

What's the Right Life Insurance?

For most people, it isn't a question of whether to own life insurance, but what kind of coverage is most appropriate for your circumstances. Life insurance is available in a variety of different forms. It helps to understand a few basics about life insurance, but there is no "one size fits all" solution. You need to determine what works best for you.

In large part, the choices you make about life insurance involve finding the right balance between the lowest cost possible and the most appropriate coverage for you.

The basic options

There are two primary types of life insurance policies:

- Policies that provide a death benefit for survivors after you die, but no other features, typically referred to as term life insurance.
- Policies that combine a death benefit for survivors with a cash value that can be accessed while you are still living, often referred to as whole-life or permanent life insurance.

Term insurance - cost sensitive coverage

If keeping current premiums for life insurance as low as possible and replacing your income stream for a beneficiary are your priorities, term insurance can be a good option. The younger and healthier you are when first purchasing a policy, the less costly it will be. This is often a choice people make as a first step into life insurance. Newly married couples may buy this type of policy to provide a financial cushion in the event one spouse dies. Your employer may offer a term insurance policy as part of your employee benefits plan. Keep in mind that these policies generally are not portable if you leave your employer.

Also, the amount of coverage that seems sufficient early in life is likely to increase once you add children as dependents or as your income rises. Note that term insurance typically expires after a stated period of time or once you reach a specific age, so the benefit is paid only if you die during the stated term.

Permanent life insurance - coverage beyond death benefits

You can choose from a variety of permanent life insurance policies, which could include traditional whole life, variable life, universal life or variable universal life. Like term policies, they pay designated beneficiaries at your death. An important difference from term life is that they don't have a termination date. As long as adequate premiums are paid and the policy remains in force, beneficiaries will receive the death benefit. Note that there are often higher or additional costs for permanent life insurance compared to term insurance policies.

Another important difference is that cash value is built up inside the policy as you add premium payments. Premium payments must be sufficient to avoid a policy lapse, but a portion of those payments accrue within the policy and can grow on a tax-free basis. Some forms of this type of insurance give you the ability to make investment choices within the policy as a way to potentially increase its cash value. The cash value is not guaranteed, but it can act as an asset to help fund needs while you are living. This is an important benefit that can give the policy owner much more financial flexibility.

Like anything else in your financial life, the need to protect loved ones requires that you assess what options work best for your circumstances and needs. Be sure to discuss your options with a financial advisor or insurance specialist before making any decisions.

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