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Wills, Trusts, and Estates for  
Legal Assistants

Sixth Edition



Chapter 17

**CONTRACTS**

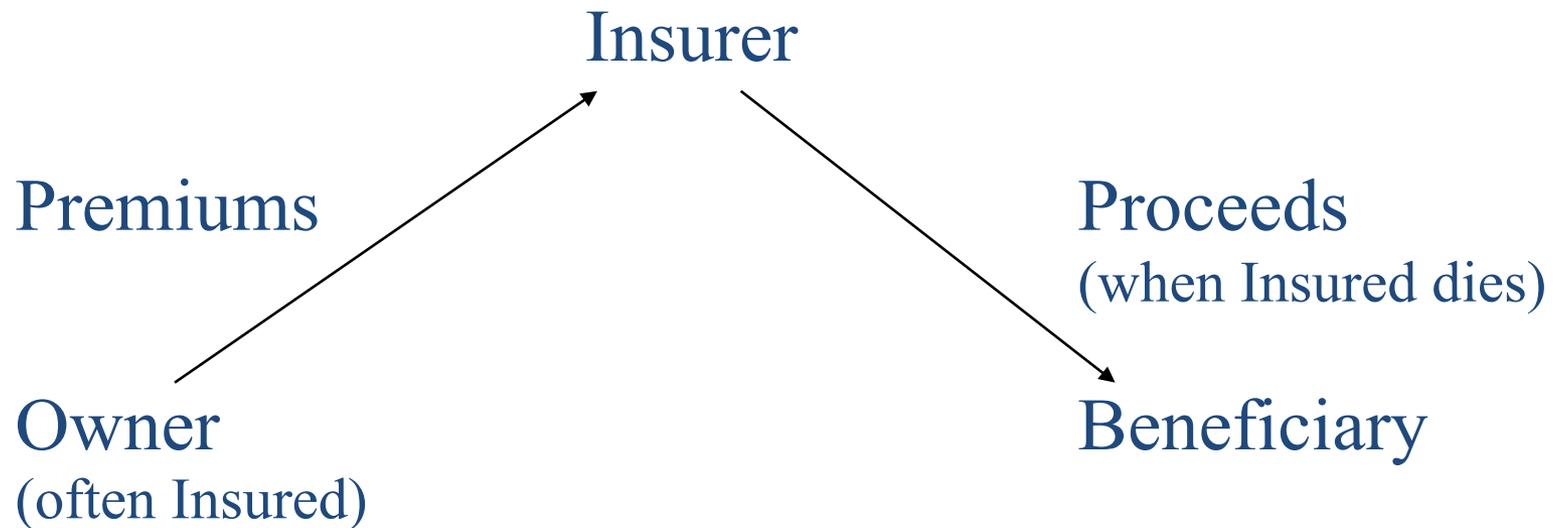
# Chapter Objectives

- Explain how life insurance operates
- Identify the primary types of life insurance and their attributes
- Explain how an annuity operates
- Identify the primary types of annuities and their attributes
- List the major types of employee benefit plans

# Contractual Arrangement in Common Use

- Life Insurance
- Annuities
- Employee Benefit and Retirement Plans
- Transfer on Death Arrangements

# Owner/Insured Relationship



# Types of Life Insurance

- **Term:** Insurance proceeds are paid if the insured dies during a designated term.
- **Whole:** Insurance proceeds are paid when the insured dies at any time.
- **Universal:** Whole life insurance in which the cash value receives a competitive rate of return.
- **Endowment:** Whole life insurance in which premiums stop at a younger age and the cash value equals the face value at that time.
- **Split dollar:** An insured and the insured's employer both contribute to premiums and the employer receives a share of the proceeds.

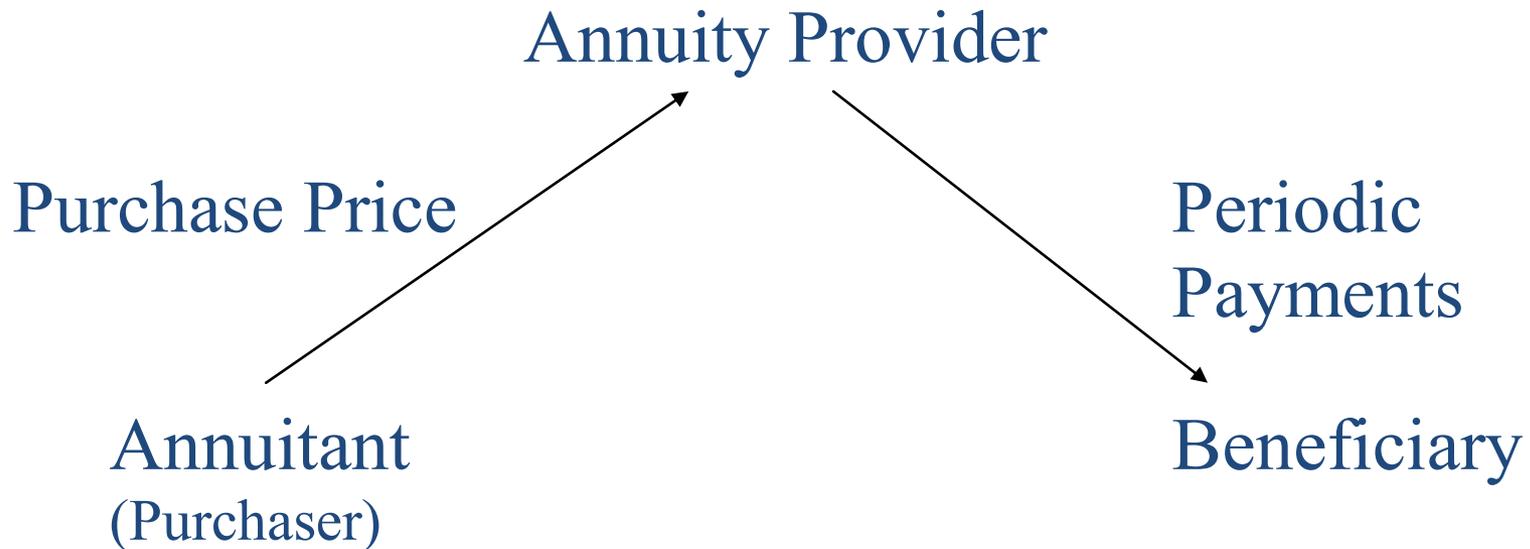
# Payment Methods

- Lump sum
- Installments
- Interest or deposit

# Annuity

- Contract between an annuity provider and purchaser in which, on payment of a lump sum, the provider agrees to make periodic payments to an annuitant for life or for a fixed term.

# Basic Operation of an Annuity



# Types of Annuities

- **Commercial annuity:** annuity purchased from a company in the business of selling annuities (e.g., an insurance company).
- **Private annuity:** annuity purchased from a private individual (e.g., a family member).
- **Joint life annuity:** annuity payments are made until the
  - first of two annuitants dies.
- **Joint and survivorship annuity:** annuity payments are made until both of two annuitants die.
- **Straight annuity:** annuity payments are equal.
- **Variable annuity:** the amount of annuity payments depends on the investment success of the annuity provider.

# Types of Employee Benefit Plans

- Defined benefit plan
- Defined contribution plan
- 401(k) plan
- Employee stock option plan (ESOP)
- Keogh plan
- H.R.-10 plan
- Individual retirement plan (IRA)
- Simplified employee pension plan (SEP)