A Life Insurance Primer
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Whether you want to replace your income for your family in the event you die young or help preserve inheritance for your heirs, life insurance can serve as the cornerstone of a sound financial plan. It can help protect your dependents and others while serving as a key component of succession planning. An industry in flux combined with the complicated nature of the product can make the process of choosing insurance overwhelming. Rather than research the types of coverages, many put off the analysis and purchase of life insurance, leaving those they love unprotected. To make the best choice for your family, you need to understand your options.

There are two major types of life insurance: term life insurance and whole life insurance. Term life covers you for a set period of time while whole life offers coverage for your entire life.

Term life offers a variety of policies to choose. Payment is received only if death occurs during the term of the policy, so consumers choose a period of time (generally from one to 30 years) when they most need protection. Some insure themselves for the life of a mortgage while others want protection for the number of years they will have dependent children. According to the Insurance Information Institute (III), the most popular type of term insurance is a 20-year term.

There are two basic types of term life insurance policies, level term and decreasing term. Level term is by far the most popular, according to the III. The death benefit stays the same throughout the policy; opposed to dropping, usually in one-year increments, over the course of the term. According to III, the premium for the policy is generally based on age and health at the policy's start. Rates for women and younger people would be lower. The comparable rate for a 40-year-old female nonsmoker would be about $600 for a standard risk and $300 for a preferred risk.

If a policy is "renewable," you can keep it for an additional term or terms, up to a specified age, even if changes in your health would cause you to be rejected if you were a new applicant. Sometimes the premium remains "level," for the length of the term. Other policies permit the insurance company to raise the rate during the course of the policy's term. For example, you buy a 5-year renewable term policy that could be level for 5 years, then change to a new rate reflecting your new age every five years. If you purchase a "convertible" policy, you can change it into permanent insurance without additional health exams. Finally, some policies feature a "return of premium" option. These premiums are much higher than those without the guarantee.

Whole life, or permanent, insurance pays a death benefit when you die, whether it's next month or one hundred years from now. There is a savings element attached to these policies that can grow on a tax-deferred basis. When the savings reach a certain amount, it must be available to you as "cash value" if you decide not to continue with the original policy. Premiums are generally higher for permanent than for term insurance, but will remain the same while term coverage may increase substantially every time you renew it.

There are a number of whole life options, including traditional whole life and universal life. With traditional whole life, both the death benefit and the premium are designed to stay the same throughout the policy. The cost per $1,000 of benefit increases as the insured person ages. The III estimates at current rates, a life insurance company will pay a $500,000 death benefit to a survivor as an income of about $3,300 a month for 20 years. Universal life offers more flexibility; you may increase the death benefit if you pass a medical examination. The savings vehicle (a cash value account) generally earns a money market rate of interest. After you have accumulated enough money to cover costs, you will have the option of altering your payments.

According to the III, about 70 million American adults have no life insurance with a foreseeable downward trend continuing. Rates continue to drop as deaths for the 25-44 age group (the primary range for purchasing insurance) have decreased significantly. Insurers have also profited recently from favorable investment and interest rate environments, passing these savings along to consumers. If you haven’t already, now may be the ideal time to purchase coverage. As always, please contact us with questions or to discuss your unique life insurance needs.