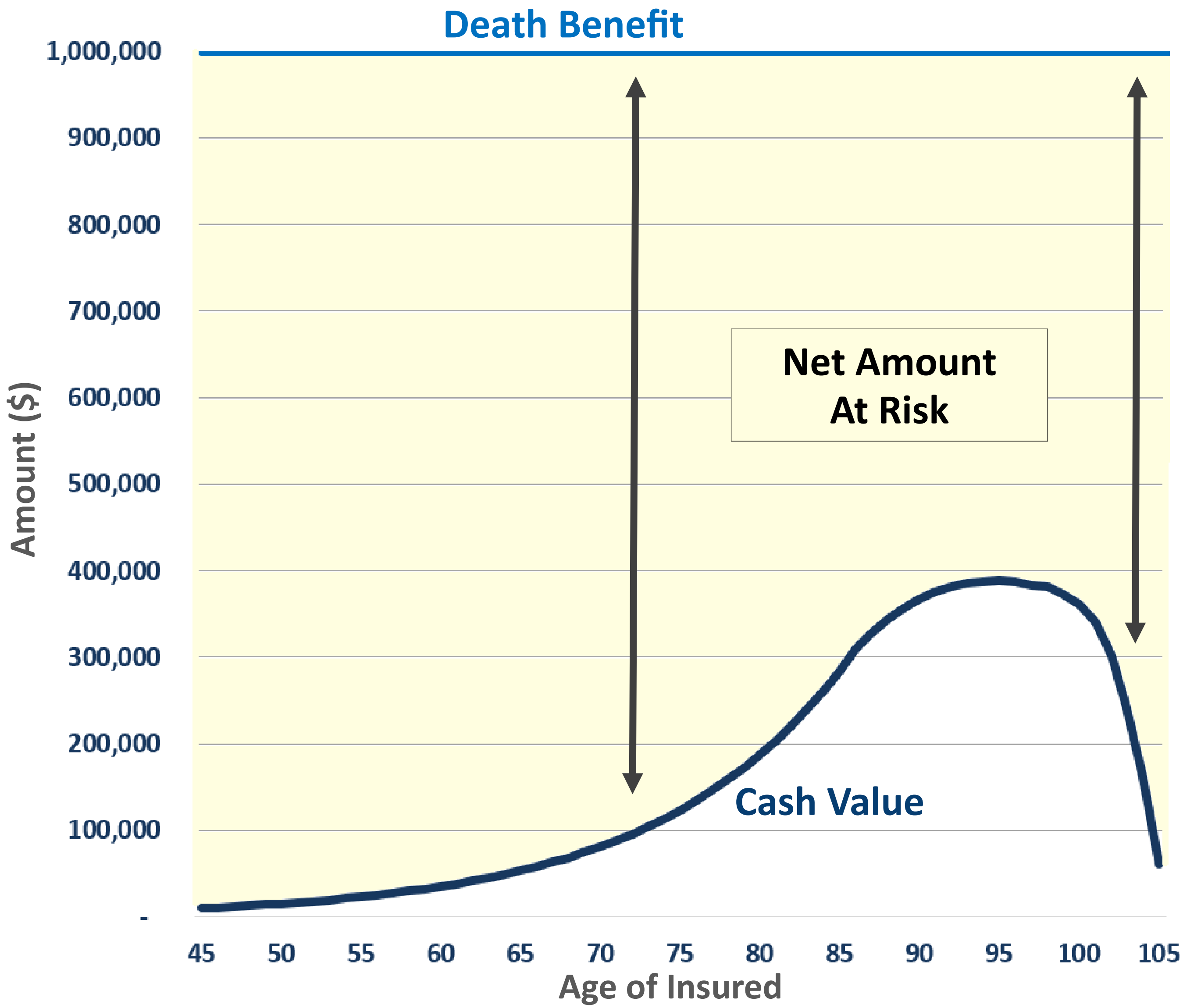
A permanent policy can be engineered to maximize death benefit protection, or to maximize cash value accumulation.

When the goal is to maximize death benefit, performance generally improves when the design allocates premium toward death benefit and minimizes long-term cash value accumulation.

Properly designed, sufficient cash value is created to sustain the death benefit for the desired coverage duration while paying the least amount of premium necessary.

In the adjacent graph, the NAR is decreasing until a point in time when the annual mortality cost becomes greater than the annual increase in cash value, thereby, increasing NAR. The cash value begins to significantly reduce due to the combination of increasing age and increasing NAR.

The policy is most efficient when, at the time of death, you have the least cash value and the most NAR.



Maximizing Cash Value While Minimizing Death Benefit

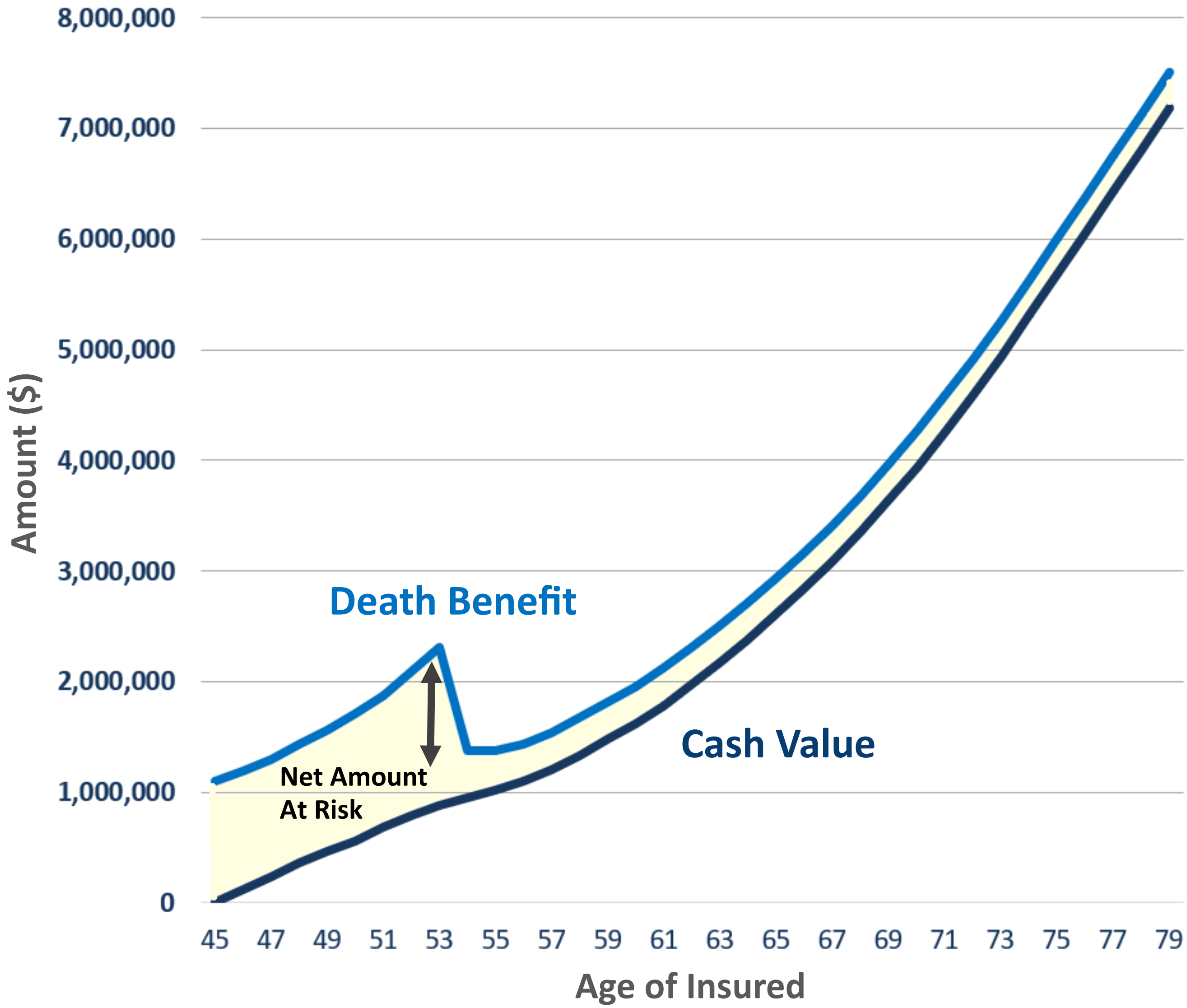
Maximizing Cash Value

A permanent policy can be engineered to maximize death benefit protection, or to maximize cash value accumulation.

When the goal is cash accumulation, performance generally improves when the design allocates premium toward cash value rather than to pure insurance cost—within IRS guidelines.

Practically, this often means structuring the policy with the minimum death benefit required for the intended premium level, then funding it aggressively. The objective is not to "buy less insurance" for its own sake, but to reduce the internal drag created by higher net insurance risk.

For the insured, the result can be a policy that builds value faster, provides greater long-term flexibility through access to cash value, and is more resilient over time because policy values are better positioned to support ongoing charges.



The Seven Factors that Determine Premium

Determining Premium

Of the seven factors which determine the pricing of a life insurance contract, some are not only essential at the time a policy is constructed but have as much or more influence in the future pricing.

For instance, the Fixed Factors are essential to the initial pricing, but once established, these do not change in the future.

On the other hand, there are a number of Variable Factors which are fluid and impact the pricing both at inception and in the future based on performance.

It is important to understand how these factors impact the performance of the product over time, and how the time horizon of the coverage plays a critical role.

For Instance, the significance of many of the factors can be more or less impactful on performance for a 65 year old as compared to an 85 year old.

Fixed Factors	
Age	Insured's age at policy issue, used to assess life expectancy
Sex	Male or female classification, impacts mortality assumptions
Rate Class	Underwriting category assigned based on health and lifestyle risk factors

Variable Factors	
Death Benefit	The amount of death benefit at inception, or at any future point
Target Cash Value	The desired accumulated cash value at a specific future point, used to support planning goals or achieve a policy's performance objectives
Coverage Duration	The targeted duration of the death benefit may evolve over time depending on the insured's health and financial objectives
Crediting Rate	Other than a Guaranteed Universal Life product, the crediting rate is fluid and is a function of the underlying determinant of cash value growth

Adjusting key variable factors, such as crediting rate, death benefit structure, and policy funding, can increase or decrease the level of conservatism built into a life insurance projection.

As modeling assumptions become more conservative, premiums increase to maintain policy objectives. Similarly, as modeling assumptions become more aggressive, premiums decrease to maintain policy objectives.

It is critical to understand how the flexible elements of policy design influence long-term cost and performance.

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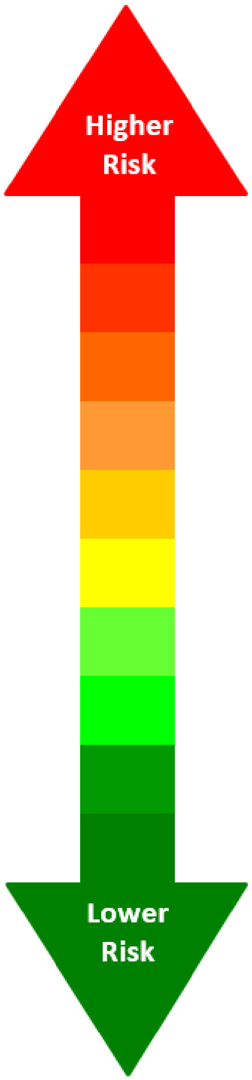
Product Risk Comparison
The Potential Variance of Actual Results from Projected Performance



Variable Universal Life

- Premiums may be invested in a variety of investment options
- Policy performance is largely determined by the performance of these investment options
- Management of the Net Amount at Risk is essential
- Failure to achieve the assumed crediting rate may result in premature policy lapse

Indexed Universal Life

- Premiums are invested in segments and segment performance is tied to an Equity Index
- There is a guaranteed segment performance floor (not less than zero)
- There also is a non-guaranteed cap to each segment
- Failure to achieve the assumed crediting rate may result in premature policy lapse

Traditional Universal Life

- A crediting rate is declared annually by the insurance company
- The crediting rate, based on the carrier's investment portfolio is sensitive to the macro interest rate environment
- There is a guaranteed minimum crediting rate (typically 2-3%)
- The premium amount & coverage duration are flexible
- Failure to achieve the assumed crediting rate may result in premature policy lapse

Whole Life

- A dividend rate is declared annually by the insurance company but is not guaranteed
- The dividend may be used to reduce premiums, purchase additional insurance, or paid in cash
- There is a guaranteed death benefit, cash value, and premium based on no dividend
- Failure to achieve the assumed dividend rate may result in lower cash value and death benefit
- Failure to achieve the assumed crediting rate may result in premature policy lapse

Guaranteed Universal Life

- All performance risk is transferred to the insurance company
- The death benefit and the coverage duration is guaranteed

ABOUT JR | KATZ

JR KATZ provides insurance anchored solutions to specific client planning objectives. Our solutions are constructed through a meticulous process designed to deliver a true alpha to our clients.

In order to build and optimize a client's life insurance portfolio, it is essential to understand both short-term and long-term objectives. This process necessitates collaboration with our clients and their key advisors.

We help our clients understand the unique financial characteristics of life insurance and how this distinct asset class enhances other investment and estate planning strategies.

Our process is defined by transparency, confidentiality, objectivity and creativity. Through our lens of independence, we are able to evaluate and benchmark solutions, products and providers.

Because of our singular focus on life insurance, we have access and influence with the insurance companies. This allows us to produce exceptional results for our clients.

After the solution is implemented, our management process is designed to deliver the expected outcome by continually monitoring product performance and changing client circumstances.

YOUR LEGACY | OUR COMMITMENT

JR KATZ serves as a key advisor in the areas of wealth transfer, wealth preservation, succession planning, income-tax mitigation, and risk management. We deliver value and "edge" through our expertise, client advocacy and influence within the insurance marketplace.

Our Mission

To help our clients preserve, grow and transfer wealth by constructing an optimized portfolio of insurance anchored solutions

Client commitment, thought leadership and world class partnerships have distinguished JR KATZ since 1976

50+ Years

$5 Billion

JR KATZ manages more than $5B in life insurance portfolios

As of December 2025

Disclosures

Tax and Legal
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Financial Information
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Assumptions
Demonstrations of life insurance performance are provided by life insurance carriers and are based on illustrated assumptions including risk classifications, policy charges, and investment returns/crediting rates. Actual performance would most likely differ from illustrated assumptions. All projections are based on insurance company illustrations, which govern in the case of a discrepancy. The projections contained herein are as of a certain date. Insurance charges and crediting rates fluctuate over time. Values may change after a policy is issued and should be reviewed regularly. When investing in Variable Life policies, please consider the investment objectives, risks, charges, expenses, and your need for death-benefit coverage carefully before investing. The prospectus, which contains this and other information about the policy can be obtained from your financial professional. Be sure to read the prospectus carefully before deciding whether to invest.

The investment return and principal value of the variable life policy are not guaranteed. Variable life sub-accounts values fluctuate with changes in market conditions.

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