

Permanent Insurance: An Overview

As the name implies, permanent (cash value) insurance is best suited for the individual with a long-term (often indefinite) need. A permanent policy is really a combination of "pure insurance" and an asset accumulation element. Premiums are considerably higher than term rates in the beginning years, but may drop significantly, or even disappear, in later years. Other differences may include an increasing death benefit, a "cash value" associated with the policy, and tax-advantaged borrowing privileges against your cash value.



Whole Life -- This type of coverage covers you for as long as you live, as long as you make premium payments. Usually, this type of policy has a level premium for the life of the policy. Initial premiums are generally high compared with term insurance premiums, but eventually they become lower than the premiums you would pay if you had kept renewing a term policy. Over time, a whole life policy builds cash value at a rate of interest set by the issuing insurance company.

Universal Life -- With universal life coverage, which also covers you for as long as you live, you can vary your premium payments and the face amount of your coverage. Most of your premium payment goes into an account, which earns interest. You may borrow against the cash value, but eventually, if the balance continues to drop, your coverage will end. To prevent that, you would have to start making premium payments again, increase your premium payments, or lower your death benefits. Generally, your policy will state that it will pay the premiums from the cash value of your policy. Variable universal life also falls into this category; the difference is that a portion of your premium is "invested" in subaccounts that resemble mutual funds and can own stocks, bonds, cash, or some combination thereof.

Variable Life - This type of policy gives you an element of control over the cash value portion of your policy. Variable life allows you to allocate your cash value among a variety of investment subaccounts. Although the premiums you pay are fixed throughout the life of the contract, the performance of your chosen subaccounts determines the growth of your cash value and also can determine the value of your death benefit. No matter how your subaccounts perform, the death benefit of your variable life policy is guaranteed. Although contracts may vary, your premiums generally won't change. And as long as you pay your fixed premiums, your death benefit cannot go away. This is not the case with universal or variable universal life insurance. Please note guarantee is subject to the claims paying ability of the insurer.

Of course, your insurance needs will be determined by your individual situation. And keep in mind, the cost and availability of the type of life insurance that's right for you depends on factors such as your age, health, and the type and amount of insurance you need. If you are considering purchasing life insurance, we recommend consulting us to explore all your options and determine the solution that best fits your unique needs.

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