Life Insurance - Term vs. Permanent

There are varying opinions on how much and what kind of life insurance you need. We can narrow the types of insurance down to basically two: Term and Permanent insurance. There are several varieties of Term and permanent insurance but they all share certain common characteristics. How much insurance you may need will be a function of your income, expenses, debt and personal wishes.

Term insurance can best be compared to car insurance. If you crash the car you collect! This is what life insurance was designed for, to protect against losses that we cannot cover on our own. There is no investment component with Term insurance therefore you are able to purchase a larger amount of insurance for the lowest possible cost. Term insurance is usually sold for set periods, such as 10, 15, 20 or 30 years. When you buy term insurance you will want to buy a policy that guarantees your premiums will not change for the life of the contract. If you foresee a scenario where you may need insurance beyond retirement age, you may want to purchase permanent insurance while you are younger.

Permanent insurance is a policy that has some form of cash value and it can be designed to last a lifetime. Unlike term insurance which has no cash component, permanent insurance will have some form of investment component. **Whole Life** is a permanent form of life insurance that has an investment account that is supported by the insurance company issuing it. **Universal Life** is similar to whole life in that it can last a lifetime and has an interest bearing account, but it typically does not pay dividends and the investment is separate from the general balance sheet of the insurance company. **Variable Life** insurance is an investment based form of permanent life insurance. Unlike other permanent policies, variable life insurance has a menu of investment options ranging from the most conservative to ultra aggressive funds.

There are several reasons for purchasing permanent life insurance, many of which are tax related. Permanent insurance is often used for estate planning purposes. Using life insurance is one way of increasing liquidity for larger illiquid estates. Another use for permanent insurance is for funding a "personal retirement" plan. The premise is to over fund a permanent life insurance contract and have the extra premium invested tax favorably. Ultimately you withdraw the gains in retirement but you take them as a loan to avoid paying taxes. This is a very complex strategy and only works under certain circumstances.

In summary there are many types and variations of life insurance. You should consult your advisor to determine which one fits your specific needs.

Yours Truly,

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