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TYPES OF LIFE INSURANCE

What are the different types of insurance?

There are two basic types of life insurance: permanent and term. Permanent insurance pays your beneficiary whenever you may die; term insurance pays your beneficiary if you die during a specific period of time.

What is permanent insurance?

Permanent (cash value) insurance provides lifelong protection as long as premiums are paid. It may build up cash value over time and the cash value grows tax deferred. With all permanent policies, the cash value is different from the face amount. Cash value is the amount available if you surrender (cancel) your policy before death. The face amount is the money that will be paid to your beneficiary if you die. Your beneficiary does not receive the cash value of your policy.

Cash value takes time to grow. But after you've held the policy for several years, its cash value can offer you several options:

- You can borrow from the insurer using your cash value as collateral. You can get the loan even if you don't have a good credit history. If you don't repay the loan (including interest), it will reduce the amount paid to your beneficiaries after your death.
- You can use the cash value to pay your premiums or to buy more coverage.
- You can exchange the policy by using the cash value for an annuity that will provide income for life or a specified period.
- You can cancel (surrender) the policy and receive the cash value in a lump sum. You would pay taxes on the value that exceeds what you've paid in premiums.

Basic types of cash value insurance

- **Whole life** (ordinary life) is the most traditional type of cash value insurance. Generally premiums and death benefits stay the same over the life of the policy. The policy's cash value grows at a fixed rate.
- **Variable life** With a variable life policy you can choose among a variety of investments offering different risks and rewards—stocks, bonds, combination accounts, or options that guarantee principal and interest. Death benefits and cash value will vary depending on the performance of the investments you select. By law, you'll be given a prospectus for variable life insurance. This prospectus will include financial statements and outline investment objectives, operating expenses, and risks. The cash value of a variable life policy is not guaranteed. If the market doesn't perform well, the cash value and death benefit may decrease, although some policies guarantee that the death benefit won't fall below a certain level.
- **Universal life** gives you flexibility in setting premium payments and the death benefit. Changes must be made within certain guidelines set by the policy; to increase a death benefit, the insurer usually requires evidence of continued good health. A universal life policy can have a variable component.

The money your beneficiary receives can help cover expenses and ensure that your family is not burdened with debt.

What is term insurance?

Term insurance provides protection for a defined period of time—from one to 10, 20, or even 30 years—and pays benefits only if you die during that period. Term insurance is often used to cover financial obligations that will disappear over time, such as tuition or mortgage payments. Premiums for term insurance either can be fixed for the length of the term or can increase at a point specified in the policy. They also can be less expensive than for a cash value policy.

Term policies can include a return of premium benefit that will refund all or some of the premiums paid at the end of a term if no death benefit was paid. Term policies with this feature are more expensive than those without.

Some term policies can be renewed at the end of a term. However, premium rates will usually increase upon renewal. Many policies require evidence of insurability to qualify for renewal at the lowest rates. At the end of a term, you also may be able to convert the policy to a cash value policy. Term policies don't usually build up a cash value, but policies with a return of premium benefit will have a small cash value.